

## IMPORTANT NOTICE

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**Confirmation of Your Representation:** This preliminary offering circular is being sent to you at your request and by accepting the e-mail and accessing the attached preliminary offering circular, you shall be deemed to represent to CALC Bond 3 Limited (the “**Issuer**”), China Aircraft Leasing Group Holdings Limited (the “**Guarantor**”), China Everbright Bank Co., Ltd., Hong Kong Branch (“**CEBHK**”), Citigroup Global Markets Limited (“**Citigroup**”), DBS Bank Ltd. (“**DBS**”) and China Everbright Securities (HK) Limited (together with CEBHK, Citigroup and DBS, acting as the “**Lead Managers**”) that (1) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) you consent to delivery of the attached preliminary offering circular and any amendments or supplements thereto by electronic transmission.

The attached preliminary offering circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Issuer, the Guarantor, the Lead Managers, nor their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. The Issuer will provide a hard copy version to you upon request.

**Restrictions:** The attached document is in preliminary form and is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. You are reminded that the information in the attached preliminary offering circular is not complete and may be changed.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.**

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuer or the Guarantor or the Lead Managers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Lead Manager or such affiliate on behalf of the Issuer or the Guarantor in such jurisdiction. You are reminded that you have accessed the attached preliminary offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

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YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED PRELIMINARY OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH PRELIMINARY OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PRELIMINARY OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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The information contained in this preliminary offering circular is not complete and may be changed. This preliminary offering circular is not an offer to sell securities and is not soliciting an offer to buy securities in any jurisdiction where such offer or sale is not permitted. No offer or invitation shall be made or received, and no agreement shall be made, on the basis of this preliminary offering circular, to purchase or subscribe for any securities.

**SUBJECT TO COMPLETION**

**STRICTLY CONFIDENTIAL**

**PRELIMINARY OFFERING CIRCULAR DATED 27 FEBRUARY 2017**

## **CALC Bond 3 Limited**

*(Incorporated with limited liability in the British Virgin Islands)*

**U.S.\$[•] [•] per cent. Guaranteed Bonds due 2022 (the “2022 Bonds”)**

**U.S.\$[•] [•] per cent. Guaranteed Bonds due 2024 (the “2024 Bonds”)**

**unconditionally and irrevocably guaranteed by**

# **CALC**

**CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**Issue Price for the 2022 Bonds: [•] per cent.**

**Issue Price for the 2024 Bonds: [•] per cent.**

The U.S.\$[•] [•] per cent. Guaranteed Bonds due [•] (the “2022 Bonds”) and the U.S.\$[•] [•] per cent. Guaranteed Bonds due [•] (the “2024 Bonds”, together with the 2022 Bonds, the “Bonds”) will be issued by CALC Bond 3 Limited (the “Issuer”) and will be unconditionally and irrevocably guaranteed (the “Guarantee”) by China Aircraft Leasing Group Holdings Limited (the “Guarantor”). The Issuer is a direct wholly-owned subsidiary of the Guarantor. The Bonds will bear interest on their outstanding principal amount from and including [•] 2017 in the case of the 2022 Bonds, at the rate of [•] per cent. per annum and in the case of the 2024 Bonds, at the rate of [•] per cent. per annum. Interest will be payable semi-annually in arrear on [•] and [•] in each year (each an “Interest Payment Date”), commencing on [•] 2017.

The Bonds will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the terms and conditions of the Bonds (the “Terms and Conditions of the Bonds” or the “Conditions”)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

Unless previously repurchased, cancelled or redeemed, the 2022 Bonds will be redeemed at their principal amount on [•] and the 2024 Bonds will be redeemed at their principal amount on [•]. The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption upon the occurrence of certain tax events. The Bonds may also be redeemed at the option of the Bondholders (as defined in the Terms and Conditions of the Bonds) at 101 per cent. of the principal amount (together with accrued interest to but excluding the date of redemption), upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Bonds).

For a more detailed description of the Bonds, see “Terms and Conditions of the 2022 Bonds” beginning on page 33 and “Terms and Conditions of the 2024 Bonds” on page 51.

The Bonds and the Guarantee have not been rated.

The Bonds will be issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

**Investing in the Bonds involves risks. See “Risk Factors” beginning on page 11 for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

**The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and, subject to certain exceptions, may not be offered, sold or delivered within the United States. The Bonds and the Guarantee are being offered only outside the United States in reliance on Regulation S of the Securities Act (“Regulation S”).**

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see “Subscription and Sale”.

Application will be made to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, “Professional Investors”) only. This document is for distribution to Professional Investors only. Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.

**The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer or the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy, or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.**

The listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only is expected to become effective on or about [•] 2017.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, 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 herein misleading.

Each series of the Bonds will be evidenced by a global certificate (each, a “Global Certificate” and together, the “Global Certificates”) in a registered form, which will be registered in the name of a nominee of, and shall be deposited on or about [•] 2017 (the “Issue Date”) with, a common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”). Beneficial interests in each of the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for the Bonds will not be issued in exchange for interests in the Global Certificates.

### **Joint Global Coordinators**

**China Everbright Bank  
Hong Kong Branch**

**Citi**

**DBS Bank Ltd.**

### **Joint Bookrunners and Joint Lead Managers**

**China Everbright Bank  
Hong Kong Branch**

**China Everbright  
Securities (HK)**

**Citi**

**DBS Bank Ltd.**

Offering Circular dated [•] 2017

## IMPORTANT NOTICE

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Guarantor and its subsidiaries (collectively, the “**Group**”), the Bonds and the Guarantee which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor and the Group are true and accurate in all material respects and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly and reasonably held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) all statistical, industry and market related data in this Offering Circular were accurately extracted from publicly available and reliable source, (v) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds or the Guarantee the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading, (vi) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular, and (vii) this Offering Circular does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Subject as provided herein, each of the Issuer and the Guarantor accepts full responsibility for the accuracy of all information contained in this Offering Circular.

The Issuer and the Guarantor have prepared this Offering Circular solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch (“**CEBHK**”), Citigroup Global Markets Limited (“**Citigroup**”), DBS Bank Ltd. (“**DBS**”) and China Everbright Securities (HK) Limited (together with CEBHK, Citigroup and DBS, acting as the “**Lead Managers**”), the Issuer or the Guarantor to subscribe for or purchase any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Lead Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, Japan, the PRC, the British Virgin Islands and the Cayman Islands, and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Offering Circular, see “*Subscription and Sale*”. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and agrees not to make photocopies of this Offering Circular or any documents referred to in this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Bonds or the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Lead Managers, the Trustee or the Agents (each as defined in the Terms and Conditions of the Bonds) or their respective affiliates, employees, directors or advisors. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Lead Managers,

the Trustee or the Agents to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors or advisors has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors or advisors, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Lead Managers, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Lead Managers, the Trustee, the Agents or on any person affiliated with the Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Guarantor and the Group, and the merits and risks involved in investing in the Bonds. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

To the fullest extent permitted by any applicable laws, none of the Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors or advisors accepts any responsibility for the contents of this Offering Circular. Each of the Lead Managers, the Trustee and the Agents or any of their respective affiliates, employees, directors or advisors accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors or advisors undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Lead Managers, the Trustee or the Agents.

**IN CONNECTION WITH THIS OFFERING, EACH OF THE LEAD MANAGERS AS STABILISING MANAGER (THE “STABILISING MANAGER”) OR ANY PERSON ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF A SERIES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisors as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

## **Presentation of Financial Information**

This Offering Circular contains the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2014 and 2015. The audited consolidated financial statements of the Guarantor were prepared and presented in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and have been audited by PricewaterhouseCoopers in accordance with Hong Kong Standards in Auditing.

This Offering Circular contains the unaudited interim condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2016. The unaudited interim condensed consolidated financial statements of the Guarantor were prepared and presented in accordance with International Accounting Standard 34 “Interim Financial Reporting” and have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. Such unaudited interim condensed consolidated financial statements have not been audited by a certified public accountant. Consequently, such unaudited interim condensed consolidated financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. None of the Lead Managers or their respective affiliates, employees, directors, officers or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited interim condensed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the Group’s financial condition and results of operations. The unaudited interim condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2016 should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2016.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Guarantor are referring to the consolidated data of the Group.

## **Rounding**

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down especially when rounding into another currency. Certain monetary amounts in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

## **Certain Definitions and Conventions**

In this Offering Circular, unless otherwise indicated or the context requires, all references to “Terms and Conditions of the 2022 Bonds” and “Terms and Conditions of the 2024 Bonds” are to the terms and conditions governing the 2022 Bonds and the 2024 Bonds, as respectively set out in “*Terms and Conditions of the 2022 Bonds*” and “*Terms and Conditions of the 2024 Bonds*” (together, the “**Terms and Conditions of the Bonds**”).

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “**Group**”, “**we**”, “**us**” and “**our**” and words of similar import are to the Issuer, the Guarantor and its other subsidiaries and associated companies taken as a whole, all references to the “**PRC**” and “**China**” are to the People’s Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan), all references to “**PRC government**” or the “**State**” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them, all references to the “**United States**” and “**U.S.**” are to the United States of America, all references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the PRC; all references to “**Hong Kong dollar**” and



“**HK\$**” are to the lawful currency of Hong Kong, all references to “**Renminbi**” and “**RMB**” are to the lawful currency of the PRC, all references to “**U.S. dollars**”, “**USD**”, “**US\$**” and “**U.S.\$**” are to the lawful currency of the United States of America, and all references to “**CAGR**” means the compound annual growth rate.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

### **Industry and Market Data**

Market data and certain industry forecasts and statistics used throughout this Offering Circular have been obtained from, among other sources, internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Guarantor, the Lead Managers, the Trustee or the Agents or their respective affiliates, employees, directors and advisors make any representation as to the correctness, accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

### **Exchange Rate Information**

This Offering Circular contains a translation of certain Renminbi amounts and Hong Kong dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Issuer or the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB6.6459 per U.S.\$1.00, the noon buying rate as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States (the “**Noon Buying Rate**”) on 30 June 2016, and the translation of Hong Kong dollar amounts into U.S. dollars has been made at the rate of HK\$7.7591 per U.S.\$1.00, the Noon Buying Rate on 30 June 2016. No representation is made that the Renminbi amounts or the Hong Kong dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all. See “*Exchange Rate Information*”.

## GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this Offering Circular in connection with the Issuer and/or the Guarantor and/or the Group and their businesses. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

<b>aircraft loan</b>	bank borrowings obtained from banks and financial institutions for the payment of aircraft purchase price;
<b>aircraft sale and leaseback</b>	a lease arrangement whereby one person (the lessee) sells an aircraft to another (the lessor) and leases it back for long-term use;
<b>cargo aircraft</b>	aircraft operated by an airline or cargo airline for transporting cargo;
<b>Chinese lessor</b>	an aircraft leasing company which is incorporated in the PRC;
<b>commercial aircraft</b>	passenger aircraft and cargo aircraft operated by an airline operator, excluding the aircraft operated by military, private, business jet and general aviation operators;
<b>direct aircraft purchase and lease</b>	a lease arrangement whereby one person (the lessor) purchases an aircraft and subsequently leases to a third-party (the lessee), pursuant to which the lessor may or may not have secured the leasing at the time of purchase of the asset;
<b>finance lease</b>	a lease arrangement classified under the HKFRS and our accounting policies, pursuant to which substantially all of the risks and rewards of ownership of the leased assets are transferred from the lessors to the lessees;
<b>foreign lessor</b>	any aircraft leasing company which is not a Chinese lessor;
<b>full-life condition</b>	the condition of an aircraft assuming that all major maintenance events have just been fully restored or overhauled to its zero-time condition, in which the airframe is fresh from its heavy check, the landing gear is fresh from an overhaul, the engines are fresh from a performance-restoration visit;
<b>LIBOR</b>	London Interbank Offered Rate, the average interest rate estimated by banks in London that they would be charged if borrowing from other banks;
<b>narrowbody aircraft</b>	single-aisle aircraft, such as Airbus A320 family aircraft A319/320/321 series, Boeing 737 NG series, and B737-700/800 series;
<b>operating lease</b>	a lease arrangement classified under the HKFRS and our accounting policies, pursuant to which substantially all of the risk and rewards of the leased assets remain with the lessors;
<b>passenger aircraft</b>	aircraft operated by an airline with primary intention for transporting passenger. It may carry cargo in the lower deck or aircraft belly;

<b>PDP</b>	pre-delivery payment, a progress payment to be made by the purchaser to aircraft manufacturer at different milestones when the new aircraft ordered by the purchaser are being built;
<b>PDP financing</b>	bank borrowings obtained from banks and financial institutions for the payment of PDP;
<b>revenue passenger kilometre or RPK</b>	an industry standard measure of paying passengers flown where one RPK represents one kilometre travelled by a paying customer;
<b>SPCs</b>	special purpose companies established for the purpose of acting as the registered owners of our aircraft. The lessors in lease transactions, and the borrowers of the relevant aircraft loans for aircraft acquisitions; and
<b>widebody aircraft</b>	twin-aisle aircraft, such as Airbus A330 series and Boeing 777 series.



## FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute “forward-looking statements”. Some of these statements can be identified by forward-looking terms, such as “anticipate”, “target”, “believe”, “can”, “would”, “could”, “estimate”, “expect”, “aim”, “intend”, “may”, “plan”, “will”, “would” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to the Issuer and/or the Guarantor and/or the Group discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer, the Guarantor or by any third party) involve known and unknown risks, including those disclosed under the caption “*Risk Factors*”, uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer, the Guarantor or the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Circular. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause the actual results, performances and achievements of the Issuer, the Guarantor, the Group or any member of the Group to be materially different include, among others:

- future developments, trends and conditions in the industry and markets in which the Group operates;
- the ability of the Group to successfully implement its business plans and strategies;
- the continued availability of capital and financing;
- interest rates and foreign exchange rates, taxes and duties;
- ability of the Group to control its costs;
- general economic and business conditions and competitive environment in the PRC and elsewhere;
- ability of the Group to maintain its sales contracts with its major customers on terms commercially acceptable to the Group or at all;
- natural disasters, industrial action, terrorist attacks and other events beyond the Group’s control; and
- other factors, including those discussed in “*Risk Factors*”.

## TABLE OF CONTENTS

	<b>Page</b>
<b>SUMMARY</b> .....	1
<b>SUMMARY CONSOLIDATED FINANCIAL INFORMATION</b> .....	5
<b>THE OFFERING</b> .....	7
<b>RISK FACTORS</b> .....	11
<b>TERMS AND CONDITIONS OF THE 2022 BONDS</b> .....	33
<b>TERMS AND CONDITIONS OF THE 2024 BONDS</b> .....	51
<b>SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM</b> .....	52
<b>USE OF PROCEEDS</b> .....	54
<b>INDUSTRY OVERVIEW</b> .....	55
<b>CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR</b> .....	58
<b>DESCRIPTION OF THE ISSUER</b> .....	59
<b>DESCRIPTION OF THE GROUP</b> .....	60
<b>MANAGEMENT</b> .....	86
<b>SUBSTANTIAL SHAREHOLDERS</b> .....	94
<b>PRC REGULATIONS</b> .....	96
<b>TAXATION</b> .....	102
<b>SUBSCRIPTION AND SALE</b> .....	107
<b>GENERAL INFORMATION</b> .....	112
<b>INDEX TO FINANCIAL STATEMENTS</b> .....	F-1

## SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.*

### OVERVIEW

We are an independent international aircraft leasing company as well as a one-stop aircraft solutions provider focusing on the aircraft leasing market. We are currently the largest independent aircraft operating lessor in China, in terms of the total number of aircraft under ownership and new aircraft order book. We have over 20% market share of Airbus A320 series aircraft deliveries in China in 2015 and tied for second in a number of deliveries from Airbus among aircraft leasing companies in 2016. We also ranked seventh among all financing and operating lessors in terms of total amount of orders as at 31 December 2016. We have been listed on the Hong Kong Stock Exchange since 11 July 2014 and we are the first listed aircraft lessor in Asia. We are currently a constituent stock of the Hang Seng Global Composite Index, the Hang Seng Composite Index and MSCI China Small Cap Index. Furthermore, we were named as the “Aircraft Lessor of the Year” for two consecutive years in 2015 and 2016 by Global Transport Finance.

Throughout our business development history, we have established our business model for direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions with leading airline operators in China. We have also delivered and are leasing five, four, two and four aircraft, respectively, to Air India, Air Macau, Pegasus Airlines and Jetstar Pacific Airlines. We have also entered into aircraft lease agreements for one aircraft to be leased and delivered to ANA Holdings, which will be subleased to its subsidiary Vanilla Air, as well as for one and two aircraft to be leased and delivered to Hawaiian Airlines and Air Asia Group, respectively. Our business model allows us to provide different aircraft leasing transaction structures through our SPCs. Our aircraft leasing business is focused on generating long-term and constant cash inflows of lease income to match the cash outflows for the repayment instalments of our aircraft loans for aircraft acquisitions. Unlike traditional aircraft lessors, we are a full value-chain aircraft solutions provider. Our lease offerings are complemented by a range of value-added services including fleet planning consultation, structured leasing, aircraft trading and re-marketing, as well as aircraft disassembly, which is currently in development.

Banking on the wealth of opportunities presented by growing markets, our strategy includes plans to diversify our client base and increase our overseas market share in line with our business blueprint. To this end, we will continue to seek out markets in high-growth regions (particularly those possessing a strong synergy with the PRC market as part of our risk mitigation measures) and internationally recognised carriers will be selectively targeted. At the same time, we are realising our long-term vision of extending the value-chain of China’s aviation industry in an orderly manner as a means of further consolidating our unique positioning as a full value-chain aircraft solutions provider. After reaching an agreement with the Harbin Municipal Government for the establishment of aircraft disassembly facilities, we won the bid for a plot of land with an area of approximately 300,000 square metres in the south of Harbin Taiping International Airport in the Harbin Airport Economic Zone in July 2015, and officially launched a project for the construction of an aircraft disassembly base, taking an important step forward in the establishment of the first aircraft disassembly centre in China. The facility is expected to commence operation in the second half of 2017, and is expected to reach a capacity of dismantling 20 aircraft per year in 2018. With the operations of the aircraft disassembly centre, we are the first in Asia to provide aircraft full life-cycle solutions.

Since 2001, despite facing two of the worst downturns of the commercial aviation industry, traffic measured in RPK’s has grown a remarkable 98%. The factors which have led to this increase, including the emerging economies, tourism, and liberalisation, will continue to drive air traffic growth. Airbus

expects RPKs to grow 4.5% annually for the next 20 years. Air traffic to and from the more mature markets is forecasted to grow, with flows such as Western Europe to the US growing 1.7 times over the next 20 years. The domestic Chinese flow is expected to become the largest single traffic flow, growing nearly four times over this period, with the demographics and density of traffic requiring ever larger aircraft to meet the demand.

We use SPCs to enter into aircraft lease agreements with airline operators. The lease terms of our long-term aircraft lease agreements are sufficiently long to cover the repayment terms of our aircraft loans. This arrangement is designed to reduce our liquidity risk associated with short-term aircraft acquisition financing. Upon the expiration of the aircraft lease agreements, we require our airline lessees to return to us the leased aircraft in full-life condition or such other condition as stipulated in the relevant lease agreements. As at 30 June 2016, our aircraft lease agreements were of an average original lease term of approximately 12 years.

Pursuant to the aircraft lease agreements, our airline lessees enjoy the exclusive right to use the leased aircraft during the term of the aircraft lease agreements. Our airline lessees are required to settle the lease payments on a monthly or quarterly basis, and are also responsible for all costs, expenses and insurance involved in the maintenance and operation of the aircraft during the lease term. We also require our airline lessees to maintain valid insurance against all liabilities involved in the operation of the leased aircraft in compliance with the applicable laws and regulations in the place where the aircraft operates.

Prior to December 2010, we used our SPCs established in the Cayman Islands and Ireland as the lessors for leasing of aircraft to airline operators in China. Since December 2010 and October 2012, we have started using our SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, respectively, as lessors to enter into aircraft leasing transactions with airline operators in China. In August 2011, we first gained recognition in the China aircraft leasing market following the successful delivery of an aircraft to Shandong Airlines through our SPCs established in Tianjin Dongjiang Free Trade Port Zone. In March 2013, we successfully completed a novation to the lease of an aircraft to China Southern Airlines to our SPC established in Shanghai Pudong Airport Free Trade Zone. With the transaction structure involving our SPCs in China, we can assist our airline customers to reduce their overall leasing cost and withholding tax obligation and thereby enhance their competitiveness. We believe that our transaction structure together with our value-adding services provide incentives to our existing and potential airline customers in China to use our aircraft leasing services.

We lease and deliver our aircraft to leading airlines in China and globally, such as Air China, China Southern Airlines, China Eastern Airlines, Shenzhen Airlines, Chengdu Airlines, Qingdao Airlines, Shandong Airlines, Juneyao Airlines, Sichuan Airlines, Lucky Air and West Air under HNA Group, Air Macau, Air India, Pegasus Airlines and Jetstar Pacific Airlines. Our airline customers also include airline operators, such as China Eastern Airlines, where we provide value-adding services including trading and marketing of used aircraft.

We have a young and modern aircraft fleet which enables us to build a high-quality and growing airline customer base. Our fleet size reached 81 aircraft as at 31 December 2016, including 77 narrowbody aircraft and four widebody aircraft. The narrowbody aircraft include Airbus A320 family aircraft and Boeing 737 NG aircraft, and the widebody aircraft include Airbus A330 family aircraft. The average age of our aircraft fleet was 3.7 years as at 30 June 2016.

As at 30 June 2016, all our aircraft (excluding four old aircraft) were leased and delivered to airline operators in China and globally with an average remaining lease term of approximately ten years. We currently plan to grow our fleet to at least 98 aircraft before the end of 2017 and to not less than 173

aircraft before the end of 2022 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. As at 31 December 2016, out of the 173 aircraft, 81 aircraft have been leased and delivered to our airline customers and 92 aircraft were committed to be purchased by us.

### **OUR COMPETITIVE STRENGTHS**

We believe that our core competence lies in our distinctive business model, which gives us the competitive strengths to capitalise on the growth opportunities in the high-growth China aircraft leasing industry. We believe that our key strengths include:

- Being one of the forerunners in the high-growth China aircraft leasing industry with a distinctive business model and a proven successful operating track record;
- Stable and attractive growth through our orderbook;
- Operational and financial flexibility due to our independent status;
- Young and modern aircraft fleet;
- Access to flexible and diverse funding sources to support business expansion; and
- Stable and experienced management team with a proven track record.

### **OUR GROWTH STRATEGIES**

We believe that the increasing demand for air traffic in China and globally, together with our expanding fleet and our development into a one-stop aircraft solutions provider, will accelerate our rapid business growth. Accordingly, we intend to pursue the following growth strategies:

- Expanding our airline customer base by capitalising on the growing opportunities in the high-growth aircraft leasing market;
- Expanding our young and modern fleet of aircraft and enhancing the scope of our value-adding services;
- Diversifying our financing source, lowering our finance costs, and exploring financing alternatives to improve our investment returns; and
- Developing our aircraft disassembly business.

### **RECENT DEVELOPMENTS**

#### **Issuance of 2021 Bonds**

On 22 August 2016, we, through our wholly-owned special purpose vehicle, issued U.S.\$300,000,000 4.90 per cent. guaranteed bonds due 2021 guaranteed by us. The net proceeds were on-lent to us for new aircraft acquisitions, financing the aircraft disassembly centre, business expansion in aircraft and related business and general corporate purposes. The full principal amount of such bonds remains outstanding.

#### **Placement of New Shares**

On 26 August 2016, we entered into subscription agreements with certain subscribers, pursuant to which we conditionally agreed to allot and issue, and the subscribers conditionally agreed to subscribe, a total of 40,000,000 shares at the price of HK\$8.00 per share subject to a lock-up period of 12 months. All conditions precedent under the subscription agreements have been fulfilled and the 40,000,000 new shares have been allotted and issued to the relevant subscribers on 8 September 2016.

### **Issue of 2016 1st Tranche of the 5-Year Medium Term Notes in the PRC**

On 25 November 2016, CALC (Tianjin) completed the issuance of the 2016 1st tranche of the 5-year medium term notes in the PRC in an amount of RMB330 million with the coupon rate of 4.19%. The main purpose of issuing the medium term notes is to provide supplemental funding for deposit payments and pre-payments for the acquisition of aircraft. The full principal amount of the medium term notes remains outstanding.

### **Entry into the American market**

In December 2016, we signed a lease agreement with Hawaiian Airlines for a long term lease of an Airbus A321neo aircraft. The aircraft is expected to be delivered in 2018. Hawaiian Airlines is our first customer in the Americas, marking another milestone for the Group's global expansion. Since we began to tap into overseas markets in 2014, we have acquired airline clients in Asia Pacific, Europe and recently the Americas.

### **Strengthening our relationship with Chinese carriers**

In late 2016, we have completed deliveries of aircraft to two subsidiaries of HNA Group, Lucky Air and West Air, delivering two Airbus A320 aircraft to the airlines respectively. We seized this collaboration opportunity to establish the official partnership between CALC and HNA Group.

### **Appointments of global marketing team**

New hires in January 2017 included Mr. Matt Corley as Senior Vice President of Marketing – North and South America and Christopher Dennis-Meyer as Senior Vice President of Marketing – Europe, Middle East & Africa. Mr. Corley possesses more than three decades of experience in the industry, and has a proven track record in direct airline leasing and marketing, aircraft trading, fleet management and aircraft securitizations while Mr. Dennis-Meyer joins us with an impressive leasing and marketing track record that covers Americas, Europe, Middle East, Africa and Russia/CIS.

### **Expanding our footprint in Southeast Asia**

In January 2017, we signed lease agreements with Thai AirAsia and AirAsia for the lease of one Airbus A320 aircraft for both airlines. The aircraft is expected to be delivered in 2017. Signing of the lease marks our first cooperation with AirAsia Group, Asia's largest low-cost airline. It demonstrates the recognition of our capability in delivering first-rate full life cycle aircraft solutions to airline customers worldwide.

### **Our Consolidated Annual Results for the Year Ended 31 December 2016**

Based on our preliminary review of our unaudited consolidated management accounts for the six months ended 31 December 2016 as at 20 February 2017, we expect to record no less than a 60% increase in consolidated profit attributable to shareholders for the year ended 31 December 2016 when compared to the year ended 31 December 2015. The expected significant increase is mainly attributable to an increase in lease income which resulted from the continued expansion of the scale of the aircraft leasing business and gains from the realisation of finance lease receivables for four aircraft.

We are still in the process of preparing and finalising our audited consolidated annual results for the year ended 31 December 2016. This is only a preliminary assessment by our board with reference to our draft unaudited consolidated management accounts for the year ended 31 December 2016, which has not been audited by our auditor, and the information currently available to our board, which may be subject to further adjustments after internal review by our board and review by our audit committee. Our annual results for the year ended 31 December 2016 are expected to be announced by us in March 2017. Therefore, our actual consolidated annual results for the year ended 31 December 2016 may differ from as aforesaid.



## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary audited consolidated financial information as at and for the years ended 31 December 2013, 2014 and 2015 set forth below is derived from the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2014 and 2015 prepared in accordance with HKFRS (which have been audited by PricewaterhouseCoopers in accordance with Hong Kong Standards in Auditing issued by the Hong Kong Institute of Certified Public Accountants).

The summary unaudited interim consolidated financial information as at 30 June 2016 and for the six months ended 30 June 2015 and 2016 set forth below is derived from the Guarantor's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2016 (which have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants). Such unaudited interim condensed consolidated financial statements have not been audited by a certified public accountant. Consequently, such unaudited interim condensed consolidated financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. None of the Lead Managers or their respective affiliates, employees, directors, officers or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited interim condensed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. The unaudited interim condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2016 should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2016.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Guarantor, including the notes thereto, included elsewhere in this Offering Circular.

Historical results of the Group are not necessarily indicative of results that may be achieved for any future period.

### Consolidated Statement of Income

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>					
Finance lease income . . . . .	477,966	714,724	1,015,395	461,158	617,135
Operating lease income . . . . .	145,359	182,127	223,881	109,114	176,741
	623,325	896,851	1,239,276	570,272	793,876
Other income . . . . .	63,610	248,114	310,026	65,462	232,761
Revenue and other income . . . . .	686,935	1,144,965	1,549,302	635,734	1,026,637
<b>Expenses</b>					
Interest expense . . . . .	(329,906)	(520,532)	(753,691)	(337,230)	(475,421)
Depreciation . . . . .	(54,147)	(71,312)	(91,298)	(44,588)	(69,834)
Other operating expenses . . . . .	(90,437)	(199,886)	(223,258)	(95,640)	(137,832)
	(474,490)	(791,730)	(1,068,247)	(477,458)	(683,087)
<b>Operating profit</b> . . . . .	212,445	353,235	481,055	158,276	343,550
Other gains/(losses) . . . . .	(2,485)	27,480	(814)	(466)	(8,394)
<b>Profit before income tax</b> . . . . .	209,960	380,715	480,241	157,810	335,156
Income tax expense . . . . .	(37,460)	(78,049)	(100,031)	(41,083)	(95,138)
<b>Profit for the year/period</b> . . . . .	172,500	302,666	380,210	116,727	240,018
<b>Profit attributable to:</b>					
Owners of the Company . . . . .	172,500	302,750	380,165	116,678	240,018
Non-controlling interests . . . . .	-	(84)	45	49	-
	172,500	302,666	380,210	116,727	240,018

## Consolidated Balance Sheet

	As at 31 December			As at
	2013	2014	2015	30 June
	HK\$'000	HK\$'000	HK\$'000	2016
<b>ASSETS</b>				HK\$'000
Property, plant and equipment . . . . .	1,487,127	1,706,695	2,412,544	3,716,351
Finance lease receivables – net . . . . .	7,678,876	11,443,485	16,473,038	16,423,366
Derivative financial assets . . . . .	13,620	14,979	19,439	20,244
Prepayments and other receivables . . . . .	2,183,474	3,503,360	3,444,332	3,859,878
Restricted cash . . . . .	102,411	218,951	208,387	492,097
Cash and cash equivalents . . . . .	1,367,344	1,425,570	1,389,289	4,352,649
<b>Total assets . . . . .</b>	<b>12,832,852</b>	<b>18,313,040</b>	<b>23,947,029</b>	<b>28,864,585</b>
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital . . . . .	78	58,578	60,592	62,278
Reserves . . . . .	743,099	1,273,531	1,437,497	1,390,183
Retained earnings . . . . .	195,421	429,171	690,452	819,269
	938,598	1,761,280	2,188,541	2,271,730
<b>Non-controlling interests . . . . .</b>	<b>19,500</b>	<b>19,416</b>	<b>19,461</b>	<b>–</b>
<b>Total equity . . . . .</b>	<b>958,098</b>	<b>1,780,696</b>	<b>2,208,002</b>	<b>2,271,730</b>
<b>LIABILITIES</b>				
Deferred income tax liabilities . . . . .	26,267	67,161	122,132	199,669
Bank borrowings . . . . .	11,436,394	15,342,648	18,775,249	20,206,440
Long-term borrowings . . . . .	155,172	642,116	794,221	1,277,682
Medium-term notes . . . . .	–	–	400,547	392,355
Convertible bonds . . . . .	–	–	796,506	816,667
Guaranteed bonds . . . . .	–	–	–	2,300,129
Derivative financial liabilities . . . . .	7,488	33,361	32,103	110,147
Income tax payables . . . . .	8,613	21,991	37,654	33,757
Interest payables . . . . .	34,547	42,411	73,303	112,042
Other payables and accruals . . . . .	206,273	382,656	707,312	1,143,967
<b>Total liabilities . . . . .</b>	<b>11,874,754</b>	<b>16,532,344</b>	<b>21,739,027</b>	<b>26,592,855</b>
<b>Total equity and liabilities . . . . .</b>	<b>12,832,852</b>	<b>18,313,040</b>	<b>23,947,029</b>	<b>28,864,585</b>

## Non-GAAP Financial Measures

	As at and for the year		
	ended 31 December		
	2013	2014	2015
	<i>(HK\$'000, except for ratios and percentages)</i>		
EBITDA <sup>(1)</sup> . . . . .	594,013	972,559	1,325,230
Interest coverage <sup>(2)</sup> . . . . .	1.80x	1.87x	1.76x
Gearing ratio <sup>(3)</sup> . . . . .	90.3%	87.3%	86.7%

### Notes:

- EBITDA for any period consists of earnings before interest expense, depreciation and income tax expense. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, depreciation or interest expense. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. EBITDA has been included because the Group believe it is a useful supplement to cash flow data as a measure of its performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.
- Interest coverage is calculated by dividing EBITDA by interest expense.
- Gearing ratio is calculated by dividing total debt by total assets. Total debt consists of bank borrowings, long-term borrowings, medium-term notes, convertible bonds and guaranteed bonds.

## THE OFFERING

*The following summary contains some basic information about the Bonds and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in “Terms and Conditions of the 2022 Bonds” and “Terms and Conditions of the 2024 Bonds” and “Summary of Provisions Relating to the Bonds in Global Form” shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Bonds, see “Terms and Conditions of the 2022 Bonds” and “Terms and Conditions of the 2024 Bonds” in this Offering Circular.*

*Investors should be aware that the offerings are not contingent upon each other and that the information in this section assumes that both the 2022 Bonds and 2024 Bonds offerings are completed substantially concurrently but there can be no assurance that the concurrent offerings will occur in the manner and timing contemplated herein or at all.*

<b>Issuer</b> . . . . .	CALC Bond 3 Limited.
<b>Guarantor</b> . . . . .	China Aircraft Leasing Group Holdings Limited.
<b>The Bonds</b> . . . . .	U.S.\$[•] [•] per cent. Guaranteed Bonds due 2022 (the “ <b>2022 Bonds</b> ”).  U.S.\$[•] [•] per cent. Guaranteed Bonds due 2024 (the “ <b>2024 Bonds</b> ”).
<b>The Guarantee</b> . . . . .	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed, as further described in Condition 3 of the Terms and Conditions of the Bonds.
<b>Issue Price</b> . . . . .	The 2022 Bonds will be issued at [•] per cent. of their principal amount.  The 2024 Bonds will be issued at [•] per cent. of their principal amount.
<b>Form and Denomination</b> . . . . .	The Bonds will be issued in registered form in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Issue Date</b> . . . . .	[•] 2017.
<b>Interest</b> . . . . .	The 2022 Bonds will bear interest on their outstanding principal amount from and including [•] 2017, at the rate of [•] per cent. per annum, payable semi-annually in arrear on [•] and [•] in each year commencing on [•] 2017.  The 2024 Bonds will bear interest on their outstanding principal amount from and including [•] 2017, at the rate of [•] per cent. per annum, payable semi-annually in arrear on [•] and [•] in each year commencing on [•] 2017.
<b>Maturity Date</b> . . . . .	Unless previously redeemed, or purchased and cancelled, the 2022 Bonds will be redeemed at their principal amount on [•] and the 2024 Bonds will be redeemed at their principal amount on [•].

**Status of the Bonds . . . . .** The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer’s other present and future unsecured and unsubordinated obligations.

**Status of the Guarantee . . . . .** The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

**Negative Pledge . . . . .** The Bonds will contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Bonds.

**Use of Proceeds . . . . .** See section titled “*Use of Proceeds*”.

**Events of Default . . . . .** The Bonds will contain certain events of default as further described in Condition 9 of the Terms and Conditions of the Bonds.

**Taxation . . . . .** All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee (as the case may be) shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor by the PRC at a rate up to and including the aggregate rate applicable on [•] 2017 (the “**Applicable Rate**”), the Issuer or the Guarantor (as the case may be) will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amount which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or the Guarantor is required to make a deduction or withholding (i) by the PRC in excess of the Applicable Rate, or (ii) by the British Virgin Islands, the Cayman Islands or Hong Kong, the Issuer or the Guarantor (as the case may be) shall pay (except in certain circumstances as set out in Condition 8 of the Terms and Conditions of the Bonds) such Additional Tax Amounts (as defined in Condition 8 of the Terms and Conditions of the Bonds) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.

**Redemption for Change  
of Control . . . . .**

At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder’s option, to require the Issuer to redeem all, but not some only, of that holder’s Bonds on the Change of Control Put Date at a redemption price equal to 101 per cent. of their principal amount, together with accrued interest to but excluding the Change of Control Put Date (as defined in Condition 6(c) of the Terms and Conditions of the Bonds). See Condition 6(c) of the Terms and Conditions of the Bonds.

**Redemption for Taxation  
Reasons . . . . .**

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption, in the event that as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC or, in each case, any political subdivision or any authority therein or thereof having the power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), with change or amendment becomes effective on or after [•] 2017, the Issuer or the Guarantor has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8 of the Terms and Conditions of the Bonds) in respect of the Bonds or under the Guarantee and such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it. See Condition 6(b) of the Terms and Conditions of the Bonds.

**Further Issues . . . . .**

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as a series of the Bonds in all respects or in all respects except for the first payment of interest on them, and so that such further issue shall be consolidated and form a single series with the outstanding securities and any series (including such series of the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in the Terms and Conditions of the Bonds to the Bonds will include (unless the context requires otherwise) any other securities issued pursuant to Condition 15 of the Terms and Conditions of the Bonds and forming a single series with the Bonds.

**Trustee . . . . .**

Bank of Communications Trustee Limited.

**Principal Paying Agent,  
Registrar and Transfer  
Agent. . . . .**

Bank of Communications Co., Ltd. Hong Kong Branch.

<b>Clearing Systems . . . . .</b>	Each series of Bonds will be evidenced by a Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in each of the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described in such Global Certificates, owners of interests in Bonds evidenced by the relevant Global Certificates will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds.
<b>Notices and Payment . . .</b>	So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream, Luxembourg, any notice to Bondholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and shall be deemed to have been given on the date of delivery to such clearing system, for communication by the relevant clearing system to entitled accountholders in substitution for notification as requested by the Terms and Conditions of the Bonds.
<b>ISIN and Common Code . . . . .</b>	<p>The ISIN and Common Code for the 2022 Bonds are XS[•] and [•], respectively.</p> <p>The ISIN and Common Code for the 2024 Bonds are XS[•] and [•], respectively..</p>
<b>Governing Law . . . . .</b>	English law.
<b>Listing . . . . .</b>	Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to Professional Investors only.
<b>Selling Restrictions . . . .</b>	The Bonds and the Guarantee have not been and will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “ <i>Subscription and Sale</i> ”.



## RISK FACTORS

*Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Factors which we believe may be material for the purpose of assessing the market risks associated with the Bonds are also described below. We believe that the factors described below represent the principal risks inherent in investing in the Bonds, but our inability to fulfil our respective obligations under the Bonds and the Guarantee may occur for other reasons and we do not represent that the statements below regarding the risks of investment in the Bonds are exhaustive. Additional considerations and uncertainties not presently known to us or which they currently deem immaterial may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring. The market price of the Bonds could decline due to any of these risks, and investors may lose part or all of their investment.*

*This Offering Circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.*

### **RISKS RELATING TO OUR BUSINESS AND THE AIRCRAFT LEASING INDUSTRY**

#### **Our substantial indebtedness and net current liabilities position expose us to liquidity risk.**

We rely on cash generated from our business operations, aircraft loans, PDP financing, and debt and equity financing to finance the aircraft acquisitions and business operation. We expect that we will continue to do so in the future. See “*Description of the Group – Our Growth Strategies – Diversifying our financing source, lowering our finance costs, and exploring financing alternatives to improve our investment returns.*”

Our total indebtedness (including bank borrowings, long-term borrowings, medium-term notes, convertible bonds and guaranteed bonds) was HK\$11,591.6 million, HK\$15,984.8 million, HK\$20,766.5 million and HK\$24,993.3 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, representing 90.3%, 87.3%, 86.7% and 86.6% of our total assets as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively.

Due to the capital-intensive nature of our business, the need to refinance maturing debt and our strategy of expanding our aircraft portfolio, we expect that we will incur significant additional indebtedness in the future and continue to maintain high levels of indebtedness. Our high level of indebtedness:

- may cause a substantial portion of our cash flows from operations to be dedicated to interest and principal payments and therefore is not available to fund our operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- may impair our ability to obtain additional financing in the future;
- may limit our flexibility in planning for, or reacting to, changes in our business and industry;
- may make us more vulnerable to downturns in our business, our industry or the economy in general;
- may restrict us from pursuing strategic business opportunities; and
- may increase our exposure to interest rate fluctuations.

Furthermore, our current liabilities exceeded our current assets by HK\$1,421.4 million, HK\$3,238.1 million and HK\$1,873.2 million as at 31 December 2013, 2014 and 2015, respectively. The net current liabilities position may expose us to liquidity risk which could restrict our ability to make necessary capital expenditure or develop business opportunities, and our business, operating results and financial condition could be materially and adversely affected. As at 30 June 2016, our current assets exceeded our current liabilities by HK\$288.0 million.

We cannot assure you that we will always be able to continue to obtain the required financing in the future or that we would be able to arrange for re-financing our indebtedness when they become due, repay our indebtedness or raise the necessary funding to finance our business growth and our capital commitments.

Furthermore, we cannot assure you that we will be able to comply with all the requirements or covenants under our financing agreements or other material contracts entered into as part of our ordinary course of business or that we will be able to obtain any waiver if we fail to comply with them.

We have not received, during the three years and six months ended 30 June 2016, any notice of breach of any covenant or undertaking resulting in early termination or modification of any contracts or agreements which are material to our business.

If we violate any of the undertakings or covenants, it could result in increase in the interest rates, accelerated repayment of loans and interest, termination or delay in the relevant arrangements or legal proceedings against us. Any of these incidents could have a material and adverse effect on our business, operating results, and financial condition. Furthermore, our liquidity depends on the amount of cash generated from our operations and our access to further financial resources, which could also be in turn affected by our future operating performance, prevailing economic conditions, and other factors outside our control.

**We require significant amount of financing to support our aircraft purchase commitment.**

Each aircraft acquisition under aircraft sale and leaseback transaction or direct aircraft purchase and lease transaction will require us to arrange for new aircraft loan(s). We also need to arrange for PDP financing for aircraft purchased by us. We further arrange other financing including those from capital markets and export credit agencies to fund our aircraft acquisitions. As at 30 June 2016, the amount of outstanding aircraft purchase commitment was HK\$38,614.6 million, which was expected to be financed by (a) PDP financing, (b) aircraft loans, (c) proceeds from realisation of our investment in finance lease receivables, and (d) internally generated financial resources and additional financing. As at 31 December 2013, 2014 and 2015 and 30 June 2016, our bank borrowings for aircraft acquisition amounted to HK\$9,195.7 million, HK\$12,262.7 million, HK\$15,908.9 million and HK\$17,561.6 million, respectively. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the balances of our PDP financing were HK\$1,820.1 million, HK\$2,304.9 million, HK\$2,063.6 million and HK\$1,998.8 million, respectively. As at 30 June 2016, the balance of our medium-term notes, convertible bonds and guaranteed bonds was HK\$392.4 million, HK\$816.7 million and HK\$2,300.1 million, respectively. In order to meet our aircraft purchase commitment and maintain an adequate level of unrestricted cash, we need to ensure that sufficient level of financing is available on time and that there will be no significant off-lease time for the aircraft agreed to be purchased by us. Our ability to obtain financing is dependent on a number of factors outside our control, which include:

- the general market conditions;
- the market's perception of the quality of our assets;
- the market's perception of the relevant industry risk; and
- the interest rate fluctuations.

Negative sentiment in the capital and credit markets in which we source our financing could lead to commercial banks and other financial institutions being less willing to provide aircraft acquisition financing or that the cost of such financing would not be commercially acceptable to us. In any of these events, we may face a liquidity gap and we may need to use other means, such as selling our aircraft assets at an inappropriate time, to support our funding needs.

If we are unable to obtain sufficient financing from banks or other financing sources on commercially acceptable terms, our business, operating results, and financial condition could be materially and adversely affected.

**We rely on a few banks for our aircraft acquisition financing.**

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, we obtained aircraft acquisition financing (including aircraft loans and PDP financing) from six to 11 commercial banks.

Failure to obtain the required aircraft acquisition financing in the future or to raise the necessary funding to finance our aircraft purchase commitment could result in adverse an impact on our business, operating results, and financial condition.

We cannot assure you that we will be able to obtain the relevant aircraft acquisition financing on commercially acceptable terms or at all, which depends on general market conditions and interest rate fluctuations, both of which are outside our control. Negative sentiment in the capital and credit markets could lead to commercial banks being less willing to provide long-term financing for aircraft acquisition or that the cost of such financing would not be commercially acceptable to us.

**Any increase in interest rates would increase our borrowing costs which could adversely affect our business and financial performance.**

For the years ended 31 December 2013, 2014 and 2015, a substantial portion of our indebtedness, including aircraft loans and PDP financing, was subject to floating interest rates with reference to three-month or six-month U.S.\$ LIBOR. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our aircraft loans that were subject to floating interest rate represented 50.4%, 45.7%, 49.3% and 54.8%, respectively, of the balance of our total bank borrowings. We expect that most of our bank borrowings will continue to be subject to floating interest rates in the future.

Interest rate fluctuations have a significant influence on our financial performance. Any changes in interest rates will impact both our borrowing costs as well as lease revenue as a sizeable portion of our debt is on a floating rate basis. We may be susceptible to interest rate volatility if we are unable to maintain a balance between fixed and floating rate debts and match the fixed lease rent and lease maturities with financing debts on similar basis or secure appropriate hedges for the same. While the exposure to interest rate volatility may be hedged through the use of interest rate swaps and interest rate caps, the magnitude of the final exposure depends on the effectiveness of the hedge.

**Our business model depends on the continuing leasing of aircraft.**

Our business model depends on the continuing leasing of aircraft for constant cash inflows of lease income which will be used for the repayments of the aircraft loans incurred for aircraft acquisitions. Our ability to lease aircraft is, however, subject to a number of factors outside our control, including the economic change in China and globally, the level of air traffic demand in China and globally, the demand and supply of aircraft and aircraft leasing services in China and globally, and the market value of the aircraft we own or plan to purchase. If we are not able to lease our aircraft at the appropriate time and on favourable terms, our business, operating results, and financial condition could be materially and

adversely affected by the consequences such as the unexpected long off-lease time of our aircraft, insufficient cash flows generated from the aircraft lease agreements, and possible breach of covenants and undertakings in our financing arrangements and aircraft purchase agreement. Our business, operating results, and financial condition could also be adversely and materially affected by general market conditions of the airline industry in China and globally.

**Our operating history may not be indicative of our future performance.**

China's aircraft leasing industry has a short history, and our business only commenced in 2006 with the first aircraft sale and leaseback transaction completed in September 2007. We completed our first direct aircraft purchase and lease transaction in September 2010 with the aircraft purchased from the secondary aircraft markets in Europe. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, our lease income was HK\$623.3 million, HK\$896.9 million, HK\$1,239.3 million, HK\$570.3 million and HK\$793.9 million, respectively. The substantial increase in our lease income in 2014, 2015 and the first six months in 2016 were primarily attributable to the increase in our fleet size. Our operating profit also increased from HK\$212.4 million for the year ended 31 December 2013, to HK\$353.2 million for the year ended 31 December 2014, and further to HK\$481.1 million for the year ended 31 December 2015. Our operating profit for the six months ended 30 June 2015 and 2016 were HK\$158.3 million and HK\$343.6 million, respectively.

Our revenues and net profit are generated primarily from four sources, namely finance lease income, operating lease income, government subsidies and disposal gains from the realisation of finance lease receivables. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, we recognised HK\$57.1 million, HK\$111.5 million, HK\$54.1 million, nil and HK\$145.1 million, respectively, as other income from our realisation of finance lease receivable. The success of completing further realisation of finance lease receivable transaction is subject to a number of factors outside our control. Our interest expense is expected to increase because of the expansion of our fleet and that 17 additional aircraft are expected to be delivered in 2017. Our operating expenses are also expected to increase because of our need to recruit more staff to support business growth during the year. All of these factors could have adverse impact on our results for the year ending 31 December 2016.

**We may not be able to secure lease commitment for aircraft to be purchased and delivered to us under the aircraft purchase agreement.**

As at 31 December 2016, we have committed to purchase 92 aircraft which are to be delivered to us by the end of 2022. As at 31 December 2016, we have secured, by way of letters of intent or lease agreements, the lease of 23 aircraft scheduled to be delivered in 2017, 2018 and 2019. We have yet to secure the lease commitment for 69 aircraft scheduled to be delivered from 2018 to 2022.

If we are not able to secure timely lease commitment in respect of the 69 aircraft to be purchased and delivered to us, we may need to implement our contingency plans which include requesting for the deferred delivery of these aircraft even though we would need to continue to pay the PDPs for these aircraft. The relevant aircraft manufacturer may not agree with such deferred delivery, and we may be required to take the delivery of the aircraft and lease the aircraft on less favourable terms or that we may need to transfer the relevant aircraft delivery slot to other aircraft purchasers. In any of these events, our business, financial condition, and operating results could be adversely affected. We may also face claims from the relevant aircraft manufacturer for failure to take aircraft delivery and our reputation in aircraft leasing industry would also be affected.

In addition, the continuous payment of the PDPs, without confirmed lease commitment from the airline operators, may result in significant pressure on our financing needs, as there would be no inflows of cash to support the payment. As we have used PDP financing to support the payment of PDPs, we may or may not be able to obtain such financing on favourable terms or at all if the lease arrangement in respect of the aircraft has yet to be finalised. In such event, for the payment of the PDPs, we would then need to look for other source of financing, which would further accelerate our liquidity needs and our financial exposure.

**Our profitability depends on our ability to purchase market-accepted aircraft at reasonable prices.**

The profitability of our business depends on our ability to purchase market-accepted aircraft at reasonable prices. Purchase of aircraft at high prices may not be profitable to us as we may not be able to generate sufficient cash inflows through lease income to settle the aircraft acquisition financing. In addition, the selection of appropriate aircraft is also important to us under our business model. At the time of making the purchase commitment, we have yet to secure the corresponding lease commitment from the airline operators. This arrangement exposes us to the risk that we may not be able to lease the aircraft within the planned period of time of delivery of the aircraft at commercial terms acceptable to us.

Moreover, our aircraft acquisition strategy exposes us to various risks that could materially and adversely affect our business, operating results, and financial condition, including the risks that we could:

- impair our liquidity by using a significant portion of our available cash or borrowing capacity to finance our aircraft acquisitions;
- significantly increase our interest expense and financial leverage as we incur additional aircraft acquisition financing; and
- incur or assume unanticipated liabilities, losses or costs associated with the aircraft that we acquire.

In any of these events, our operating results and financial condition could be materially and adversely affected.

**We rely on a few airline customers for our aircraft leasing business.**

As at 31 December 2013, 2014 and 2015 and 30 June 2016, we had six, nine, 11 and 13 airline customers, respectively, for our aircraft leasing business. As at 30 June 2016, we leased 12, 10, and nine aircraft to the three largest airline customers, representing approximately 44.3% of the total number of aircraft of our fleet. The airline industry is cyclical, sensitive to economic performance, and highly competitive. Our airline customers are affected by fuel prices, political or economic instability, terrorist activities, changes in national policy, competitive pressures, labour actions, insurance costs, economic recession, health concerns, and other political or economic events adversely affecting the global or regional markets. All of these factors indirectly affect the aircraft leasing industry. Our airline customers' ability to react to and cope with the competitive environment in which they operate would affect our business and financial condition. The loss of any one of our existing airline customers or their inability to make lease payments on schedule due to financial difficulties, bankruptcy or otherwise could adversely affect our cash flow and profitability. This could also result in a possible breach by us of the undertakings and covenants contained in any of our financing agreements, resulting in an adverse impact on our business, operating results, and financial condition.

**We are exposed to various risks related to the commercial airline industry.**

We are exposed indirectly to the same set of risk factors as our airline lessees. The ability of each lessee to perform its obligations under a lease will depend primarily on the lessee's financial condition and cash flow, which are affected by factors beyond our control, including economic conditions, recession, deflation or financial system distress, demand for passenger air travel and air cargo services, industry competition, competition from substitute services, fluctuations in fuel prices, interest rates and foreign exchange rates, labour costs and union issues, maintenance, insurance, security or other costs, the impact of airline bankruptcies, aircraft accidents or the effect of geopolitical or other events such as wars, social unrest, pandemics, natural disasters and acts of terrorism. The airline industry generally and each of our lessees are also affected by government regulation of airline operations, competition and mergers and acquisitions, environmental regulation, airport and other infrastructural constraints, the availability of new or used aircraft for lease or purchase, changes in technology and the availability and cost of debt and equity capital and other forms of financing to airlines. Our business and financial performance are dependent on the performance of our lessees and their ability to manage these risks effectively. To the extent that the airline industry or our airline lessees experience negative effects from these or any other risk factors, we may experience:

- a reduced demand for our aircraft and hence lower lease rates or aircraft sale values;
- a higher incidence of lease defaults resulting in lost revenue from a delay or interruption in payments or termination of leases and higher legal and technical costs associated with the repossession of the aircraft and its records;
- a need to restructure lease payments for delinquent airlines or airlines in financial difficulty which may result in lower lease revenue or the need to make provisions for rental amounts in arrears; and
- an inability to place available aircraft on lease on acceptable terms, which could result in us incurring financing costs while not collecting revenue from the relevant aircraft and incurring storage, insurance, maintenance and modification costs resulting from the grounding of such aircraft and their preparation for re-lease.

The occurrence of one or more of these events could result in a material adverse effect on our business, financial condition and results of operations and our ability to service the Bonds.

**Our concentrated exposure to a single industry makes us particularly susceptible to the downturns of that industry.**

We are established with the principal objective of owning and investing in a portfolio of commercial jet aircraft which are placed on medium to long-term financing leases to airlines. By concentrating our operations and investments in the commercial aircraft leasing industry, we are susceptible to downturns in the commercial airline industry, which may result in our income from our aircraft leases being adversely affected. Concentrating our operations and investments in a single industry places us at greater risk from events or circumstances adversely affecting that industry. As a result, our business, financial condition and results of operations and ability to service the Bonds could be adversely affected.

**We are exposed to significant regional economic and political conditions due to the concentrated location of our lessees in certain geographical regions, which could adversely affect our financial performance.**

Through our lessees, we are exposed to local economic and political conditions that can influence the financial performance of such lessees located in a particular region. The effect of these conditions on payments to us will be more or less pronounced depending on the concentration of lessees in any region experiencing adverse conditions. The airline industry is highly sensitive to general economic conditions. A recession or other worsening of economic conditions in a particular region may have a material adverse effect on the creditworthiness of lessees located in that region or with significant operations to,



from or within that region and therefore on their resultant ability to meet their financial and other obligations under their leases. Furthermore, a disruption in the financial markets, a terrorist attack, natural disaster, pandemic, conflict or social unrest, higher or volatile fuel prices or a weak local currency may increase the adverse impact on our lessees.

We derive our lease income mainly from lessees based in China region. If the recent lower levels of global or local economic growth were to persist, slower freight and passenger traffic growth rates within the Asia Pacific region and between the Asia Pacific region and other regions could adversely impact aircraft demand, or oversupply of aircraft in the region could adversely impact lease rates and our ability to lease and re-lease our aircraft.

**If our airline customers encounter financial difficulties and we decide to restructure our aircraft lease agreements, it would likely result in re-leasing the aircraft on less favourable terms.**

If an airline customer fails to make payments in full or in part under a lease or has advised us that it will fail to make payments in full or in part under a lease in the future, we may elect or be required to restructure the lease, which could result in less favourable terms or termination of a lease without receiving all or any of the past due amounts. We may be unable to agree upon acceptable terms for some or all of the requested restructurings. If we repossess an aircraft but are not able to re-lease the aircraft promptly at favourable rates, if at all, our business, operating results, and financial condition could be adversely affected.

**We face a number of risks in relation to realisation of finance lease receivable.**

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, we entered into one, four, two and four transactions of realisation of finance lease receivable, respectively. Even though we have completed the realisation of the finance lease receivable, we will continue to be subject to the residual value risk of the relevant aircraft. We will also be liable if there is any breach of representation, warranty or undertakings made by us under the relevant transaction documents.

All of the above would expose us to various risks in addition to the risks associated with our business operations. We also need to deploy additional resources and implement enhanced internal control measures to monitor the ongoing compliance with the undertakings in the above transactions. If we enter into additional transactions of similar kind in the future, we will continue to bear the above risks with increased magnitude and significance. Failure to control these risks could materially and adversely affect our financial and operating conditions.

**Provision for impairment loss on finance lease receivables may not be adequate, and we may need to increase our provisions for impaired receivables.**

We did not make any provision for impairment loss on our finance lease receivables for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 as we do not anticipate any default of the payment obligation by our airline customers. The fact that there was no provision for impairment loss in the past is not an indication that we will not make such provision in the future, particularly in light of the volatility of the airline industry and the factors affecting which are generally out of our control or anticipation. The amount of provision for impairment loss is determined on the basis of the HKFRS, and our accounting policies and our accounting judgements and estimates with reference to a number of factors, such as the creditworthiness of our airline customers, economic conditions and trends, write-off experience, delinquencies and the value of underlying collateral and guarantees. As our provision under the HKFRS, and our accounting policies requires significant judgement and estimation, it may not be adequate to cover credit loss realised in our future business operations. The provision, if made, may be inadequate if adverse changes occur in the PRC economy or other economies in which we operate or if other events adversely affect specific customers or markets. Under such circumstances, we may need to make additional provision, on our finance lease receivables, which could materially and adversely affect our operating results, and financial condition.

**The market value of our aircraft and the market rates for aircraft leases could fluctuate from time to time.**

The aircraft market value and the market rates for aircraft leases experience significant fluctuations due to a number of factors outside our control, including, but without limitation to, increases in the interest rates and the fuel prices and decrease in the air traffic demand. Our long-term aircraft leases place on us the risk of realisation of the residual value of our aircraft at the time of re-marketing. We may also encounter aircraft market value risk if we need to implement our contingency plan by transferring the aircraft delivery slot of an aircraft committed to be purchased and delivered to us to any third party. In addition to the factors relevant to or affecting the airline industry generally, many other factors may affect the market value of the aircraft that we acquire and the market rates for leases, including, but without limitation to:

- the condition of the aircraft maintained by our lessees;
- the maintenance, operating history and documentary records of the aircraft;
- the age of the aircraft;
- the number of airlines using that type of aircraft and its compatibility in terms of specifications and configurations;
- the regulatory authority under which the aircraft is operated;
- the regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased;
- the market value of comparable aircraft; and
- the cost and the availability of spare parts.

**A high concentration of a particular model of aircraft may expose us to the risks on any change in the market demand or any problems specific to that aircraft model.**

As at 30 June 2016, 61 out of the 70 aircraft we own and being leased were Airbus A320 family aircraft. If we continue to have a high concentration of a particular type or model of aircraft, our business and operating results could be adversely affected if the market demand for that type or model of aircraft declines or if it is re-designed or replaced by its manufacturer because of new technology or other design or technological issues. In addition, if the aircraft models or models as part of our fleet encounter serious technological or other problems, resulting in grounding decisions by the aviation authorities, the market value and the lease rates of such aircraft may decline significantly. We may need to make provision for impairment on the market value of the aircraft. Our existing airline customers may also want to seek early termination of the existing aircraft lease agreements. We may not be able to re-lease or re-market the aircraft on favourable terms, or at all. In any of these events, our operating results and financial condition could be materially and adversely affected.

**Our aircraft may not at all times be adequately insured either as a result of airline customers' failure to maintain sufficient insurance during the lease term or insurers' unwillingness to cover certain risks.**

Although we do not control the operation of our leased aircraft under our leases, we could be exposed to the risk of loss of the value of the aircraft and the risk of liability for damages associated with the operation of the aircraft, including in connection with an aircraft accident. We require our lessees to obtain specified levels of insurance and indemnify us for, and insure against, amongst other contingencies, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable.

There can be no assurance that the lessee's insurance, and any contingent insurance obtained by us, will be adequate or sufficient to cover all types of claims that may be asserted against us or adequate to cover the value of the relevant aircraft against loss or damage. Inadequate insurance coverage or default by airline customers in fulfilling their indemnification or insurance obligations could reduce the proceeds that would be received by us in the event that we are sued and are required to make payments to claimants, which could have a material adverse effect on our operating results and financial condition.

**We may not be able to compete effectively in the aircraft leasing industry in China or globally.**

The aircraft leasing industry in China and globally is increasingly competitive. Some of our competitors in China and globally are significantly larger than us in terms of operational size, have a longer operating history, and have greater resources or lower cost of capital. Competition for a leasing transaction is based primarily upon the lease rates, delivery time, lease terms, management expertise, aircraft condition, specifications and configuration, and the availability of the types of aircraft necessary to meet the needs of the airline operators. In addition, some competing aircraft leasing companies in China and globally may have a lower overall cost of capital and may provide other value-adding services to potential airline customers that we may not be able to provide.

In addition to the competition for a leasing transaction, we may also encounter competition in aircraft acquisition from airlines, aircraft brokers, other aircraft leasing companies, and other investors interested in the airline industry in China and globally. The increasing competition may affect the price of the aircraft and the delivery schedule, particularly in light of the fact that the aircraft manufacturing industry in China and globally is dominated by two to three international aircraft manufacturers. In any of this event, our profitability could be adversely affected and our aircraft delivery schedule may need to be extended which could affect our business reputation and operating results.

**Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global economy may have a material adverse effect on our business, financial condition, results of operations and prospects.**

The continued success and profitability of our business depend, in part, on global economic growth and demand for its services. The demand for the various services offered by us is subject to different market cycles specific to such services, which in turn are affected by changes or developments in global economic and financial conditions that are beyond our control.

The global financial markets have experienced significant disruptions since 2008, and most of the world's major economies have experienced a recession. The recovery from the downturn has been challenging and unstable. The escalation of the European sovereign debt crisis after 2011, the impact of uncertainty regarding the United States federal budget and economic policy under the new administration, the volatility in the geopolitical environment in many parts of the world and other disruptions may continue to exert pressure on global economic conditions. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China. There have also been concerns over the unrest in the Middle East and Africa, which may result in higher oil prices and significant market volatility as well as political and diplomatic tensions in Asia, including in Thailand and the Philippines.

Other external factors, such as the imposition of trade tariffs, sanctions, boycotts, trade and labour disputes and work stoppages, particularly in the aircraft industry, which are events beyond our control, and the recurrence of adverse macroeconomic conditions are expected to have a material adverse effect on our business, financial condition, results of operations and prospects.

**Extraneous events, such as terrorist attacks, major air travel accidents or the outbreak of contagious diseases, could reduce the demand for air travel, which could cause our airline customers not being able to meet the lease payment obligation.**

Terrorist attacks, such as those on 11 September 2001, and their aftermath had a negative impact on the airline industry. The recent incident of disappearance of a commercial passenger aircraft en route from Malaysia and Beijing could also result in widespread concern on air travel safety. The primary effects experienced by airline industry include increased operating costs, increased concerns about future terrorist attacks, decreased air traffic, airport shutdowns, and flight cancellation and delays. Terrorist attacks, or the fear of such attacks, or other world events or major air travel accidents could result in decreased air traffic and could also increase the cost of airline operators, which could adversely affect our business and financial condition.

An outbreak of SARS and other communicable diseases adversely affected passenger demand for air travel in 2003. In addition, since 2003, there have been several outbreaks of avian influenza, or the bird flu, beginning in China and, eventually, spreading to certain parts of Asia, Europe and the Middle-East. More recently, there was an outbreak in China of the H7N9 virus. Additional outbreaks of SARS, bird flu, swine flu, H7N9 virus or other pandemic diseases, or the fear of such severe acute respiratory syndrome, or events, could provoke unpredictable responses, including government-imposed travel restrictions, which could negatively affect passenger demand for air travel. These consequences could adversely affect our airline customers' liability to satisfy their lease payment obligations, which could adversely affect our operating results and financial conditions.

**We may not be able to execute our growth strategies and expansion plans and our growth prospects may be limited.**

Our growth strategies are based on our existing plans in light of prevailing market conditions and possible industry developments, and are subject to inherent risks and uncertainties at different development stages. The formation of our growth strategies is based on assumptions of future events which include, but without limitation to, no material changes in existing political, legal, fiscal, foreign trade or economic conditions in China, no material change in technology and in our business relationships between our airline customers and financing source. These assumptions may not be correct, which could affect the commercial viability of our growth strategies. In such event, we may need to adjust our strategies in response to the changing market conditions.

We currently plan to grow our fleet to at least 173 aircraft before the end of 2022 through direct aircraft purchase and lease and aircraft sale and leaseback transactions. As at 31 December 2016, out of the 173 aircraft, 81 aircraft have been leased and delivered to our airline customers and 92 aircraft were committed to be purchased by us. We cannot assure you that we will be able to successfully lease out the aircraft in the future. In addition, failure to effectively manage our business growth may lead to increased costs, reduced competitiveness and decreased profitability for us. This could adversely affect our operating results and financial condition.

**We intend to enter the aircraft disassembly market, which may not be successfully implemented due to our lack of experience and requisite knowledge.**

As part of our business expansion plans, we intend to tap into the emerging opportunities in the aircraft disassembly market in addition to our existing aircraft leasing business. We believe that the demand for aircraft disassembly services in China will increase rapidly as a result of the economic growth in China and the increase in the numbers of aircraft in China. Towards this end, we have started the preparation of this business, see "*Business – Our Growth Strategies – Developing our aircraft disassembly business*".

Pursuing the above business expansion plans involves inherent business risks, such as making incorrect estimation on the level of demand for aircraft disassembly services in China and globally. We have little or no experience in the aircraft disassembly business. Our expertise and experience in the existing

aircraft leasing business may not be readily applied to or relevant to the prospective business involving aircraft disassembly. In addition, the existing global market participants of the aircraft disassembly market may have competitive advantages over us, which may result in our aircraft disassembly business being less attractive to our target customers and hence, less revenue generated to us.

We cannot assure you that any of the above plans will be successfully implemented. The successful implementation of these plans will involve additional cost and uncertainties, and we also need to divert our management resources from our ordinary course of business. If for any reason any of these plans cannot be implemented or that it does not achieve the planned outcome, our business or financial condition could be adversely affected.

**There are a limited number of aircraft manufacturers and the failure of any manufacturer to meet its delivery obligations to us could adversely affect our business and operating results.**

The aircraft leasing and sales industry is cyclical and experiences periods of oversupply and undersupply. The supply of passenger aircraft in which we are principally involved is presently dominated by two airframe manufacturers, namely Airbus and Boeing, a limited number of engine manufacturers, and a larger number of suppliers of avionics, interiors, spares and other equipment fitted to the aircraft. The manufacturers' ability to remain financially viable and produce aircraft and related components that meet airlines' requirements would have an impact on us.

Should the airline manufacturers fail to respond appropriately to changes in the market environment or fail to fulfil any contractual obligations they might have to us, we may experience:

- an adverse impact on demand for leased aircraft, market lease rates and aircraft values resulting from oversupply or undersupply of aircraft due to changes in production rates of the manufacturers;
- missed or delayed delivery of aircraft and a potential inability to meet our contractual obligations owed to any of our then lessees, resulting in potential lost or delayed revenues, lower revenue growth rates and strained leasee relationships; and/or
- an inability to acquire aircraft and/or components which could affect the demand, market lease rates, residual values for certain aircraft and/or our ability to lease those aircraft.

If there are delays in delivering aircraft for which we have made future lease commitments, our airline customers may elect to terminate their lease arrangements with us. Any such termination could strain our relations with those airline customers in the future and adversely affect our operating results and financial condition.

**New aircraft models could reduce the demand for our aircraft.**

As aircraft manufacturers continue to introduce technological innovations and new models of aircraft with improved fuel efficiency, some of the aircraft in our fleet could become less desirable to potential airline customers. Such technological innovations may accelerate the rate of obsolescence of our fleet of aircraft. In addition, new aircraft manufacturers, such as Commercial Aircraft Corporation of China, Limited (中國商用飛機有限責任公司) (“COMAC”) in China, may in the future produce aircraft that compete with current offerings from Airbus and Boeing.

The imposition of increasingly stringent noise or emissions restrictions may make some of our aircraft less desirable and less valuable in the secondary aircraft market. Any of these risks could adversely affect our ability to lease or sell our aircraft on favourable terms, if at all, which could have a material adverse effect on our business, financial condition, and operating results. The introduction of new aircraft models could also materially and adversely affect the market value of the our fleet.

**The loss of key personnel could adversely affect our reputation and relationships with lessees, manufacturers, buyers and financiers of aircraft, which are a critical element to the success of our performance.**

Our business operations and performance depends, in part, upon the continued service and performance of certain key staff members. These key personnel may leave us in the future to join other employers, including our competitors, or retire. The loss of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

**Our failure to obtain, renew, or retain certain required licences and approvals or failure to comply with applicable laws and regulations could adversely affect our business and operating results.**

China Asset Leasing Company Limited (中飛租融資租賃有限公司) (“CALC (Tianjin)”), China Aircraft Leasing Company Limited (中永順融資租賃(上海)有限公司) (the “CALC (Shanghai)”) and its subsidiaries in China, which are SPCs, are subject to a number of regulations under the PRC laws. For instance, the business scope set forth in the business licences of the SPCs in China is required to include leasing business in order to conduct leasing business in China. Besides, our SPCs in China have to obtain the tax registration certificate, the foreign exchange certificate and the organisation code certificate. If for whatever reason we are not able to obtain or renew any of these licences or certificates, our operating results could be adversely affected.

In addition, our airline customers are subject to extensive regulations under the laws of the jurisdictions in which they are registered and in which they operate. As a result, certain aspects of our aircraft lease agreements will require licences, consents or approvals, including consents from governmental or regulatory authorities for certain payments under our leases and for the import, export or deregistration of the aircraft. Subsequent changes in the applicable law or administrative practices may increase the risk that such requirements and governmental consent, once given, could be withdrawn. Any of these events could adversely affect our ability to re-lease or sell aircraft, which would materially and adversely affect our business and operating results.

**Subsidiaries of CALC (Tianjin) are not in compliance with the requirement on registered capital under the applicable PRC laws and regulations.**

According to article 7 of the Regulation for Promoting the Development of Freight Financing Industry in Dongjiang Free Trade Port Zone of Tianjin (天津東疆保稅港區促進航運金融產業發展鼓勵辦法(津東疆發[2010]26號))(the “**Regulation**”) promulgated by Dongjiang Free Trade Port Zone of Tianjin Management Committee (天津東疆保稅港區管理委員會)(the “**Management Committee**”) on 27 September 2010, the registered capital of any special purpose company established in *Tianjin Dongjiang Free Trade Port Zone* should not be less than 10% of the total investment of the relevant project. The wholly-owned subsidiaries of CALC (Tianjin), which are the SPCs established by us for the purpose of acting as the registered owners of our aircraft and the lessors in the leasing transactions with our airline customers, are not in compliance with the relevant requirement under the Regulation. On 16 July 2013, the Management Committee issued to CALC (Tianjin) a confirmation that the relevant registered capital requirement under the Regulation would not be applicable to the SPCs established or to be established by CALC (Tianjin) and the previous non-compliance would not result in any fine and penalty.

According to the Guidance of General office of the State council in respect of accelerating of the development of financing leasing industry (國務院辦公廳關於加快融資租賃業發展的指導意見), from 31 August 2015, restriction will no longer be imposed on registered capital of the SPCs established by the financing leasing company.



Nevertheless, if there is any change in the Regulation or that the Management Committee intends to implement the relevant requirements, we would need additional equity to finance our business operations in China. In such event, we have to increase our funding requirement and this could adversely affect our business plan.

Furthermore, we cannot assure you that we will not be subject to any further regulatory measures imposing stricter requirements such as further restrictions on the funding requirement of the SPCs established in China. If we fail to meet any such additional regulatory requirements, the relevant regulator may take corrective actions against us which could materially and adversely affect our operating results and financial condition.

**We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.**

Fraud or other misconduct by employees (such as unauthorised business transactions and breaches of our internal policies and procedures) or third-parties (such as breach of law) may be difficult to detect and prevent and could subject us to financial loss, sanctions imposed by governmental authorities and seriously harm our reputation. Our risk management systems, information technology systems, and internal control procedures are designed to monitor our operations and overall compliance. However, we may not be able to identify non-compliance matters in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions we take to prevent and detect such activities may not be effective. Hence, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This could have a material adverse effect on our business reputation, operating results, and financial condition.

**The unaudited but reviewed consolidated financial statements of the Guarantor included in this Offering Circular have not been audited by a certified public accountant.**

The unaudited but reviewed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2016 have not been audited by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. of the Lead Managers or their respective affiliates, employees, directors, officers or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited interim condensed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. The unaudited interim condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2016 should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2016.

**RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

**Economic, political and social conditions in the PRC and government policies could affect our business and prospects.**

The majority of our assets are located in the PRC, and the majority of our operating income is derived from our operations in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, government involvement, level of economic development, growth rate, foreign exchange controls and resources allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-

denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasising the utilisation of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. These economic reform measures may be adjusted or modified, or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not benefit from some of these measures.

The PRC government has the power to implement macroeconomic measures affecting the PRC economy. For example, to mitigate the negative impact of the global financial crisis and economic downturn in 2008, the PRC government implemented a series of macroeconomic measures and a moderately loose monetary policy between September 2008 to the end of 2009, which included announcing an RMB4.0 trillion economic stimulus package and reducing benchmark interest rates. In 2010 and 2011, the PRC government introduced a number of monetary tightening measures to cool down the overheated real estate markets and increasing inflation in the PRC. Since 2012, the People's Bank of China (中國人民銀行)(the "PBOC") announced several decreases in benchmark interest rates for general lending and the deposit reserve ratio for commercial banks in the PRC. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Any further increases in the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including us, by commercial banks in the PRC, which may limit our flexibility and ability to use bank loans or other forms of financing to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, our business, financial condition and results of operations may be materially and adversely affected.

**The PRC legal system is evolving and may have uncertainties that could limit the legal protection available to or against us.**

We are generally subject to laws and regulations of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to market participants in the PRC. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always clear and enforcement of these laws, regulations and rules may involve uncertainties, and may not be as consistent or predictable as in other more developed jurisdictions. These uncertainties may impede the ability to enforce the contracts we have entered into with our investors, creditors, customers, suppliers and business partners. We cannot predict the effect of future developments in the PRC legal system or the integration of such developments under the legal systems of the jurisdictions including Hong Kong, the jurisdiction of the governing law of the Bonds, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws, or the overturn of local government's decisions by itself, provincial or national governments. These uncertainties may limit legal protections available to or against us. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on our business, prospects, financial condition and results of operations.

**It may be difficult to effect service of process upon, or to enforce against, the Issuer, the Guarantor or their respective directors or members of the Issuer's or the Guarantor's senior management who reside in the PRC in connection with judgments obtained in non PRC courts.**

Most of our assets and our members are located in the PRC. In addition, most of the assets of the Issuer's and the Guarantor's directors and the members of the Issuer's and the Guarantor's senior management may be located within the PRC. Therefore, it may not be possible for investors to effect service of process upon the Issuer, the Guarantor or their respective directors or members of the Issuer's or the Guarantor's senior management inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition of judgment made by courts of most other jurisdictions. On

14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgment in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a “choice of court” agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final court judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a “choice of court” agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A “choice of court” agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute do not enter into a “choice of court” agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against the Issuer’s or the Guarantor’s assets or directors in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC. Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other European countries or Japan. Hence, the recognition and enforcement in the PRC of judgment of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

**The enforcement of the New Labour Contract Law and other labour-related regulations in the PRC may adversely affect our business and results of operations.**

On 28 December 2012, the PRC government enacted a new labour law, namely, the New Labour Contract Law of the PRC (the “**New Labour Contract Law**”), which became effective on 1 July 2013. The New Labour Contract Law establishes additional restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labour union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the New Labour Contract Law, an employer is obligated to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after two consecutive fixed term labour contracts. The employer must also pay compensation to employees if the employer terminates an unlimited term labour contract. Unless an employee refuses to extend the labour contract with the employee under the same terms or better terms than those in the original contract. Further, under the Regulations on Paid Annual Leave for Employees which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day. As a result of these protective labour measures or any additional future measures, our labour costs may increase. There can be no assurance that any disputes, work stoppages or strikes will not arise in the future.

**Higher labour costs and inflation in the PRC may adversely affect our profitability.**

Labour costs in the PRC have risen in recent years as a result of the enactment of new labour laws and social development. Rising labour costs and inflation may increase our operating costs and partially erode the cost advantage of our PRC-based operations and therefore negatively impact our profitability.

## **RISKS RELATING TO THE BONDS AND THE GUARANTEE**

**The Issuer is a special purpose financing entity with no operation of its own. Its ability to make payments under the Bonds will depend on timely payments under on-lent loans of the proceeds from the issue of the Bonds.**

The Issuer is newly-incorporated and is a wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not been engaged, since its incorporation, in any material activities other than entering into arrangements for the proposed issue of the Bonds. As at the date of this Offering Circular, the Issuer has limited assets and no business operations other than issuing the Bonds. The Issuer's ability to make payments under the Bonds is directly dependent on timely remittance of funds from the Guarantor and/or other members of our Group.

**The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies.**

As a holding company, the Guarantor will depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations under the Guarantee. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. There can be no assurance that the Guarantor's subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. In particular, the Guarantor does not maintain complete control over its jointly controlled entities or associates in which it might hold a minority interest. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments under the Guarantee. These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Guarantee.

**The Bonds and the Guarantee are unsecured obligations.**

The Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The payment obligations under the Bonds and the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Bonds.

**The Bonds and the Guarantee will be structurally subordinated to the existing and future indebtedness and other liabilities of the Guarantor's existing and future subsidiaries, (other than the Issuer) and other downward affiliates in which the Guarantor owns equity interests, and effectively subordinated to the Issuer's and the Guarantor's (as the case may be) secured debt to the extent of the value of the collateral securing such indebtedness.**

The Bonds and the Guarantee will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Guarantor's existing and future subsidiaries (other than the Issuer) and other downward affiliates in which the Guarantor owns equity interests, whether or not secured. The Bonds will not be guaranteed by any subsidiary or affiliate of the Guarantor, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries or affiliates unless these assets are transferred by dividends or distributions or otherwise to the Guarantor. The ability of such subsidiaries and affiliates to pay dividends or distributions or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under applicable law. Each of the Guarantor's subsidiaries (other than the Issuer) and affiliates is a separate legal entity that has no obligation to pay any amounts due under the Bonds or the Guarantee or make any funds available therefor, whether by dividends, loans or other payments. The right of the Issuer and the Guarantor to receive assets of any of the Guarantor's subsidiaries (other than the Issuer) and affiliates, respectively, upon that subsidiary's or affiliate's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's or affiliate's creditors (except to the extent that the Issuer or the Guarantor is a creditor of that subsidiary or affiliate). Consequently, the Bonds and the Guarantee will be structurally subordinated to all liabilities, including trade payables and lease obligations, of any of the Guarantor's existing and future subsidiaries (other than the Issuer) and other downward affiliates in respect of which the Guarantor owns equity interests.

The Bonds and the Guarantee are the Issuer's or the Guarantor's (as the case may be) unsecured obligations and will (i) rank equally in right of payment with all the Issuer's or the Guarantor's (as the case may be) other present and future unsubordinated and unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's or the Guarantor's (as the case may be) present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's or the Guarantor's (as the case may be) present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds or the Guarantee (as the case may be) only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders rateably with all of the Issuer's or the Guarantor's (as the case may be) other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

**The Bonds may not be a suitable investment for all investors.**

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with a measured appropriate addition of risk to the investor's overall portfolios. A potential investor should not invest in the Bonds unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

**Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds and the Trust Deed by the Trustee or less than all of the Bondholders.**

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including those Bondholders who do not attend and vote at the relevant meeting and those Bondholders who vote in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Bondholders may be adverse to the interests of individual Bondholders.

The Terms and Conditions of the Bonds also provide that the Trustee may (but shall not be obliged to), without the consent of Bondholders, agree to any modification of the Trust Deed (other than in respect of certain reserved matters) or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of Bondholders and to any modification of the Trust Deed or the Agency Agreement which, in the Trustee's opinion, is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of law.

In addition, the Trustee may (but shall not be obliged to), without the consent of the Bondholders, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed (other than a proposed breach or breach relating to the subject of certain reserved matters) or the Agency Agreement if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

**An active trading market for the Bonds may not develop, and there are restrictions on resale of the Bonds.**

The Bonds are a new issue of securities for which there is currently no trading market. Application will be made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonds by way of debt issue to Professional Investors only. There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, our operations and the market for similar securities. Further, the Bonds may be allocated to a limited number of investors, in which case liquidity may be limited. The Lead Managers are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time without notice.



**The liquidity and price of the Bonds following this offering may be volatile.**

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of us and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There can be no assurance that these developments will not occur in the future.

**Developments in the international financial markets and world economic conditions may adversely affect the market price of the Bonds.**

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis in 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

**Changes in interest rates may have an adverse effect on the price of the Bonds.**

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

As the Bonds will carry a fixed interest rate, the trading price of the Bonds will consequently vary with the fluctuations in interest rates. If the Bondholders propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

**Investors of the Bonds may be subject to foreign exchange risks.**

The Bonds are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which Issuer has no control. Depreciation of U.S. dollars against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

**The Issuer or the Guarantor may not be able to redeem the Bonds upon the due date for redemption thereof.**

Following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Bonds), the Issuer may, at the option of any Bondholder, be required to redeem all, but not some only, of such Holder's Bonds at 101 per cent. of their principal amount, together with accrued interest. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. There can be also no assurance that the Guarantor would have sufficient liquidity at such time to make the required redemption of the Bonds. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's and the Guarantor's failure to repay, repurchase or redeem tendered Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's, the Guarantor's or our other indebtedness.

**A change in English law which governs the Bonds may adversely affect holders of the Bonds.**

The Terms and Conditions of the Bonds are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Bonds.

**Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the holders of the Bonds would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There can also be no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.**

The Terms and Conditions of the Bonds and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts in respect of a dispute governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Bonds will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited.

**Each series of the Bonds will initially be evidenced by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system.**

Each series of the Bonds will initially be evidenced by a Global Certificate. Such Global Certificate will be deposited with a common depository for Euroclear and Clearstream, Luxembourg (each of Euroclear and Clearstream, Luxembourg, a “**Clearing System**”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive certificates. The relevant Clearing System will maintain records of the beneficial interests in the Global Certificate. While the Bonds are evidenced by the Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While a series of the Bonds is evidenced by a Global Certificate the Issuer will discharge its payment obligations under that series of the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the relevant series of the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the relevant series of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

**The Trustee may request Bondholders to provide an indemnity and/or security and/or pre-funding to its satisfaction.**

In certain circumstances, including without limitation giving of notice to the Issuer pursuant to Condition 9 of the Terms and Conditions of the Bonds and taking enforcement steps pursuant to Condition 13 of the Terms and Conditions of the Bonds, the Trustee may, at its sole discretion, request Bondholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed (as defined in the Terms and Conditions of the Bonds) or the Terms and Conditions of the Bonds and such in circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

**Gains on the transfer of the Bonds may be subject to income tax under PRC tax laws.**

Under the Enterprise Income Tax (“EIT”) Law and its implementation rules, any gains realised on the transfer of the Bonds by Bondholders who are deemed under the new EIT law as non-resident enterprises may be subject to PRC EIT if such gains are regarded as incomes derived from sources within the PRC. Under the new EIT law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. EIT rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income.

**The Bonds are redeemable in the event of certain withholding taxes being applicable.**

No assurances are made by the Issuer as to whether or not payments on the Bonds may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions of the Bonds the Issuer is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Bonds at any time in the event it has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC in excess of 10 per cent., or any political subdivision or any authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after [•] 2017.

**A tax for withholding may be payable under the United States Foreign Account Tax Compliance Act if an investor or custodian of the Bonds is unable to receive payments free of withholding.**

Whilst the Bonds are in global form and held within the Clearing Systems, in all likely circumstances, it is not expected that the United States Foreign Account Tax Compliance Act (“FATCA”), as currently implemented, will affect the amount of any payment received by the Clearing Systems on the Bonds (see

“Taxation – FATCA”). However, FATCA may affect payments (including payments of principal, interest and any premium on Bonds and sales proceeds from Bonds) made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to, among others any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The obligations of the Issuer and the Guarantor under the Bonds or the Guarantee, as the case may be, are discharged once the Issuer or the Guarantor has made payments to, or to the order of, the common depository for the Clearing Systems (as registered holder of the Bonds) and the Issuer and Guarantor have therefore no responsibility for any amount thereafter transmitted through the Clearing Systems and custodians or intermediaries. Further, while foreign financial institutions in a jurisdiction which has entered into a “Model 1” inter-governmental agreement with the United States (an “IGA”) may generally not be expected to be required to withhold under current FATCA rules or an IGA (or any law implementing an IGA) from payments they make, there can be no assurances that FATCA withholding would not affect the payments received by an investor in respect of the Bonds. In the event that Bonds were to become issued in definitive form, additional FATCA considerations may apply. Furthermore, it is possible that the United States may subsequently introduce additional rules relating to FATCA that affect withholding, including with respect to “foreign passthru payments”. Prospective investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them and their investment in, and acquisition and sale of, Bonds.

**The Issuer may issue additional Bonds in the future.**

There is no restriction on the amount of debt securities or guarantee that the Issuer or the Guarantor may issue or guarantee that rank *pari passu* with the Bonds and the Guarantee, respectively. The issue of any such debt securities or guarantee may reduce the amount recoverable by investors in the Bonds or pursuant to the Guarantee upon the Issuer’s or the Guarantor’s bankruptcy, winding-up or liquidation. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

**We may be required to comply with PRC filing and registration requirements with respect to the Bonds in the future.**

The National Development and Reform Commission of China (中華人民共和國國家發展和改革委員會)(the “NDRC”) issued the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號))(the “NDRC Circular”) on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises shall procure the registration of any debt securities issues outside the PRC by themselves or through their overseas controlled entities with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. We are not a controlled entity of a PRC domestic enterprise, and accordingly the NDRC Circular is not applicable to us and no registration or notification with respect to the Bonds is necessary. To the extent there is any requirement to register or make any filing with respect to the Bonds, we have undertaken in the Trust Deed to duly and punctually comply with or procure that there is compliance with all filing, registration, reporting and similar requirements required in accordance with applicable law and regulations from time to time, including any PRC regulatory requirement, relating to the Bonds.

## TERMS AND CONDITIONS OF THE 2022 BONDS

*The following, subject to the modification and other than the words in italics, is the text of the Terms and Conditions of the 2022 Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:*

The issue of the U.S.\$[•] [•] per cent. guaranteed bonds due [•] (the “**Bonds**” which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 15 and to be consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of CALC Bond 3 Limited (the “**Issuer**”) passed on 27 February 2017. The Bonds are constituted by a trust deed dated on or about [•] 2017 (the “**Trust Deed**”) between the Issuer, China Aircraft Leasing Group Holdings Limited (the “**Guarantor**”) and Bank of Communications Trustee Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for itself and the holders of the Bonds. The Bonds are the subject of an agency agreement dated on or about [•] 2017 (the “**Agency Agreement**”) between the Issuer, the Guarantor, the Trustee, Bank of Communications Co., Ltd. Hong Kong Branch as initial principal paying agent (the “**Principal Paying Agent**” and, together with any other paying agents appointed under the Agency Agreement, the “**Paying Agents**”), as registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**”) and any other agents named in it. References herein to “**Agents**” means the Principal Paying Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Bonds.

The giving of the Guarantee (as defined in Condition 3(a)) was authorised by a resolution of the board of directors of the Guarantor passed on 27 February 2017. The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, (i) all the provisions of the Trust Deed, and (ii) those provisions applicable to them of the Agency Agreement. The statements in these Conditions (as defined below) include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Copies of the Trust Deed and the Agency Agreement are available for inspection by the Bondholders at all reasonable times during normal business hours (between 9:00 am to 3:00 pm Monday to Friday) upon prior written request and satisfactory proof of holding at the principal place of business of the Trustee (presently at 1/F, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong) and at the specified office for the time being of the Principal Paying Agent.

All capitalised terms that are not defined in these terms and conditions (the “**Conditions**”) will have the meanings given to them in the Trust Deed.

### **1 Form, Specified Denomination and Title**

The Bonds are issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (the “**Authorised Denomination**”).

The Bonds are evidenced by certificates (“**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall evidence the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the Certificate evidencing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.



In these Conditions, “**Bondholder**” and “**holder**” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

*Upon issue, the Bonds will be evidenced by a global certificate (the “**Global Certificate**”) registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank SA/NV and Clearstream Banking S.A. These Conditions are modified by certain provisions contained in the Global Certificate. See “Summary of Provisions Relating to the Bonds in Global Forms”.*

*Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.*

## **2 Transfers of Bonds and Delivery of New Certificates**

### **(a) Transfer**

A holding of Bonds may, subject to the Agency Agreement and Conditions 2(d) and 2(e), be transferred in whole or in part in the Authorised Denomination upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) evidencing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent (as the case may be) may require. In the case of a transfer of part only of a holding of Bonds evidenced by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding (which must be in an Authorised Denomination) not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate evidencing the enlarged holding shall only be issued against surrender of the Certificate evidencing the existing holding.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

### **(b) Delivery of New Certificates**

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, “**business day**” means a day, other than a Saturday or Sunday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).



(c) ***Transfer or Exercise Free of Charge***

Certificates, on transfer, shall be issued and registered without charge to the relevant Bondholder by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment by the relevant Bondholder of any tax or other governmental charges that may be levied or imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require).

(d) ***Closed Periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after a Change of Control Put Exercise Notice has been deposited in respect of such Bond pursuant to Condition 6(c), or (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)).

(e) ***Regulations***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer and registration of Bonds, the initial form of which is scheduled to the Agency Agreement (the “**Regulations**”). Each of the Issuer and the Registrar may by agreement change the Regulations from time to time, with the prior written approval of the Trustee or by the Trustee with the prior written approval of the Registrar and the Issuer (such consent not to be unreasonably withheld). A copy of the current Regulations will be made available for inspection at all reasonable times during normal business hours (between 9:00 am to 3:00 pm Monday to Friday) upon prior written request and satisfactory proof of holding at the specified office of the Registrar.

### **3 Guarantee and Status**

(a) ***Guarantee:*** The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed (the “**Guarantee**”) the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(b) ***Status:*** The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4, at all times rank at least equally with all the Issuer’s other present and future unsecured and unsubordinated obligations.

### **4 Negative Pledge and Other Covenants**

(a) ***Negative Pledge***

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Guarantor will ensure that none of the Principal Subsidiaries will, create or permit to subsist any Security Interest (save for any Permitted Security Interest) upon any of its present or future undertakings, assets or revenues (including uncalled capital) to secure the repayment of, or any guarantee or indemnity in respect of, any Public External Indebtedness, without at the same time or prior thereto according to the Bonds (i) the same security as is created or subsisting to secure any such Public External Indebtedness, guarantee or indemnity or (ii) such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

**(b) Issuer's Activities**

The Issuer undertakes that it will not, and the Guarantor shall procure that the Issuer will not, so long as any Bond remains outstanding, carry on any business activity whatsoever other than in connection with the issue of bonds and any other activities reasonably incidental thereto (such activities shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of bonds to the Guarantor or any other Subsidiaries of the Guarantor).

**(c) Information Rights**

Under the Trust Deed, so long as any Bond remains outstanding, the Guarantor is obliged to furnish the Trustee with a Compliance Certificate (on which the Trustee may rely as to such compliance) (A) within 14 days after the Guarantor Audited Financial Reports or the Guarantor Unaudited Financial Reports, as the case may be, are made publicly available or (B) within 14 days of any written request by the Trustee.

**(d) Definitions:**

In these Conditions:

**“Compliance Certificate”** means a certificate of the Guarantor signed by any authorised signatory of the Guarantor confirming that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Guarantor, as at a date (the **“Certification Date”**) not more than five days before the date of the certificate:

- (i) no Event of Default (as defined in Condition 9) or Potential Event of Default has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event has occurred, giving details of it;
- (ii) each of the Issuer and the Guarantor has complied with all its obligations under the Trust Deed, the Agency Agreement and the Bonds or, if non-compliance has occurred, giving details of it; and
- (iii) no Change of Control (as defined in Condition 6) has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event has occurred, giving details of it;

**“Guarantor Audited Financial Reports”** means annual audited financial statements (on a consolidated basis) of the Guarantor, including a consolidated balance sheet, a consolidated statement of income, a consolidated statement of comprehensive income, a consolidated statement of changes in equity and a consolidated statement of cash flows, together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

**“Guarantor Unaudited Financial Reports”** means semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited financial statements (on a consolidated basis) of the Guarantor, including a consolidated balance sheet, a consolidated statement of income, a consolidated statement of comprehensive income, a consolidated statement of changes in equity and a consolidated statement of cash flows, together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them, as prepared on a basis consistent with the Guarantor Audited Financial Reports;

**“Group”** means the Guarantor and its consolidated subsidiaries taken as a whole;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**National Export Credit Agency Guaranteed Capital Markets Instrument**” means any Public External Indebtedness issued by an entity (not being the Issuer, the Guarantor or a Principal Subsidiary) that is guaranteed by any National Export Credit Agency;

“**National Export Credit Agency**” means any of the Export-Import Bank of the United States or the Export Credits Guarantee Department of the U.K. or the Export Credit Guarantee Scheme of Germany or COFACE of France or any other agency of the government of any country that provides guarantees to support the financing of aircraft (or parts thereof) exported from that country;

“**Net Assets**” means total assets less total liabilities;

“**Permitted Security Interest**” means:

- (i) any Security Interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof or any substitute security created on such property or asset in connection with the refinancing of the indebtedness secured by the relevant property or asset (provided that the principal amount secured by any such security may not be increased without the approval by an Extraordinary Resolution of the Bondholders);
- (ii) any lien arising by operation of law;
- (iii) any Security Interest on any property or asset securing any Public External Indebtedness if (a) by the terms of such indebtedness it is expressly provided that recourse by the holders of such indebtedness is limited to the properties or assets of the issuer or, as the case may be, borrower of such Public External Indebtedness and the revenues to be generated by the operation of, or loss of or damage to, such properties or assets, for repayment of the moneys advanced and payment of interest thereon and (b) such financing is not guaranteed by the Issuer, the Guarantor or any Principal Subsidiary; and
- (iv) any Security Interest on any property or asset of the Issuer, the Guarantor or any Principal Subsidiary which is created pursuant to any securitisation (including, for the avoidance of doubt, securitisation in the form of rental realisation), repackaging or like arrangement in accordance with normal market practice;

“**Potential Event of Default**” means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfillment of any other requirement provided for in Condition 9 become an Event of Default;

“**PRC**” means the People’s Republic of China (for the purposes hereof not including Hong Kong or the Macau Special Administrative Region of the People’s Republic of China or Taiwan);

“**Principal Subsidiary**” means any Subsidiary of the Guarantor whose Net Assets, as shown by the consolidated accounts of such Subsidiary, based upon which the latest Guarantor Audited Financial Reports have been prepared, are at least 10.0 per cent. of the Net Assets of the Group as shown by such Guarantor Audited Financial Reports, provided that if any such

Subsidiary (the “**Transferor**”) shall at any time transfer the whole or a substantial part of its business, undertaking or assets to the Guarantor or another Subsidiary of the Guarantor (the “**Transferee**”) then (a) if the whole of the business, undertaking and assets of the Transferor shall be so transferred, the Transferor shall thereupon cease to be a Principal Subsidiary and the Transferee (unless it is the Guarantor) shall thereupon become a Principal Subsidiary; and (b) if only a substantial part of the business, undertaking and assets of the Transferor shall be so transferred, the Transferor shall remain a Principal Subsidiary and the Transferee (unless it is the Guarantor) shall thereupon become a Principal Subsidiary.

Any Subsidiary which becomes a Principal Subsidiary by virtue of (a) above or which remains or becomes a Principal Subsidiary by virtue of (b) above shall continue to be a Principal Subsidiary until the earlier of the date of issue of (i) the first Guarantor Audited Financial Reports prepared as at a date later than the date of the relevant transfer which show the Net Assets as shown by the consolidated accounts of such Subsidiary, based upon which such Guarantor Audited Financial Reports have been prepared, to be less than 10.0 per cent. of the Net Assets of the Group, as shown by such Guarantor Audited Financial Reports or (ii) a report by the Group’s auditors dated on or after the date of the relevant transfer which shows the Net Assets of such Subsidiary on a consolidated basis to be less than 10.0 per cent. of the Net Assets of the Group. A certificate (on which the Trustee may rely conclusively without liability to any Bondholders or any other person) by the Guarantor that a Subsidiary is or is not a Principal Subsidiary shall, in the absence of manifest error, be conclusive;

“**Public External Indebtedness**” means any indebtedness represented by bonds, notes, debentures, debenture stock, loan stock, certificates or other similar instruments which (i) has an original maturity in excess of one year and (ii) is, or is capable of being, quoted, listed or traded on any stock exchange or over-the-counter or other similar securities market outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements), provided that any amounts owed in relation to a National Export Credit Agency Guaranteed Capital Markets Instrument will not constitute Public External Indebtedness notwithstanding that such amounts are guaranteed directly or indirectly by the Issuer, the Guarantor or any Principal Subsidiary;

“**Security Interest**” means any mortgage, charge, lien, pledge, encumbrance or other security interest of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, charge, lien, pledge, security interest, easement or encumbrance of any kind); and

a “**Subsidiary**” of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

## 5 Interest

The Bonds bear interest on their outstanding principal amount from and including [•] 2017 (the “**Issue Date**”) at the rate of [•] per cent. per annum (the “**Rate of Interest**”), payable semi-annually in arrear on [•] and [•] in each year (each an “**Interest Payment Date**”) commencing on [•] 2017. Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate evidencing such Bond, payment of principal is improperly withheld or

refused. In such event, it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Bondholder under these Conditions).

The amount of interest payable on each Interest Payment Date shall be U.S.\$[•] in respect of each Calculation Amount. If interest is required to be paid in respect of a Bond on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

“**Calculation Amount**” means U.S.\$1,000 of principal amount of the Bonds; and

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

## **6 Redemption and Purchase**

### **(a) Final Redemption**

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on [•]. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

### **(b) Redemption for Taxation Reasons**

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders in accordance with Condition 16 (which notice shall be irrevocable), and in writing to the Trustee and the Principal Paying Agent, at their principal amount together with interest accrued to the date fixed for redemption, if (i) the Issuer and/or the Guarantor (as the case may be) satisfies the Trustee immediately prior to the giving of such notice that the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after [•] 2017, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate signed by any director of the Issuer or, as the case may be, the Guarantor stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and (B) an opinion in form and substance satisfactory to the Trustee of independent tax or legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled (but shall not be obliged) to accept and rely upon such certificate and opinion

(without further investigation or enquiry) as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event they shall be conclusive and binding on the Bondholders. All Bonds in respect of which any notice of redemption is given under this Condition 6(b) shall be redeemed on the date and in such manner as specified in such notice in accordance with this Condition 6(b).

**(c) *Redemption for Change of Control***

At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that holder's Bonds on the Change of Control Put Date at a redemption price equal to 101 per cent. of their principal amount, together with accrued interest to but excluding the Change of Control Put Date. In order to exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Change of Control Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Change of Control, or, if later and provided that the Issuer shall have given notice of a Change of Control to Bondholders in accordance with Condition 16 within 14 days of such Change of Control, 30 days following the date upon which such notice is given to Bondholders. The "**Change of Control Put Date**" in respect of any Bond shall be the fourteenth day after the expiry of such period of 30 days as referred to above in this Condition 6(c).

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date applicable to such Bonds.

The Issuer shall give notice to Bondholders (in accordance with Condition 16) and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

For the purposes of this Condition 6:

"**Affiliate**" means, with respect to any person, any other person (i) directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with, such person or (ii) who is a spouse or child of any person described in (i) above; or (iii) any trust established for the benefit of any person described in (i) and (ii) above;

a "**Change of Control**" occurs when:

- (i) any person or persons, other than the Permitted Shareholders, acting together directly or indirectly acquires Control of the Guarantor;
- (ii) the Guarantor ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer;

"**Control**" means (where applicable): (i) the ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of a person or (ii) the right to appoint and/or remove all or the majority of the members of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, and the terms "**Controlling**" and "**Controlled**" have meanings correlative to the foregoing;



“**Permitted Shareholders**” means any or all of the following:

- (i) China Everbright Holdings Company Limited;
- (ii) Friedmann Pacific Asset Management Limited;
- (iii) any Affiliate of any person referred to in (i) or (ii) above;
- (iv) any successor of any person referred to in (i), (ii) or (iii) above; and
- (v) any person directly Controlled by the central government of the PRC; and

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state, agency of a state (in each case whether or not being a separate legal entity).

**(d) Notices of Redemption**

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Change of Control Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

**(e) Purchase**

The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 12(a). Any Bonds purchased by the Issuer, the Guarantor or any of their respective Subsidiaries may, at the Issuer’s or the Guarantor’s discretion, be held, resold or surrendered to the Registrar for cancellation.

**(f) Cancellation**

All Bonds redeemed by the Issuer or surrendered by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

**(g) No Duty to Monitor**

Neither the Trustee nor any of the Agents shall be obliged to take any steps to ascertain whether a Change of Control or Event of Default has occurred or to monitor the occurrence of any Change of Control or Event of Default, and shall not be liable to the Bondholders or any other person for not doing so.

**7 Payments**

**(a) Method of Payment**

- (i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Bonds evidenced by such Certificates) by transfer to the registered account of the Bondholder.

- (ii) Interest on each Bond shall be paid on the due date to the person shown on the Register at the close of business on the fifth Payment Business Day before the relevant due date for payment thereof (the “**Record Date**”). Payments of interest on each Bond shall be made by transfer to a U.S. dollar account of the Bondholder maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the relevant Record Date.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

**(b) Payments Subject to Fiscal Laws**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Bondholders in respect of such payments.

**(c) Payment Initiation**

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Paying Agent, on a Payment Business Day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

**(d) Appointment of Agents**

The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, the Transfer Agent and any other Agents appointed from time to time act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee.

Notice of any such termination or appointment or any change of any specified office shall promptly be given by the Issuer or the Guarantor to the Bondholders in accordance with Condition 16.

(e) ***Delay in Payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) ***Payment Business Days***

In this Condition 7, “**Payment Business Day**” means a day (other than a Saturday, Sunday or a public holiday) on which banks and foreign exchange markets are generally open for business in New York, Hong Kong and the place in which the specified office of the Principal Paying Agent is located and, if surrender of the relevant Certificate is required, the relevant place of presentation.

## **8 Taxation**

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee (as the case may be) shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by the PRC at a rate up to and including the aggregate rate applicable on [•] 2017 (the “**Applicable Rate**”), the Issuer or the Guarantor (as the case may be) will increase the amounts paid by it to the extent required, so that the net amount received by the Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or the Guarantor is required to make a deduction or withholding (i) by the PRC in excess of the Applicable Rate, or (ii) by the British Virgin Islands, the Cayman Islands or Hong Kong, the Issuer or the Guarantor (as the case may be) shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond (or under the Guarantee, as the case may be):

- (a) where such Bond is held by a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC other than the mere holding of the Bond; or
- (b) where (in the case of a payment of principal, premium or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such Additional Amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days.

References in these Conditions to principal, premium and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No Additional Tax Amounts shall be paid to a holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income declarable under the laws of the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Tax Amounts had that beneficiary, settlor, member or beneficial owner been the holder thereof.

“**Relevant Date**” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate evidencing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

If the Issuer and/or the Guarantor become subject at any time to any taxing jurisdiction other than the British Virgin Islands, the Cayman Islands, Hong Kong and the PRC, references in these Conditions to the British Virgin Islands, the Cayman Islands, Hong Kong and/or the PRC shall be construed as references to the British Virgin Islands, the Cayman Islands, Hong Kong, the PRC and/or such other jurisdiction (as the case may be).

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Guarantor or the Bondholders or any other person to pay such tax, duty, charges, withholding or other payment.

## 9 Events of Default

If any of the following events (each an “**Event of Default**”) occurs the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided that in any such case the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued and unpaid interest:

- (a) **Non-Payment:** there is a failure to pay the principal of or any premium (if any) or interest on any of the Bonds when due and such failure continues for a period of seven days; or
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Bonds or the Trust Deed (where applicable), which default is incapable of remedy or, if such default is capable of remedy, such default is not remedied within 45 days after notice of such default shall have been given to the Issuer or the Guarantor (as the case may be) by the Trustee; or
- (c) **Cross-Acceleration:** (i) any other present or future indebtedness of the Issuer, the Guarantor or any of the Principal Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of the Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in

this Condition 9(c) have occurred equals or exceeds U.S.\$50,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

- (d) **Unsatisfied Judgment:** one or more judgment(s) or order(s) for the payment of any amount exceeding U.S.\$50,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(d) operates) is rendered against the Issuer, the Guarantor or any of the Principal Subsidiaries, such judgment continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment and no further appeal or judicial review from such judgment is permissible under applicable law; or
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 45 days; or
- (f) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries over the whole or a substantial part of the assets of the Issuer, the Guarantor or the Principal Subsidiaries, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 30 days; or
- (g) **Insolvency:** the Issuer, the Guarantor or any of the Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a substantial part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a substantial part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or commences a voluntary case or proceeding under any applicable bankruptcy law, consents to the entry of judgment, decree or order for relief against it in an involuntary case or proceeding under any applicable bankruptcy law, consents to the appointment of a receiver of it or for a substantial part of its property and assets, consents to or acquiesces in the institution of a bankruptcy or an insolvency proceeding against it, or takes any corporate action to authorise or effect any of the foregoing, or a moratorium is agreed or declared in respect of or affecting all or a substantial part of the debts of the Issuer, the Guarantor or any of the Principal Subsidiaries, except, in the case of a bankruptcy or an insolvency proceeding only, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor, as the case may be, or another Principal Subsidiary; or
- (h) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, the Guarantor or any of the Principal Subsidiaries, or the Issuer, the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or a substantial part of its business or operations, except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders, (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor, as the case

may be, or another Principal Subsidiary, (iii) a members' voluntary solvent winding-up of any Principal Subsidiary, or (iv) in the case of a Principal Subsidiary, any disposal or sale of a Principal Subsidiary to any other person on arms' length terms for market consideration; or

- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds and the Trust Deed; (ii) to ensure that those obligations referred to in (i) are legally binding and enforceable and (iii) to make the Bonds, the Certificates, the Register and the Trust Deed admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done; or
- (j) **Illegality:** it is or will become unlawful for any of the Issuer and the Guarantor to perform or comply with any one or more of their respective obligations under any of the Bonds, the Trust Deed and/or the Agency Agreement; or
- (k) **Unenforceability of Guarantee:** the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force or effect by the Guarantor; or
- (l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(a) to 9(k) (both inclusive).

## 10 Prescription

Claims against the Issuer or the Guarantor for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, destroyed or defaced or alleged to be lost, stolen or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders in accordance with Condition 16, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 12 Meetings of Bondholders, Modification and Waiver

### (a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee, if requested to do so by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding and if it is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing holders of more than fifty per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the



Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest or premium (if any) is payable in respect of the Bonds or alter the method of calculating the amount of any payment in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to effect the exchange, conversion or substitution of the Bonds for other obligations or securities, (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee (subject to Condition 12(b)), in which case the necessary quorum will be two or more persons holding or representing holders of not less than 66 2/3 per cent., or at any adjourned meeting not less than 33 1/3 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

**(b) *Modification of Agreements and Deeds***

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer or the Guarantor to the Bondholders as soon as practicable.

**(c) *Entitlement of the Trustee***

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require on behalf of any Bondholder, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

**13 Enforcement**

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and/or the Bonds (as the case may be), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or pre-

funded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

#### **14 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders or any other person on any report, confirmation or certificate or information or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, information, advice or opinion, in which event such report, confirmation, certificate, information, advice or opinion shall be binding on the Issuer, the Guarantor and the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed or these Conditions to exercise any discretion or power, take or refrain from taking any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking or refrain from taking any such action, making any such decision or certification or giving any such direction, to seek directions from the Bondholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Neither the Trustee nor any of the Agents shall be under any obligation to ascertain whether any Event of Default or Potential Event of Default has occurred or monitor compliance by the Issuer or the Guarantor with the provisions of the Trust Deed, the Agency Agreement or these Conditions.

#### **15 Further Issues**

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects or in all respects except for the first payment of interest on them, and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further

securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

## **16 Notices**

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth business day after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which such publication is made.

*So long as the Global Certificate is held in its entirety on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A., any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV and Clearstream Banking S.A. for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

## **17 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## **18 Governing Law and Jurisdiction**

### **(a) Governing Law**

The Trust Deed, the Agency Agreement, the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### **(b) Jurisdiction**

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Trust Deed or the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Trust Deed or the Agency Agreement (“**Proceedings**”) may be brought in such courts. Pursuant to the Trust Deed, each of the Issuer and the Guarantor has irrevocably submitted to the jurisdiction of the courts of Hong Kong.

### **(c) Service of Process**

The Issuer has irrevocably appointed the Guarantor at its principal place of business in Hong Kong, currently at 28th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, to receive service of process in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such agent (whether or not it is forwarded to and received by the Issuer). If for any reason such agent ceases to be able to act as such or no longer has an address in Hong Kong, the Issuer irrevocably agrees to forthwith appoint a substitute process agent in Hong Kong and deliver to the Trustee a copy of the agent’s acceptance of that appointment within 30 days of such cessation. Nothing shall affect the right to serve process in any manner permitted by law, failing which the Trustee shall be entitled to appoint such a person by notice to the Issuer.

***(d) Waiver of Immunity***

Each of the Issuer and the Guarantor has, pursuant to the Trust Deed, waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## **TERMS AND CONDITIONS OF THE 2024 BONDS**

The terms and conditions of the 2024 Bonds will be identical to those under “Terms and Conditions of the 2022 Bonds” except as set out below. References to “Bonds” shall be construed as references to the 2024 Bonds.

- (a) The principal amount of the 2024 Bonds shall be U.S.\$[•].
- (b) The rate of interest of the 2024 Bonds shall be [•] per cent. per annum.
- (c) The maturity date of the 2024 Bonds shall be [•].
- (d) The first sentence of the second paragraph in Condition 5 of the Terms and Conditions of the 2024 Bonds shall be deleted in its entirety and replaced with the following:

“The amount of interest payable on each Interest Payment Date shall be U.S.\$[•] in respect of each Calculation Amount.”

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*Each Global Certificate contains provisions which apply to the series of the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the 2022 Bonds and the Terms and Conditions of the 2024 Bonds set out in this Offering Circular. Terms defined in the Terms and Conditions of the 2022 Bonds and the Terms and Conditions of the 2024 Bonds (together the “**Conditions**” or “**Terms and Conditions of the Bonds**”) have the same meaning in the paragraphs below. The following is a summary of those provisions:*

Each series of the Bonds will be evidenced by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depository on behalf of Euroclear and Clearstream, Luxembourg.

Under the Global Certificates, the Issuer, for value received, will promise to pay such principal and interest on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Conditions.

Owners of interests in the Bonds in respect of which the Global Certificates are issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear, Clearstream, Luxembourg or (as the case may be) any other clearing system on behalf of whom the Bonds are held (an “**Alternative Clearing System**”) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so,

- (i) upon or following any failure to pay principal in respect of any Bonds when it is due and payable;  
or
- (ii) with the consent of the Issuer.

In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificates are issued must provide the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

### **Payment**

So long as the Bonds are evidenced by the Global Certificates, each payment in respect of the Global Certificates will be made to, or to the order of, the person shown as the holder of the Bonds in the relevant Registers at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payments, where “**Clearing System Business Day**” means a day on which Euroclear and Clearstream, Luxembourg are open for business.

### **Trustee’s Powers**

In considering the interests of Bondholders while the relevant Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which such Global Certificate is issued.



The Trustee may call for any certificate or other document to be issued by Clearstream, Luxembourg or Euroclear (or any Alternative Clearing System on behalf of whom the Global Certificates may be held) as to the principal amount of a series of the Bonds evidenced by the relevant Global Certificate standing to the account of any Bondholder. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding insofar as Bondholders are concerned for all purposes. The Trustee shall not be liable to any Bondholder or any other person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Clearstream, Luxembourg or Euroclear (or any such Alternative Clearing System) and subsequently found to be forged or not authentic or not to be correct.

### **Notices**

So long as all of a series of the Bonds are evidenced by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, notices to Bondholders of such series of Bonds shall be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be), for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Bonds.

### **Bondholder's Redemption**

The Bondholder's redemption option in Condition 6(c) of the Terms and Conditions of the Bonds may be exercised by the holder of the relevant Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Conditions.

### **Transfers**

Transfers of the beneficial interests in the Bonds evidenced by the relevant Global Certificate will be effected through the records of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and their respective participants in accordance with the rules and operating procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and their respective participants.

### **Cancellation**

Cancellation of any Bond evidenced by the relevant Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the relevant series of the Bonds in the register of the Bondholders of such series and the relevant Global Certificate on its presentation to or to the order of the Registrar for annotation (for information only).

### **Meetings**

For the purposes of any meeting of Bondholders, the holder of the Bonds evidenced by the relevant Global Certificate shall be treated as two persons for the purposes of any quorum requirements of a meeting of such series of Bondholders and as being entitled to one vote for each integral unit in principal amount of the Bonds of such series of the currency for which such Global Certificate is issued.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Bonds is estimated to be approximately U.S.\$[•] million after deducting underwriting commission and expenses in relation to the offering. The net proceeds will be on-lent to the Guarantor for aircraft acquisitions, business expansion in aircraft and related business and general corporate purposes.

## INDUSTRY OVERVIEW

*Certain information and statistics set out in the section below is for information purposes only and is based on, or derived or extracted from, among other sources, government publications, market data providers, communications with various PRC government agencies or other independent third party sources unless otherwise indicated. Such information is subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any market study and statistical survey. None of the Issuer, the Guarantor, the Lead Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors or advisors or any other party involved in the Offering has independently verified such information. The information may not be consistent with other information compiled within or outside the PRC. Accordingly, such information should not be unduly relied upon.*

### The Global Airline Industry

The development of global aviation industry is driven by the market demand for air transportation which is largely dependent on the global economic growth. Over the past 20 years, the global real gross domestic product (“GDP”) grew at an average annual rate of approximately 3.8 per cent. according to the International Monetary Fund (“IMF”) while global RPK grew at an annual rate of approximately 4.8 per cent. between 1995 and 2014. Historically, the growth of global GDP has been positively correlated with air traffic. Since 2001, despite facing two of the worst downturns the commercial aviation industry has experienced, traffic measured in RPK, has grown a remarkable 85 per cent. RPK for the last five years has grown at a CAGR of 6.2 per cent. from 4,938.7 billion in 2010 to 6,664.5 billion in 2015. Furthermore, solid global economic growth and improving global trade volumes over the last year have driven passenger traffic growth at a rate of 7.4 per cent in 2015, compared to only 6.1 per cent in 2014, above the historical and long-term average growth rates. The factors which have led to this increase, including the emerging economies, tourism, and continued liberalization of air travel, will continue to drive traffic growth. Both Boeing and Airbus project similar rates of growth in the future. As stated in Boeing’s Current Market Outlook 2016-2035 (“Boeing Outlook”), Boeing estimates that the global RPK will more than double in the coming 20 years, growing at an annual rate of 4.8 per cent. from 2015 to 2035 to reach approximately 17.1 trillion. According to Airbus’ Global Market Forecast 2016-2035 (“Airbus Outlook”), RPK is projected to grow at an annual rate of 4.5 per cent. to reach 16.0 trillion by 2035.

### Demand for Aircraft

Demand for aircraft, including leased aircraft, is driven by demand for air transport which is in turn driven by global economic activity, relative affordability of air travel, consumption demand and business sentiment and investment levels. In order to support the sustained growth in traffic, the size of global aircraft fleet will need to expand. Based on Airbus Outlook, there were approximately 19,580 aircraft in service as of 2015. The number is forecast to expand to approximately 39,820 in 2035, of which 20,240 are new orders while 12,830 are replacement orders, representing a remarkable growth of approximately 103.4 per cent. Boeing also projects similar levels of demand and expects mainline global fleet to double over the next twenty years from 22,510 aircraft in 2015 to 45,240 in 2035, representing a growth rate of 101.0 per cent. Most of the forecast new deliveries are for Asia-Pacific, representing 38.2 per cent. of the demand, while more mature markets of North America and Europe will only account for 21.0 per cent. and 19.1 per cent. of total deliveries.

	2016-2035	Share of 2016-2035 Deliveries
Asia . . . . .	15,130	38.2%
North America . . . . .	8,330	21.0%
Europe . . . . .	7,570	19.1%
Middle East . . . . .	3,310	8.4%
Latin America . . . . .	2,960	7.5%
Africa . . . . .	1,150	2.9%
CIS . . . . .	1,170	3.0%

### Delivery demand is diverse



The current low-fuel-price environment fuels the profitability of the global airline industry. According to the industry forecast data by the International Air Transport Association (IATA) in June 2016, total fuel costs accounted for approximately 27 per cent. of the industry's total operating expenses in 2015. The IATA estimates that this ratio will drop to approximately 19 per cent. in 2016 and 2017, which is unprecedentedly low since 2005. Significant fleet expansion, improving asset valuations and increased profitability of airline companies will boost aircraft leasing market share, with Boeing expecting leasing to account for 50 per cent. of aircraft financing by 2020.

### The Airline Industry in China

Driven by China's robust economic development, China's aviation market has experienced strong growth. According to the IMF, China's real GDP grew on an average annual rate of approximately 9.2 per cent. from 2007 to 2015. It is also forecast by the IMF in October 2016 that China's real GDP will continue to grow 6.6 per cent. in 2016 and 6.2 per cent. in 2017 respectively, which are among the highest globally.

The emergence of middle class and robust growth of private consumption boost the number of air passengers in China. According to the industry data published in February 2016 by the Civil Aviation Administration of China (CAAC), domestic passenger traffic has grown 12 per cent. annually over the past decade and international passenger traffic has also increased at double-digit rates. Driving this expansion are new carriers, and domestic initiatives which stimulate point-to-point travel, more direct flight and flights from second-tier cities, liberalization of visa policies and improved economic conditions and affordability of air travel. Total air passengers in China amounted to approximately 435.6 million in 2015, representing an annual growth of 11.1 per cent. as compared to that in 2014. According to the Boeing Outlook, RPKs of domestic routes in China will grow at an annual rate of 6.2 per cent. from 2015 to 2035 to reach 1,897.4 billion. RPKs of the routes from China to Europe, China to North America, and China to Southeast Asia are also forecast to growth robustly from 2015 to 2035. Airbus Outlook predicts that the air trip per capita in China will grow from 0.3 in 2015 to 1.3 in 2035, which represents an impressive growth of over 333.3 per cent. growth within the period.

### Why Airlines Take Aircraft on Operating Lease

As opposed to direct ownership, aircraft leasing requires less capital investment and provides more fleet planning flexibility. Other than owning a commercial aircraft for more than 20 years, an airline can lease an aircraft for 10 to 12 years depending on its business and operational needs. Indeed, operating lease allows airlines to maintain the operation of aircraft while lowering their operating costs at the same time. It also enables the airlines to arrange their fleet and manage their balance sheets with more flexibility and not to assume the residual value risk of the aircraft.

## **Competitive Landscape of the Aircraft Leasing Market**

The market and competitive landscape of the global aircraft leasing market is relatively fragmented, consisting of a large and growing number of aircraft leasing companies. There are over 150 lessors in the global market. According to FlightGlobal Finance & Leasing 2017, there were altogether 23 operating lessors which own a fleet of over 100 aircraft as at 31 December 2016. GECAS and AerCap manage a portfolio of over 1,000 aircraft and are the two largest lessors globally. Beyond the top 20, there are a number of new lessors. Each of them has been able to raise capital in the new markets and grow their fleet by acquiring aircraft from other lessors, by direct purchase from manufacturers, and through sale and leaseback transactions with airlines. The major aircraft leasing companies operate and compete on a global scale but are differentiated by its operational strategy, fleet portfolio/strategy and capital structure. Generally, aircraft leasing companies compete on the basis whether they are able to diversify their portfolios, manage the aircraft through their lives, secure low funding cost, minimize number of aircraft in storage, and take swift action to deal with defaults if any.

The aircraft leasing market in China grows significantly. Previously, the market was dominated by foreign leasing companies. However, the market share of Chinese aircraft leasing companies has increased substantially since the China Banking Regulatory Commission (CBRC) relaxed its regulations on aircraft leasing in January 2007. In addition, under the current tax regime, Chinese airlines are exempt from paying withholding tax when leasing aircraft from Chinese leasing companies, which sharpens the competitiveness of the Chinese aircraft leasing companies on their home turf.

## **Entry Barriers of Aircraft Leasing Industry**

Globally, aircraft leasing is a competitive business and it is common to have more than 10 lessors bidding for a sale and leaseback transaction proposed by an airline. Unless a lessor has good access to capital at relatively low cost, it will be difficult for it to win a competitive bidding process. Good relationship with the airlines is also important for a lessor to secure lease commitments with the airlines.

Aircraft leasing companies monitor lease opportunities and fleet expansion plan of airlines, particularly when there are aircraft on order. They also need to have expertise in aircraft asset management and in aircraft marketing and re-marketing.

In China, to develop the aircraft leasing business, Chinese lessors generally tackle some entry barriers better than their foreign counterparts. Chinese lessors have better knowledge of China's aircraft leasing market, the airlines and China's legal system. Moreover, the development of aircraft leasing business has been supported by the establishment of the special purpose companies by Chinese lessors. Cities such as Beijing, Shanghai and Tianjin offer preferential policies to the aircraft leasing companies, such as special tax rebates and simplified foreign currency settlement procedures, which enhance the competitiveness of Chinese lessors. Although foreign lessors can set up special purpose companies in China, they will encounter more restrictions such as higher capital requirements and complicated application procedures as compared with China's aircraft leasing companies.

## CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the Guarantor's unaudited interim consolidated capitalisation and indebtedness as at 30 June 2016 and as adjusted to give effect to the issuance of the Bonds. For additional information, see the Guarantor's unaudited interim condensed consolidated financial statements and related notes thereto included elsewhere in this Offering Circular.

This table should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Guarantor and related notes thereto included elsewhere in this Offering Circular. Except as disclosed in this Offering Circular, there has been no material adverse change to the capitalisation or indebtedness of the Guarantor since 30 June 2016.

	As at 30 June 2016			
	Actual		As adjusted	
	(HK\$ millions) (Unaudited)	(U.S.\$ millions) <sup>(1)</sup>	(HK\$ millions) (Unaudited)	(U.S.\$ millions) <sup>(1)</sup>
<b>Bank and other borrowings – current portion</b>				
Bank borrowings . . . . .	3,976.8	512.5	3,976.8	512.5
Long-term borrowings . . . . .	1.1	0.1	1.1	0.1
Convertible bonds . . . . .	9.9	1.3	9.9	1.3
	<u>3,987.8</u>	<u>513.9</u>	<u>3,987.8</u>	<u>513.9</u>
<b>Bank and other borrowings – non-current portion<sup>(2)</sup></b>				
Bank borrowings . . . . .	16,229.7	2,091.7	16,229.7	2,091.7
Long-term borrowings . . . . .	1,276.6	164.5	1,276.6	164.5
Medium-term notes . . . . .	392.4	50.6	392.4	50.6
Convertible bonds . . . . .	806.7	104.0	806.7	104.0
Guaranteed bonds . . . . .	2,300.1	296.4	2,300.1	296.4
2022 Bonds to be issued <sup>(3)</sup> . . . . .	–	–	[•]	[•]
2024 Bonds to be issued <sup>(3)</sup> . . . . .	–	–	[•]	[•]
	<u>21,005.5</u>	<u>2,707.2</u>	<u>[•]</u>	<u>[•]</u>
<b>Total shareholders' equity . . . . .</b>	<u><b>2,271.7</b></u>	<u><b>292.8</b></u>	<u><b>2,271.7</b></u>	<u><b>292.8</b></u>
<b>Total capitalisation<sup>(2)(4)</sup> . . . . .</b>	<u><b>27,265.0</b></u>	<u><b>3,513.9</b></u>	<u><b>[•]</b></u>	<u><b>[•]</b></u>

*Notes:*

- (1) Translation of Hong Kong dollar amount to U.S. dollar amount were made at a rate of HK\$7.7591 to U.S.\$1.00, the noon buying rate in effect on 30 June 2016 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.
- (2) On 22 August 2016, the Guarantor, through its wholly-owned special purpose vehicle, issued U.S.\$300,000,000 4.90 per cent. guaranteed bonds due 2021 guaranteed by the Guarantor. The proceeds were used for new aircraft acquisitions, financing the aircraft disassembly centre, business expansion in aircraft and related business and general corporate purposes. The full principal amount of such bonds remains outstanding. On 25 November 2016, CALC (Tianjin) issued RMB330,000,000 4.19 per cent. due 2021 medium term notes in the PRC.
- (3) Representing the aggregate principal amount of the relevant series of Bonds to be issued, without taking into account and before deduction of any fees, commission or expenses.
- (4) Total capitalisation comprises current and non-current bank and other borrowings and total shareholders' equity.
- (5) There may be a slightly discrepancy between the sum of individual items and the total as shown in the tables owing to rounding.



## **DESCRIPTION OF THE ISSUER**

### **FORMATION**

The Issuer is a limited liability company incorporated on 17 February 2017 in the British Virgin Islands under the Business Companies Act, 2004 of the British Virgin Islands (BVI Company Number 1937239). It is a direct wholly-owned subsidiary of the Guarantor. The Issuer has no material assets and will conduct no business except in connection with the issuance of the Bonds. The Issuer's registered office is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands.

### **BUSINESS ACTIVITY**

The Issuer was established pursuant to the objects and powers set out in its memorandum of association. The Issuer does not sell any products or provide any services and has undertaken no business activities since the date of its incorporation, other than those incidental to its incorporation.

### **FINANCIAL STATEMENTS**

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep such proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

### **DIRECTORS**

The sole director of the Issuer is Ms. Liu Wanting. The director of the Issuer does not hold any shares or options to acquire shares of the Issuer. The Issuer does not have any employees and has no subsidiaries.

### **SHARE CAPITAL**

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares each with a par value of U.S.\$1.00 of a single class and one share has been issued to and held by the Guarantor. The register of members of the Issuer is maintained at its registered office in British Virgin Islands at the offices of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. As at the date of this Offering Circular, the Issuer does not have any debt outstanding.

## DESCRIPTION OF THE GROUP

### OVERVIEW

We are an independent international aircraft leasing company as well as a one-stop aircraft solutions provider focusing on the aircraft leasing market. We are currently the largest independent aircraft operating lessor in China, in terms of the total number of aircraft under ownership and new aircraft order book. We have over 20% market share of Airbus A320 series aircraft deliveries in China in 2015 and tied for second in a number of deliveries from Airbus among aircraft leasing companies in 2016. We also ranked seventh among all financing and operating lessors in terms of total amount of orders as at 31 December 2016. We have been listed on the Hong Kong Stock Exchange since 11 July 2014 and we are the first listed aircraft lessor in Asia. We are currently a constituent stock of the Hang Seng Global Composite Index, the Hang Seng Composite Index and MSCI China Small Cap Index. Furthermore, we were named as the “Aircraft Lessor of the Year” for two consecutive years in 2015 and 2016 by Global Transport Finance.

Throughout our business development history, we have established our business model for direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions with leading airline operators in China. We have delivered and are leasing five, four, two and four aircraft, respectively, to Air India, Air Macau, Pegasus Airlines and Jetstar Pacific Airlines. We have also entered into aircraft lease agreements for one aircraft to be leased and delivered to ANA Holdings, which will be subleased to its subsidiary Vanilla Air, as well as for one and two aircraft to be leased and delivered to Hawaiian Airlines and Air Asia Group, respectively. Our business model allows us to provide different aircraft leasing transaction structures through our SPCs. Our aircraft leasing business is focused on generating long-term and constant cash inflows of lease income to match the cash outflows for the repayment instalments of our aircraft loans for aircraft acquisitions. Unlike traditional aircraft lessors, we are a full value-chain aircraft solutions provider. Our lease offerings are complemented by a range of value-added services including fleet planning consultation, structured leasing, aircraft trading and re-marketing, as well as aircraft disassembly, which is currently in development.

Banking on the wealth of opportunities presented by growing markets, our strategy includes plans to diversify our client base and increase our overseas market share in line with our business blueprint. To this end, we will continue to seek out markets in high-growth regions (particularly those possessing a strong synergy with the China market as part of our risk mitigation measures) and internationally recognised carriers will be selectively targeted. At the same time, we are realising our long-term vision of extending the value-chain of China’s aviation industry in an orderly manner as a means of further consolidating our unique positioning as a full value-chain aircraft solutions provider. After reaching an agreement with the Harbin Municipal Government for the establishment of aircraft disassembly facilities, we won the bid for a plot of land with an area of approximately 300,000 square metres in the south of Harbin Taiping International Airport in the Harbin Airport Economic Zone in July 2015, and officially launched a project for the construction of an aircraft disassembly base, taking an important step forward in the establishment of the first aircraft disassembly centre in China. The facility is expected to commence operation in the second half of 2017, and is expected to reach a capacity of dismantling 20 aircraft per year in 2018. With the operations of the aircraft disassembly centre, we are the first in Asia to provide aircraft full life-cycle solutions.

Since 2001, despite facing two of the worst downturns of the commercial aviation industry, traffic measured in RPK’s has grown a remarkable 98%. The factors which have led to this increase, including the emerging economies, tourism, and liberalisation, will continue to drive air traffic growth. Airbus expects RPKs to grow 4.5%, annually for the next 20 years. Air traffic to and from the more mature markets is forecasted to grow, with flows such as Western Europe to the US growing 1.7 times over the next 20 years. The domestic Chinese flow is expected to become the largest single traffic flow, growing nearly four times over this period, with the demographics and density of traffic requiring ever larger aircraft to meet the demand.

We use SPCs to enter into aircraft lease agreements with airline operators. The lease terms of our long-term aircraft lease agreements are sufficiently long to cover the repayment terms of our aircraft loans. This arrangement is designed to reduce our liquidity risk associated with short-term aircraft acquisition financing. Upon the expiration of the aircraft lease agreements, we require our airline lessees to return to us the leased aircraft in full-life condition or such other condition as stipulated in the relevant lease agreements. As at 30 June 2016, our aircraft lease agreements were of an average original lease term of approximately 12 years.

Pursuant to the aircraft lease agreements, our airline lessees enjoy the exclusive right to use the leased aircraft during the term of the aircraft lease agreements. Our airline lessees are required to settle the lease payments on a monthly or quarterly basis, and are also responsible for all costs, expenses and insurance involved in the maintenance and operation of the aircraft during the lease term. We also require our airline lessees to maintain valid insurance against all liabilities involved in the operation of the leased aircraft in compliance with the applicable laws and regulations in the place where the aircraft operates.

Prior to December 2010, we used our SPCs established in the Cayman Islands and Ireland as the lessors for leasing of aircraft to airline operators in China. Since December 2010 and October 2012, we have started using our SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, respectively, as lessors to enter into aircraft leasing transactions with airline operators in China. In August 2011, we first gained recognition in the China aircraft leasing market following the successful delivery of an aircraft to Shandong Airlines through our SPCs established in Tianjin Dongjiang Free Trade Port Zone. In March 2013, we successfully completed a novation to the lease of an aircraft to China Southern Airlines to our SPC established in Shanghai Pudong Airport Free Trade Zone. With the transaction structure involving our SPCs in China, we can assist our airline customers to reduce their overall leasing cost and withholding tax obligation and thereby enhance their competitiveness. We believe that our transaction structure together with our value-adding services provide incentives to our existing and potential airline customers in China to use our aircraft leasing services.

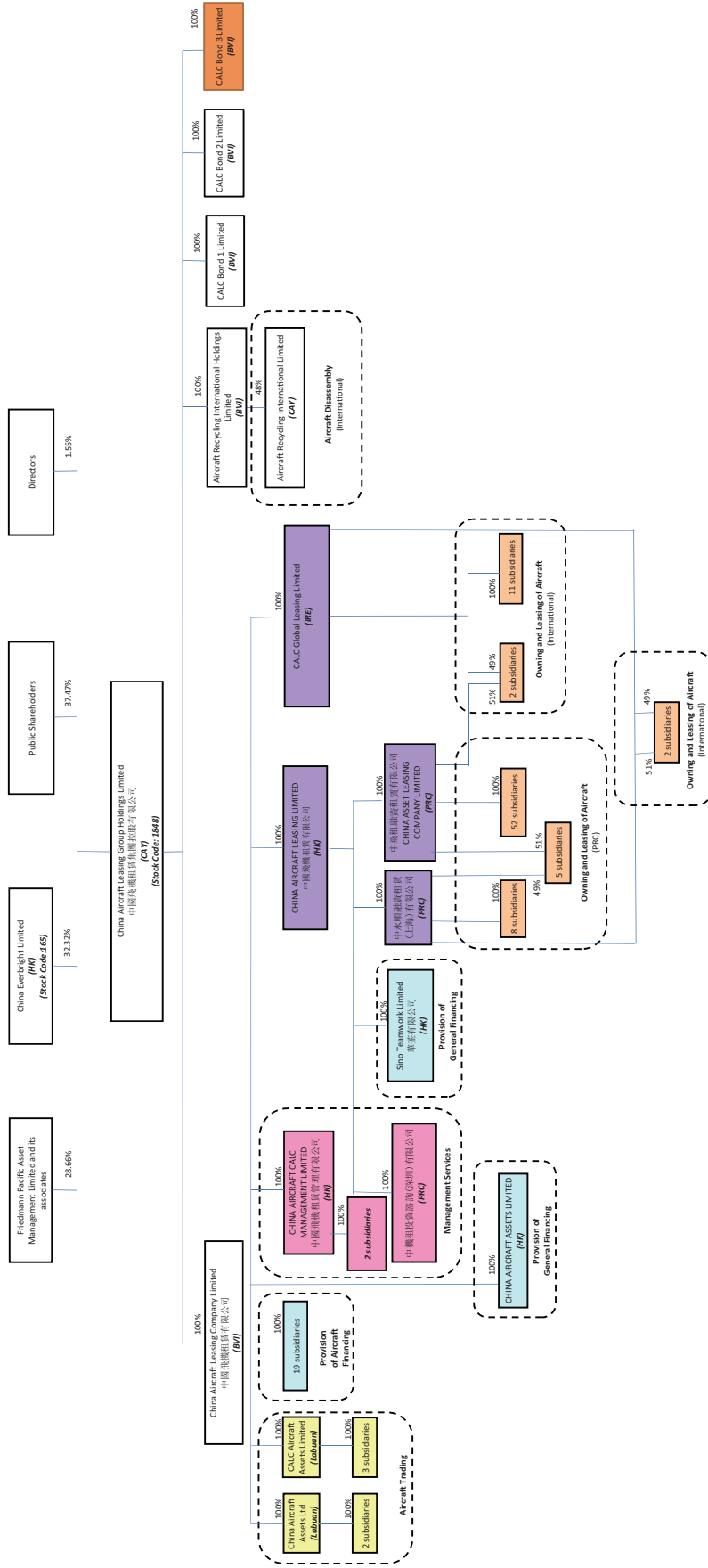
We lease and deliver our aircraft to leading airlines in China and globally, such as Air China, China Southern Airlines, China Eastern Airlines, Shenzhen Airlines, Chengdu Airlines, Qingdao Airlines, Shandong Airlines, Juneyao Airlines, Sichuan Airlines, Lucky Air and West Air under HNA Group, Air Macau, Air India, Pegasus Airlines and Jetstar Pacific Airlines. Our airline customers also include airline operators, such as China Eastern Airlines, where we provide value-adding services including trading and marketing of used aircraft.

We have a young and modern aircraft fleet which enables us to build a high-quality and growing airline customer base. Our fleet size reached 81 aircraft as at 31 December 2016, including 77 narrowbody aircraft and four widebody aircraft. The narrowbody aircraft include Airbus A320 family aircraft and Boeing 737 NG aircraft, and the widebody aircraft include Airbus A330 family aircraft. The average age of our aircraft fleet was 3.7 years as at 30 June 2016.

As at 30 June 2016, all our aircraft (excluding four old aircraft) were leased and delivered to airline operators in China and globally with an average remaining lease term of approximately ten years. We currently plan to grow our fleet to at least 98 aircraft before the end of 2017 and to not less than 173 aircraft before the end of 2022 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. As at 31 December 2016, out of the 173 aircraft, 81 aircraft have been leased and delivered to our airline customers and 92 aircraft were committed to be purchased by us.

# CORPORATE STRUCTURE

The following chart sets forth our simplified corporate and shareholding structure as at the date of this offering circular.



## KEY CORPORATE MILESTONES

The following table sets forth our business development since our date of commencement of our business:

<u>Month/Year</u>	<u>Development milestones</u>
March 2006 . . . . .	Establishment of China Aircraft Leasing Company Limited, a company incorporated in the British Virgin Islands with limited liability.
August 2007 . . . . .	Establishment of an offshore structure for China aircraft leasing business.
September 2007 . . . . .	Structured and completed our first aircraft sale and leaseback transaction for the delivery of a new Airbus A321-200.
December 2008 . . . . .	Our fleet size reached five aircraft.
September 2010 . . . . .	Structured and completed our first direct aircraft purchase and lease transaction, pursuant to which we acquired an A320 from an European airline operator for leasing to Chengdu Airlines.
December 2010 . . . . .	China Asset Leasing Company Limited (中飛租融資租賃有限公司) was established as a wholly-foreign owned aircraft leasing company in Tianjin Dongjiang Free Trade Zone, the PRC.
January 2011 . . . . .	Our fleet size reached eight aircraft.
May 2011 . . . . .	China Everbright Aerospace Holdings Limited (“ <b>CE Aerospace</b> ”) purchased 14,400,000 shares of China Aircraft Leasing Holdings Limited (“ <b>CALH</b> ”) from Friedmann Pacific Asset Management Limited (“ <b>FPAM</b> ”), representing 48.0% of the then shares in issue of CALH, for a total purchase price of U.S.\$17,292,000. CE Aerospace has become one of our controlling shareholders with participation in our major management and investment decisions.
August 2011 . . . . .	Structured and completed our first aircraft sale and leaseback transaction with Shandong Airlines for the delivery of a new B737-800 aircraft through our wholly-owned subsidiaries established in Tianjin Dongjiang Free Trade Zone.
January 2012 . . . . .	Our fleet size reached 10 aircraft.
April 2012 . . . . .	Structured and completed our first sale and leaseback transaction with Air China for the delivery of a new A330-200 widebody aircraft.
May 2012 . . . . .	Easy Smart Limited (“ <b>Easy Smart</b> ”), a indirect non-wholly owned subsidiary of China Aerospace Science and Technology Corporation (中國航天科技集團有限公司)(“ <b>China Aerospace</b> ”), subscribed for 26,280,000 new shares of CALH, representing 8.054% of the then shares in issue of CALH, for a total investment amount of HK\$57.8 million. China Aerospace has become one of our pre-IPO investors through Easy Smart.
June 2012 . . . . .	Prosper Victory Limited, owned by Mr. Wong Kin Ting, one of our pre-IPO investors, purchased 9,000,000 shares of CALH from FPAM, representing 2.38% of the then shares of CALH, for a total purchase price of HK\$54,000,000.
October 2012 . . . . .	Entered into an aircraft purchase agreement with Airbus S.A.S. for the purchase of 36 current generation of Airbus A320 family aircraft.
January 2013 . . . . .	Our fleet size reached 16 aircraft.
March 2013 . . . . .	Structured and completed the first aircraft sale and leaseback transaction with Shenzhen Airlines for the delivery of a new Airbus A320-214 aircraft.
May 2013 . . . . .	Structured and completed our first transaction with China Eastern Airlines, which involved the acquisition of three used Airbus A300 aircraft from an airline operator in China for sale to an airline in Europe and the leasing of, six new A320 aircraft to China Eastern Airlines to be delivered in 2014 under direct aircraft purchase and lease transaction structure. One aircraft was delivered in May 2014.

<u>Month/Year</u>	<u>Development milestones</u>
June 2013 . . . . .	Our fleet size reached 18 aircraft.
December 2013 . . . . .	Our fleet size reached 25 aircraft and structured and completed the first realisation transaction of our finance lease receivable in respect of one aircraft.
July 2014 . . . . .	Listing on the Hong Kong Stock Exchange.
December 2014 . . . . .	Memorandum of Understanding for the establishment of the China Aircraft Disassembly Centre; Bulk purchase of 100 Airbus A320 series aircraft; Our fleet size reached 44 aircraft.
March 2015 . . . . .	Issuance of HK\$892.2 million convertible bonds.
July 2015 . . . . .	Issuance of RMB340.0 million medium-term notes.
July 2015 . . . . .	Completed auction process of land acquisition for the China Aircraft Disassembly Centre.
December 2015 . . . . .	Our fleet size reached 63 aircraft.
January 2016 . . . . .	Our order book with Airbus increased to 144 A320 series aircraft.
May 2016 . . . . .	First international issuance of U.S.\$300 million guaranteed bonds. Signed an approximately U.S.\$195 million syndicated loan facility with a consortium of six financial institutions for the first time.
July 2016 . . . . .	Completed the first JOLCO financing related to two new Airbus A320 delivered to Pegasus Airlines.
August 2016 . . . . .	International issuance of U.S.\$300 million guaranteed bonds. Placement of 40 million new shares. Launched the first structured lease securitization products in the PRC.
November 2016 . . . . .	Registration of RMB630.0 million medium-term notes and completion of issuance of first tranche of RMB330.0 million in the PRC.
December 2016 . . . . .	Our fleet size reached 81 aircraft.

## **OUR COMPETITIVE STRENGTHS**

We believe that our core competence lies in our distinctive business model, which gives us the competitive strengths to capitalise on the growth opportunities in the high-growth China aircraft leasing industry. We believe that our key strengths include:

### **Being one of the forerunners in the high-growth China aircraft leasing industry with a distinctive business model and a proven successful operating track record**

China's domestic and international air travel has demonstrated strong growth despite signs of a slowdown in the PRC economy and industrial activity although consumer spending remains robust. China's aircraft leasing industry is growing rapidly as a result of the continuous expansion of the airline industry, favourable government policies, and the fact that aircraft leasing affords airline companies relatively low initial capital investment and fleet planning flexibility. We therefore believe that, with our established business model, we are well-positioned to capitalise on the growing aircraft leasing opportunities from the airlines in China.

Our business model, which is a combination of an offshore platform for aircraft acquisition and financing and an onshore platform for different leasing structures, distinguishes us from other domestic and foreign lessors in China in the following aspects:



### *Aircraft acquisition*

We distinguish ourselves from our competitors in China aircraft leasing industry by our ability to source new and used aircraft from the overseas aircraft manufacturers and the international secondary aircraft market. Most of our competitors build their fleet through aircraft sale and leaseback transactions with the airlines or purchase of aircraft portfolio with lease agreements attached from other aircraft leasing companies. Our aircraft acquisition capability allows us to engage in direct purchase of aircraft for leasing purposes and as such, we can manage our overall aircraft portfolio in terms of aircraft model, aircraft age, and residual value. As at 31 December 2016, we have an order book of not less than 92 aircraft to be delivered by 2022 based on the order commitments.

We have established SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, and they are our wholly-owned subsidiaries in China. These SPCs can import aircraft into China at the concessionary tax rate of 10.0% on the net purchase price of the aircraft. This concessionary tax rate is equal to the import tax rate for airline operators importing aircraft to China. Hence, this tax concession, effective from May 2011, benefits all aircraft leasing companies in China and provides further incentives to the airline operators in China to use aircraft lease financing.

We are therefore able to offer competitive lease terms and deliver aircraft to our airline customers within a relatively short period of time, thereby reducing the time and the uncertainties involved in the aircraft procurement process for our airline customers.

### *Diversified financing channel*

Through our onshore platform in China and offshore platform outside China, we have access to and can leverage on different aircraft acquisition financing methods, such as aircraft loans, PDP financing, and debt and equity financing. In March 2015, we obtained the first guarantee arrangement from the Export Credit Guarantee Department of the United Kingdom for the financing of three aircraft delivered to Air India in 2015, and secured the financing from the Korean banks for two aircraft delivered to Air Macau. In March to May 2015, convertible bonds at a total par value of HK\$892.2 million were placed to three asset managers, namely China Huarong International Holdings Limited (formerly known as Huarong (HK) International Holdings Limited), Great Wall Pan Asia International Investment Co., Limited and China Everbright Financial Investments Limited. In June 2015, we were awarded an intent line of credit for RMB4.4 billion by signing a strategic cooperation agreement with the Shanghai branch of China Construction Bank. In July 2015, our wholly-owned subsidiary, China Asset Leasing Company Limited, issued RMB340.0 million medium-term notes, becoming the first aircraft lessor to obtain approval and the first member of Tianjin Dongjiang Free Trade Port Zone to be approved for note issuance. In June 2016, we completed our first Japanese operating lease with a call option (“JOLCO”) financing related to two new Airbus A320 delivered to Pegasus Airlines. This innovative transaction is the first time a JOLCO has been used to finance equity on a lessor for leases to an airline in Turkey. In May 2016 and August 2016, we successfully completed the international issuances of two batches of U.S.\$300 million guaranteed bonds which were both listed on the Hong Kong Stock Exchange.

With the long-term lease agreements with our airline customers, we are able to secure aircraft loans from commercial banks for aircraft acquisitions, thereby allowing us to manage our liquidity risk by matching the cash inflows and outflows through the receipt of lease income and the payment of regular loan repayments, respectively. As we have established our SPCs in China, we also have the flexibility to secure acquisition financing in China, which is an advantage we have over foreign lessors outside China.

### *Flexible lease structures*

We believe that our onshore leasing platform in China could attract potential airline customers to enter into business with us, as compared with the leasing of aircraft from other foreign lessors. We lease our aircraft to airline operators in China under aircraft lease agreements, pursuant to which the airline

operators only require the approval from the National Development and Reform Commission of China (中華人民共和國國家發展和改革委員會)(the “NDRC”) before entering into the aircraft lease agreements with us.

Under the current tax laws in China, airlines in China are required to withhold tax up to 10.0% on lease payments paid to international leasing companies outside China. Since December 2010, following the establishment of China Asset Leasing Company Limited (中飛租融資租賃有限公司) as the first wholly-foreign owned aircraft leasing company in Tianjin Dongjiang Free Trade Port Zone, we offer our airline customers an onshore leasing platform in China which can assist our airline customers to reduce their overall leasing cost and thereby, enhance their competition.

### **Stable and attractive growth through our orderbook**

We have a high-quality and growing airline customer base for aircraft leasing services. Since 2014, we have expanded our business into overseas markets, such as Asia and Europe. As at 31 December 2013, 2014 and 2015, we had six, nine and 11 airline customers, respectively. As at 31 December 2016, we own a portfolio of 81 aircraft. Our clientele included 16 airlines in 5 jurisdictions and regions throughout the world. Our existing airline customers to which we lease and deliver our aircraft include Air China, China Southern Airlines, China Eastern Airlines, Shenzhen Airlines, Chengdu Airlines, Qingdao Airlines, Shandong Airlines, Juneyao Airlines, Sichuan Airlines, Lucky Air, West Air, Air Macau, Air India, Pegasus Airlines and Jetstar Pacific Airlines. We have business relationship with our airline customers for the longest period of nine years and hence part of our existing airline customers are repeating customers which we believe we can retain because of our favourable lease terms and our value-adding services. We have leased and delivered 18 aircraft out of the lease commitment from our airline customers under direct aircraft purchase and lease transactions in 2016. As at 31 December 2016, we have secured, by way of letters of intent and lease agreements, the lease of 23 aircraft scheduled to be delivered in 2017, 2018 and 2019 under direct aircraft purchase and lease transactions.

We provide value-adding services to our airline customers. Such value-adding services include trading and marketing of used aircraft and other advisory services on fleet management. Our ability to re-market used aircraft to international secondary aircraft markets is one of our strengths. In May and July 2013 and January 2014, we completed the acquisition of three aircraft from China Eastern Airlines and sold to an airline operator in Europe. We believe that these aircraft marketing services are in increasing demand amongst the airlines in China with aged aircraft in their fleet portfolio and the increasingly stringent regulations on aircraft operation, flight hours and the environmental control on carbon emission level. Although we do not separately charge for these value-adding services, we believe that through the provision of such services, we will have a better understanding of our airline customers’ operational needs and their business expansion plans, which would help us to explore future aircraft leasing opportunities.

Our fleet is expanding to cope with the increasing demand from our existing and potential airline customers for aircraft leasing services. As at 31 December 2016, we have an order book of not less than 92 aircraft to be delivered by 2022 based on the order commitment. Out of these committed new aircraft, we have delivered and leased eight aircraft and have secured, by way of letters of intent and lease agreements, the lease of 23 aircraft scheduled to be delivered in 2017, 2018 and 2019. These lease commitments will provide us with constant cash inflows of lease income in the future and that our strong aircraft delivery pipeline enables us to provide our airline customers with quick delivery schedule under leasing arrangements.

### **Operational and financial flexibility due to our independent status**

We are an independent international aircraft leasing company focusing as well as a one-stop aircraft solutions provider on the aircraft leasing market. Our independent status from major commercial banks, aircraft manufacturers, and airline operators gives us the flexibility in selecting the aircraft that matches our growth strategies and structuring lease agreements tailoring for the specific business needs of our airline customers.

We are currently the largest independent aircraft operating lessor in China, in terms of the total number of aircraft under ownership and new aircraft order book. We have over 20% market share of Airbus A320 series aircraft deliveries in China market in 2015, and tied for second in number of deliveries from Airbus among aircraft leasing companies in 2016. We also ranked eighth among all financing and operating lessors in terms of total amount of orders and aircraft deliveries with Airbus as at 31 December 2016.

Aircraft lessors in China may be divided into four categories, namely independent aircraft lessors and aircraft leasing companies which are affiliates of commercial banks, aircraft manufacturers and airline operators. Compared to the aircraft lessors affiliated with commercial banks, we enjoy the flexibility in selecting different acquisition financing solutions on the best commercial terms offered by different banks and financial institutions within and outside China. We are also not subject to the restrictions on leverage and equity applicable to banking industry in China. Compared to the aircraft lessors affiliated with aircraft manufacturers, we have the flexibility in choosing different aircraft models from different aircraft manufacturers and sourcing aircraft from the secondary aircraft market. Compared to the aircraft lessors affiliated with airline operators, we can provide services to all airlines with no limitation of the customer base. Hence, as an independent aircraft lessor, we have access to a wider customer base and have greater flexibility in structuring leasing and financing transactions.

### **Young and modern aircraft fleet**

As at 31 December 2016, our aircraft fleet included 77 narrowbody aircraft and four widebody aircraft. The average age of our aircraft fleet was 3.7 years as at 30 June 2016. As at 31 December 2016, we have an order book of not less than 92 A320 family aircraft to be delivered by 2022 based on the order commitment. The A320 family aircraft (and its modified versions) is one of the most popular narrowbody aircraft in service leasing to airlines in China. We therefore believe that our young and modern fleet would generally be in increasing demand amongst the airlines in China for its fuel-efficiency and low cost of maintenance as compared with the older models of aircraft. In addition, young and modern fleet is generally preferred by the Chinese airlines, which generally results in a better lease out percentage with relatively higher levels of lease income. Young and modern fleet is also expected to have a higher residual value which would facilitate a higher re-marketing value of our fleet.

With the implementation of increasingly stringent environmental regulations on carbon emission level by aircraft, older models of aircraft are more costly to maintain, operate and modify to bring it in compliance with the environmental standards. In addition, there is an increasing demand for airlines in China to upgrade their fleets with new models because of fuel efficiency and ease of operations and maintenance. In light of all these factors and favourable governmental policies, we believe that our young and modern fleet gives us the strength of having a sustainable business model with constant cash flow of lease income.

### **Access to flexible and diverse funding sources to support business expansion**

In 2013, 2014 and 2015 and the first six months in 2016, we primarily used aircraft loans and PDP financing to support our aircraft acquisitions. As at 30 June 2016, the percentage of our aircraft loans and PDP financing represented 86.9% and 9.9% of our total bank borrowings, respectively. Since the inception of our business, we aim to develop established business relationships with different commercial banks for the aircraft loans required by us. As at 30 June 2016, we had balance of bank borrowings of HK\$20,206.4 million, of which the balance of aircraft loan (excluding bridging loans) has the original repayment term ranging from four to 15 years. The PDP financing is of a relatively short term, but will be repaid in full through arrangement of aircraft loan upon delivery of the relevant aircraft. The aircraft loans were obtained from various banks as at 30 June 2016, and the increase in the amount of the aircraft loans is commensurate with the continuous increase in our fleet size. This level of financing, together with our realisation of finance lease receivables, financing from export credit

agencies as well as financing under JOLCO Structure, and issuance of medium-term notes, convertible bonds and guaranteed bonds, demonstrates our capability to implement our business model using various financing methods to support our business expansion.

### **Stable and experienced management team with a proven track record**

We are led by experienced professionals with extensive experience in aircraft asset management and aircraft leasing industries in China. Our Mr. Chen Shuang, Chairman and Executive Director, is also an executive director and deputy general manager of China Everbright Holdings Company Limited and is responsible for formulating the Group's overall strategic planning and directions. Our Mr. Poon Ho Man, Mike, Executive Director and Chief Executive Officer, is an entrepreneur and a pioneer of aviation sector in China. He founded the company in 2006. Our Mr. Mok Chung Tat, Barry, Deputy Chief Executive Officer and Chief Financial Officer, has over 30 years of extensive corporate and banking experience. Our Ms. Liu Wanting, Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer, has more than 10 years of experience in the aircraft leasing industries in China. Our Mr. Tang Yu Ping, Chief Operating Officer, has over 20 years of experiences in corporate development, financial management, consulting for various industries including aircraft leasing, aviation logistics, corporate finance advisory and manufacturing. Our executive directors and senior management team are experienced in structuring lease transactions, risk management, aircraft acquisition financing, selection and delivery of aircraft, technical review, monitoring and compliance, and aircraft trading and marketing within and outside China. See "*Management*".

Our business operations are managed collaboratively by our risk management team, financing team, sale and marketing team and technical supports team. Mr. Yu Tai Tei is our Chief Risk Officer and is responsible for the risk management and internal control of our Group. Mr. Christian Mc Cormick, Managing Director – Finance, is a leading expert in aircraft finance solutions with 30 years of experience in the financial services industry. Our sale and marketing team, with the collaborative efforts by Mr. Russell Hubbard, our SVP – Aircraft Trading, and Mr. Matt Corley, Mr. Jens Dunker, and Mr. Christopher Dennis-Meyer our SVPs Sales and Marketing for North and South America, Asia and EMEA respectively, provides access to potential aircraft acquisition and marketing opportunities. Our sale and marketing team also focuses on maintaining close contact with the airlines in China and globally and developing transaction structures in line with their business needs and the latest market and regulatory environment. Our technical supports team with professionals possessing extensive experience in technical aspect of aircraft operations regularly monitors the usage condition of our leased aircraft and provides technical supports and marketing service of used aircraft to our airline customers as part of our value-adding services. In respect of aircraft acquisition, our technical supports team also conducts technical reviews on the aircraft condition and the maintenance records for the used aircraft and to ensure that the specifications and modifications are met for the new aircraft.

Throughout our business development history, our senior management demonstrates proven capability to successfully implement different leasing transaction structures for new and used aircraft and for major airlines under different market conditions.

### **OUR GROWTH STRATEGIES**

We believe that the increasing demand for air traffic in China and globally, together with our expanding fleet and our development into a one-stop aircraft solutions provider, will accelerate our rapid business growth. Accordingly, we intend to pursue the following growth strategies:

#### **Expanding our airline customer base by capitalising on the growing opportunities in the high-growth aircraft leasing market**

Banking on the wealth of opportunities presented by the growing markets, our strategy includes plans to diversify our client base and increase our overseas market share in line with our business blueprint. To this end, we will continue to seek out markets in high-growth regions as part of our risk mitigation measures, internationally recognised carriers will be selectively targeted. Our distinctive business model

focuses on entering into long-term aircraft lease agreements using our onshore and offshore dual platform and providing value-adding services to our airline customers. We believe that aircraft leasing is a commercial viable option to many airlines in China and globally as it allows the airlines to have the use of the aircraft with relatively low initial capital investment and provides the airlines with fleet planning flexibility, which can reduce the financial exposure in outright ownership of the aircraft.

#### **Expanding our young and modern fleet of aircraft and enhancing the scope of our value-adding services**

We currently plan to grow our fleet to at least 98 aircraft before the end of 2017 and to not less than 173 aircraft before the end of 2022 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. The expansion of our fleet is to cope with the increasing demand from airlines in China and globally. We will continue to enhance our aircraft acquisition capability, which allows us to acquire aircraft models that match our fleet characteristics and are in high demand. We plan to continue to purchase new and modern aircraft from international aircraft manufacturers in the US and Europe and used aircraft in the international secondary aircraft markets.

In making decisions on aircraft acquisition, we consider various factors such as the aircraft type and model, aircraft age, and the appetites of the airlines. Our plan is to acquire young, modern, and fuel efficient aircraft which are proven to have long useful lives, more likely to be in compliance with the stringent environmental protection standards and less costly to maintain and operate. We plan to focus on narrowbody aircraft which are suitable for inter-city routes and short-haul regional flights.

In addition, we believe that it is important for us to distinguish ourselves from our competitors in the China aircraft leasing industry by way of improvement in our business model and expansion of the scope of our value-adding services, such as advisory services on fleet renewal, replacement, and re-marketing services. We believe that through the provision of these value-adding services to our airline customers, we can have a better understanding of the needs of airlines in general and can foster a closer relationship with them, thereby creating business opportunities for us.

We will also continue to expand our customer base through focused sales and marketing efforts to attract new airlines to become our customers and cultivate recognition among other industry participants.

#### **Diversifying our financing source, lowering our finance costs, and exploring financing alternatives to improve our investment returns**

We will continue to use aircraft loans and PDP financing to support our aircraft acquisitions. Through the use of project financing techniques, we match our regular loan repayments for the aircraft loans with our lease income, thereby generating constant cash inflows of lease income and reducing our liquidity risk. We use a combination of bank borrowings of different terms to further reduce our finance cost as and when appropriate.

In addition, we would continue to realise our investment in finance lease receivables for additional financial resources for our business development. In December 2013, we realised the finance lease receivable in respect of an aircraft, which not only reduced our aircraft loan incurred for the acquisition, but also resulted in a gain of disposal of HK\$57.1 million. The realisation transaction represented a new financing source to us. In 2014, 2015 and 2016, we further completed four, two and 14 aircraft lease receivable realisations, respectively. We have continued to enhance these products since it was first launched in 2013, in order to fit different appetites and strategies of investors, as well as to keep our all-in-costs at a lower level. We signed framework agreements with Bank of Communications Company Limited and the Shanghai Branch of China Construction Bank Corporation in March 2015 and January 2016, respectively, regarding the realisation of lease receivables for 20 and 15 aircraft, respectively. In May 2015, we also signed a framework agreement with China Everbright Group Ltd. regarding the realisation of lease receivables with annual caps.



Furthermore, we would also continue to actively tap into both the onshore and offshore capital markets by issuing equity and debt instruments, such as our issuance of the Hong Kong dollar-denominated convertible bonds we issued in March to May 2015, the Renminbi-denominated medium term notes in July 2015 and November 2016, and the U.S. Dollar-denominated guaranteed bonds in May 2016 and August 2016. We are actively considering new financing opportunities in the capital markets and will announce further details as appropriate when the relevant financing arrangement have been finalized.

We are also planning to establish a China Aircraft Global Venture, which will be a composite venture comprising of shares and junior and senior debt to capture the increasing global demand for aircraft leasing and management solutions.

### **Developing our aircraft disassembly business**

We believe that aircraft disassembly will extend the aviation industry value chain and support national policy in promoting a circular economy as it is still untapped in China and there is no platform to address the issue of retiring aircraft at present. In December 2014, we entered into a memorandum of understanding with Harbin Municipal Government in relation to the establishment of China's most sizeable aircraft disassembly centre, the China Aircraft Disassembly Centre (the "CADC"). In July 2015, we won the bid for a plot of land with an area of approximately 300,000 square metres in the south of the Harbin Taiping International Airport in the Harbin Airport Economic Zone and officially launched a project for the construction of the aircraft disassembly base. The facility is expected to commence operation in the second half of 2017, and is expected to reach a capacity of dismantling 20 aircraft per year in 2018. With the operations of the aircraft disassembly centre, we are the first in Asia to provide aircraft full life-cycle solutions.

Disposal of used aircraft is the last stage in the civil aircraft industry value chain and also a crucial part in realising the residual value of the aircraft. Aged passenger aircraft are either modified into cargo aircraft and put into use again or disassembled. After disassembling the aircraft, we will sell high-value parts and components, precious metals and aviation material to commercial and cargo airlines, maintenance, repair and operations (MRO) and aircraft on ground (AOG) services operators or aviation material recyclers through our sales channel to gain consideration profits.

On 26 July 2016, our share interest in the CADC in Harbin via ARI decreased from 100% to 48%.

We are still the single largest shareholder of ARI through our wholly-owned subsidiary, Aircraft Recycling International Holdings Limited. Other shareholders include our founding shareholder FPAM, via China Aero Investments Limited, China Everbright Limited, via Neo Modern Limited, and an independent third party, Sky Cheer International Limited. The board shall comprise of five directors, of which we shall nominate two directors and each other shareholder shall nominate one.

## **RECENT DEVELOPMENTS**

### **Issuance of 2021 Bonds**

On 22 August 2016, we, through our wholly-owned special purpose vehicle, issued U.S.\$300,000,000 4.90 per cent. guaranteed bonds due 2021 guaranteed by us. The net proceeds were on-lent to us for new aircraft acquisitions, financing the aircraft disassembly centre, business expansion in aircraft and related business and general corporate purposes. The full principal amount of such bonds remains outstanding.

### **Placement of New Shares**

On 26 August 2016, we entered into subscription agreements with certain subscribers, pursuant to which we conditionally agreed to allot and issue, and the subscribers conditionally agreed to subscribe, a total of 40,000,000 shares at the price of HK\$8.00 per share subject to a lock-up period of 12 months. All conditions precedent under the subscription agreements have been fulfilled and the 40,000,000 new shares have been allotted and issued to the relevant subscribers on 8 September 2016.



### **Issue of 2016 1st Tranche of the 5-Year Medium Term Notes in the PRC**

On 25 November 2016, CALC (Tianjin) completed the issuance of the 2016 1st tranche of the 5-year medium term notes in the PRC in an amount of RMB330 million with the coupon rate of 4.19%. The main purpose of issuing the medium term notes is to provide supplemental funding for deposit payments and pre-payments for the acquisition of aircraft. The full principal amount of the medium term notes remains outstanding.

### **Entry into the American market**

In December 2016, we signed a lease agreement with Hawaiian Airlines for a long term lease of an Airbus A321neo aircraft. The aircraft is expected to be delivered in 2018. Hawaiian Airlines is our first customer in the Americas, marking another milestone for the Group's global expansion. Since we began to tap into overseas markets in 2014, we have acquired airline clients in Asia Pacific, Europe and recently the Americas.

### **Strengthening our relationship with Chinese carriers**

In late 2016, we have completed deliveries of aircraft to two subsidiaries of HNA Group, Lucky Air and West Air, delivering two Airbus A320 aircraft to the airlines respectively. We seized this collaboration opportunity to establish the official partnership between CALC and HNA Group.

### **Appointments of global marketing team**

New hires in January 2017 included Mr. Matt Corley as Senior Vice President of Marketing – North and South America and Christopher Dennis-Meyer as Senior Vice President of Marketing – Europe, Middle East & Africa. Mr. Corley possesses more than three decades of experience in the industry, and has a proven track record in direct airline leasing and marketing, aircraft trading, fleet management and aircraft securitizations while Mr. Dennis-Meyer joins us with an impressive leasing and marketing track record that covers Americas, Europe, Middle East, Africa and Russia/CIS.

### **Expanding our footprint in Southeast Asia**

In January 2017, we signed lease agreements with Thai AirAsia and AirAsia for the lease of one Airbus A320 aircraft for both airlines. The aircraft is expected to be delivered in 2017. Signing of the lease marks our first cooperation with AirAsia Group, Asia's largest low-cost airline. It demonstrates the recognition of our capability in delivering first-rate full life cycle aircraft solutions to airline customers worldwide.

### **Our Consolidated Annual Results for the Year Ended 31 December 2016**

Based on our preliminary review of our unaudited consolidated management accounts for the six months ended 31 December 2016, as at 20 February 2017, we expected to record no less than a 60% increase in consolidated profit attributable to shareholders for the year ended 31 December 2016 when compared to the year ended 31 December 2015. The expected significant increase is mainly attributable to an increase in lease income which resulted from the continued expansion of the scale of the aircraft leasing business and gains from the realisation of finance lease receivables for four aircraft.

We are still in the process of preparing and finalising our audited consolidated annual results for the year ended 31 December 2016. This is only a preliminary assessment by our board with reference to our draft unaudited consolidated management accounts for the year ended 31 December 2016, which has not been audited by our auditor, and the information currently available to our board, which may be subject to further adjustments after internal review by our board and review by our audit committee. Our annual results for the year ended 31 December 2016 are expected to be announced by us in March 2017. Therefore, our actual consolidated annual results for the year ended 31 December 2016 may differ from as aforesaid.

## **OUR BUSINESS MODEL**

### **Overview**

We conduct the aircraft leasing business through our SPCs. Under a direct aircraft purchase and lease transaction, we place the aircraft purchase orders with the aircraft manufacturers, such as Airbus, and identify the appropriate airline lessees for leasing of the aircraft. Under an aircraft sale and leaseback transaction, our airline lessees select the appropriate aircraft and transfer the relevant aircraft purchase commitment to us for leasing the aircraft back to our airline lessees.

The structure of these lease transactions allow our airline lessees to enjoy the exclusive right to use the aircraft during the lease term. In most cases in relation to new aircraft, we enter into long-term aircraft lease agreements with our airline lessees with the lease term that cover a significant portion of the entire economic useful lives of the aircraft. These arrangements will ensure that the long-term aircraft lease agreements can generate constant cash inflows of lease income that match the cash outflows for the repayment instalments of our aircraft loans.

We aim to become a full-value chain aircraft solutions provider.

The following sets forth a detailed description of each component of the principal steps involved:

### **Identifying potential aircraft acquisition opportunities**

Our sales and marketing team is responsible for maintaining close contacts with our existing airline customers and exploring leasing opportunities with prospective airline customers. This process includes the preparation of proposals in response to the requests from airline operators. We may also initiate the process if we know that an airline operator is planning to expand its fleet or implement a fleet restructuring plan.

We acquire new aircraft directly from the aircraft manufacturers or through sale and leaseback arrangement with the airlines and used aircraft from third-party lessors, airline operators or investors in the secondary aircraft market, such as Air Berlin, Air Asia and AP Fleet. In pursuing aircraft acquisitions, we consider whether the specific aircraft fits the specific needs and requirements of our airline customers and our prospective customers. We evaluate the reliability of an aircraft model and whether it is generally suitable for the business needs by the airlines in the market in terms of the aircraft type and model, age and fuel-efficiency level.

### **Conducting technical reviews of the aircraft**

For delivery of used aircraft, our technical supports team will undertake a detailed review of the maintenance history of the aircraft and the overall operating condition of the aircraft. For the delivery of new aircraft, we will assist our airline customers in the sourcing of components, such as engines, seats, avionics, cabin finishes, safety equipment, and galleries.

We inspect and review new aircraft to ensure that the required specifications and modifications are duly installed to meet our airline customers' requirements. For used aircraft, our review focuses on the physical inspection and the review of the maintenance history and records.

### **Pairing aircraft with appropriate lease arrangements**

Our aircraft leasing business may be conducted by way of aircraft sale and leaseback transactions or direct aircraft purchase and lease transactions. We will enter into long-term leases and use SPCs in both China and overseas. We structure the detailed terms of each lease on a case-by-case basis.

We may or may not secure lease placements at the time of confirming our aircraft acquisition commitments. We will assess the market condition and the likely demand for the relevant aircraft model. If we have not entered into any leasing letter of intent, we will identify prospective lessees based on our

industry knowledge and business relationships. Our strategy is to lease our aircraft under long-term aircraft lease agreements which can provide us with constant cash inflows of lease income during the lease term. We also evaluate the creditworthiness of new airline customers.

We manage lease expirations in our fleet over different periods of time in order to reduce concentrated lease expirations within a short time period. This arrangement will reduce the risks associated with fluctuations in the airline industry.

#### *Aircraft sale and leaseback transactions*

We purchase aircraft or accept the transfer of the relevant purchase commitment from the airline operators and lease the aircraft back to them. The airline operators select the appropriate aircraft, and we provide the leasing services to the airline operators.

#### *Direct aircraft purchase and lease transactions*

We purchase aircraft from aircraft manufacturers, other airline operators or lessors in the international secondary aircraft markets for leasing to the airline operators. The lease terms of which are generally the same as the lease terms in aircraft sale and leaseback transaction. The only differences are that, under the direct aircraft purchase and lease transactions, we are able to negotiate with the aircraft manufacturers or other sellers directly on the terms and the delivery time. We can also select the desirable aircraft models and types that can enhance our own fleet with better cost control.

### **Leasing and delivering aircraft to our airline customers**

Following finalisation of all the lease terms, the definitive documents will normally be entered into within two to three months and the delivery of the aircraft will be taken place at such place as agreed with the relevant airline operator.

We will monitor the delivery schedule of the aircraft. If there is any delay, we will further discuss with our airline customers and the relevant banks on the terms and the commencement date of the related leasing and financing arrangements.

For inspection conducted in respect of purchase of used aircraft, our technical supports team will prepare a report by conducting technical review on the aircraft, the aircraft condition, and its maintenance records to ensure that the aircraft is free from any material defects and service issues. For the purchase of new aircraft, we work directly with the aircraft manufacturers on the specifications of the aircraft pursuant to the requirements of our airline customers. Our technical supports team will carry out inspection of new aircraft to ensure that the aircraft is consistent with the specifications and modifications required by our airline customers.

We closely monitor whether the maintenance is duly performed and whether the required maintenance standards are duly complied with by our airline customers. Our airline customers are required to produce maintenance reports every year on the conditions and maintenance of the leased aircraft. In addition, we also monitor the operating and credit condition of our airline customers in order to assess the creditworthiness of our airline customers and to identify any potential default in advance.

### **Realisation of finance lease receivables**

The realisation of finance lease receivables is part of our financing strategies. We may also sell our aircraft portfolio if and when appropriate. The transaction provides us with an opportunity to realise our investments in aircraft and the aircraft lease agreements.

In December 2013, we completed our first realisation transaction pursuant to which we sold the finance lease receivable in respect of one aircraft to an independent third party. In 2014 and 2015, we completed four and two realisation transactions, respectively. In March 2015 and January 2016, we signed a framework agreement with Bank of Communications Company Limited and Shanghai Branch of China

Construction Bank Corporation, respectively, regarding the realisation of lease receivables for 20 aircraft and 15 aircraft, respectively. In May 2015, we also signed a framework agreement with China Everbright Group Ltd. regarding the realisation of lease receivables with annual caps. In June 2016, we completed a realisation of finance lease receivables for four aircraft. In July 2016, we further completed a realisation of finance lease receivables for three aircraft. The realisation of finance lease receivables in July 2016 was structured into senior and junior tranches, a first-of-its kind arrangement in China. In August 2016 and September 2016, we further completed a realisation of finance lease receivables for four aircraft and three aircraft, respectively.

#### **OUR VALUE-ADDING (USED AIRCRAFT TRADING AND MARKETING) SERVICES**

In addition to the aircraft leasing business, we also provide our airline customers with value-adding services which include trading and marketing of used aircraft and other advisory services on fleet management.

In May and July 2013 and January 2014, we completed aircraft acquisition transactions in respect of three used aircraft aged more than 20 years old from China Eastern Airlines. These aircraft were sold to an airline operator in Europe. This transaction, together with our direct aircraft purchase and lease transaction conducted in the past, demonstrate our aircraft marketing capability.

We do not charge separately for these value-adding services because these services are part of the services provided to our airline customers. We believe that through the provision of these value-adding services, we will have a better understanding of our airline customers' operational needs and their business expansion plans, which would help us to explore future aircraft leasing opportunities.

We distinguish ourselves from other aircraft leasing companies in China in our ability to source new and used aircraft both from the aircraft manufacturers and other international airlines, aircraft operators, sellers or lessors in the international secondary aircraft markets. We believe that there are only a few domestic aircraft leasing companies in China that have the capability to purchase aircraft, both new and used aircraft, from overseas. Most aircraft leasing companies in China are engaged in aircraft sale and leaseback transactions with the airlines in China or purchase aircraft portfolios with leases directly from other aircraft leasing companies. Our capability of placing direct aircraft purchase orders with overseas aircraft manufacturers allows us to provide quick delivery of the desirable aircraft to our airline customers. We may also purchase aircraft from the international secondary aircraft markets if our airline customers in China request that the aircraft be leased and delivered to them within a relatively short period of time.

Our aircraft trading team and technical supports teams help us with capitalising on acquisition and disposal opportunities for used aircraft in the international secondary aircraft markets. Our aircraft trading team has good understanding of aircraft value and has the experience and expertise in the trading of used aircraft. In addition, our business contacts with various buyers and sellers also provide us with access to diverse channels for the sourcing of used aircraft from international aircraft markets with good value and maintenance history. Back in September 2010, we structured our first aircraft purchase and lease transaction, pursuant to which we acquired an A320 aircraft from an European airline operator for leasing to Chengdu Airlines.

We anticipate that there would be an increasing demand from the airlines in China for aircraft retirement and replacement services in view of the stringent regulations on aircraft operation, environmental requirement on emission level, the restrictions on flight hours of the existing fleet, and the limitation of the total number of years that an aircraft can be in service.

## OUR FLEET OF AIRCRAFT

### Our fleet of aircraft and related leasing status

We have a young and modern aircraft fleet which enables us to build a high-quality and growing airline customer base. Our fleet size reached 81 aircraft as at 31 December 2016, including 77 narrowbody aircraft and four widebody aircraft. The narrowbody aircraft include Airbus A320 family aircraft and Boeing 737 NG aircraft, and the widebody aircraft include Airbus A330 family aircraft. The average age of our aircraft fleet was 3.7 years as at 30 June 2016.

The following table sets forth certain information on our fleet and aircraft on order as at 31 December 2016:

<u>Aircraft type</u>	<u>Number of used aircraft as at 31 Dec 2016</u>	<u>Number of new aircraft as at 31 Dec 2016</u>	<u>Number of aircraft delivered after 31 Dec 2016</u>	<u>Aircraft on order</u>	<u>Total</u>
Airbus A319 . . . . .	–	1	–	–	1
Aircraft A320 . . . . .	6	54	–	88	148
Aircraft A321 . . . . .	3	8	–	4	15
Aircraft A330 . . . . .	–	4	–	–	4
Boeing B737 NG . . . . .	–	5	–	–	5
Total . . . . .	<u>9</u>	<u>72</u>	<u>–</u>	<u>92</u>	<u>173</u>

As at 31 December 2016, our fleet and aircraft on order was 173 aircraft, of which 81 aircraft have been leased.

The following table sets forth our aircraft delivery schedule in 2017 and 2018 as at 31 December 2016:

	<u>For the year ended 31 December</u>	
	<u>2017</u>	<u>2018</u>
Delivered . . . . .	–	–
To be delivered . . . . .	17	6
Total . . . . .	<u>17</u>	<u>6</u>

As at 30 June 2016, all our aircraft (excluding four old aircraft) were leased and delivered to 13 airline operators in China and globally with an average remaining lease term of approximately ten years.

We plan to focus on narrowbody aircraft which are suitable for inter-city routes in China and short-haul regional flights. We believe demand for narrowbody aircraft remains strong given its larger user base, as measured by the number that operate narrowbody aircraft, These larger user bases allow for aircraft movements following repossession end of lease.

### Warranties given by us in respect of our leased aircraft

The relevant aircraft manufacturer warrants to us that each aircraft and its warranted parts at delivery are free from defects in material, workmanship, design and arising from failure to conform to the agreed specifications. Acting as the lessor, we would not provide any warranty as to aircraft frame and the engines. For used aircraft, we and the airline lessees will principally rely on the maintenance records to ensure that the aircraft is in the required condition. Our technical supports team will also inspect the aircraft at the time of delivery of an used aircraft, but we will not undertake technical review and detailed inspection of the configuration of the relevant aircraft which are to be responsible by the airline lessees.

During the full lease term, we, as the lessor, will require the airline lessees to undertake the required maintenance procedures and maintain full value insurance extending to the aircraft and its installed parts.

## Our aircraft purchase commitment and related lease commitment from airline operators

### *Aircraft purchase commitment*

We currently plan to grow our fleet to at least 98 aircraft before the end of 2017 and to not less than 173 aircraft before the end of 2022 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. In October 2012, we entered into an agreement with Airbus for the purchases of 36 aircraft. In August 2014, we purchased four aircraft from Airbus. In December 2014, we placed a bulk purchase order for 100 aircraft with Airbus S.A.S. In December 2015, we further placed two additional purchase order for two aircraft. As at 31 December 2016, out of the 173 aircraft, 81 aircraft have been leased and delivered to our airline customers and 92 aircraft were committed to be purchased by us.

As no formally binding documentation has been executed between the parties, such proposed transactions may or may not materialise.

The amount of aircraft purchase commitment of HK\$38,614.6 million under aircraft purchase agreements represented our estimate of the total purchase price of the aircraft to be purchased and delivered to us under various aircraft purchase agreements as at 30 June 2016.

We confirm that the aircraft purchase commitment of HK\$38,614.6 million under the aircraft purchase agreements as at 30 June 2016, was expected to be financed by (a) PDP financing, (b) aircraft loans, (c) proceeds from realisation of our investment in finance lease receivables, and (d) internally generated financial resources, additional debt and equity financing and the China Aircraft Global Venture.

## OUR AIRLINE CUSTOMERS

Since 2014, we have expanded our business into overseas markets, such as Asia and Europe. Our customers included lessees of our leased and delivered aircraft and purchasers of the aircraft sold by us. We leased and delivered our aircraft to six, nine, 11 and 13 airline operators as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively. As at 31 December 2016, we leased and delivered our aircraft to 16 airline operators resided in China and overseas. Our existing airline customers to which we leased and delivered our aircraft include Air China, China Southern Airlines, China Eastern Airlines, Shenzhen Airlines, Chengdu Airlines, Qingdao Airlines, Shandong Airlines, Juneyao Airlines, Sichuan Airlines, Lucky Airline, West Air, Air Macau, Air India, Pegasus Airlines and Jetstar Pacific Airlines. All our customers are independent third parties.

The following table sets forth the number of aircraft in our fleet leased to each of our customers as at 31 December 2016:

<u>Lessee</u>	<u>Number of aircraft in our fleet leased</u>
China Eastern Airlines . . . . .	12
Sichuan Airlines . . . . .	11
Chengdu Airlines . . . . .	10
China Southern Airlines . . . . .	9
Shandong Airlines . . . . .	5
Qingdao Airlines . . . . .	5
Air India . . . . .	5
Air China . . . . .	4
Shenzhen Airlines . . . . .	4
Air Macau . . . . .	4
Jetstar Pacific Airlines . . . . .	4
Pegasus Airlines . . . . .	2
West Air . . . . .	2
Lucky Air . . . . .	2
Juneyao Airlines . . . . .	1
Longjiang Airlines . . . . .	1
<b>Total</b> . . . . .	<b>81</b>



In May and July 2013 and January 2014, we completed the acquisition of three used aircraft from China Eastern Airlines and these aircraft were subsequently sold to an airline operator in Europe.

## **LEASE COMMITMENT FROM OUR AIRLINE CUSTOMERS**

We actively seek and confirm lease commitment for the aircraft that are currently planned to be delivered in 2017 and 2018. The future lease commitment from airline customers consists of aircraft lease agreements and letters of intent.

We usually enter into letters of intent with airline operators before entering into the definitive lease agreements. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, we have delivered four, 15, 19 and six aircraft under direct aircraft purchase and lease transactions out of the lease commitment from our airline customers under direct aircraft purchase, respectively. For the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, we have also delivered five, four, nil and one aircraft under aircraft sale and leaseback transactions, respectively.

In addition, as at 31 December 2016, we have entered into letters of intent or lease agreement for 23 aircraft to be leased and to be delivered in 2017, 2018 and 2019.

## **OUR SALES AND MARKETING**

Throughout years of development, we are currently the largest independent aircraft operating lessor in China, in terms of the total number of aircraft under ownership and new aircraft order book. With our professional team possessing extensive international aviation market experience and our globalised sources of financing, we have developed into a full value-chain aircraft solutions provider.

We were named as the “Aircraft Lessor of the Year” for two consecutive years in 2015 and 2016 by Global Transport Finance for our expertise in delivering outstanding services and providing effective financing solutions to a diverse range of customers. We are the first ever Chinese lessor to obtain this international accreditation.

Our sales and marketing activities focus on strengthening the business relationship with airline operators, airline manufacturers, banks and financial institutions in order to achieve long-term mutually beneficial cooperation. We have actively participated in major industry events, trade fairs, seminars, and conferences, such as China Air Finance Development (DFTP) Summit, Annual Asia Pacific Airfinance Conference, Airline Economics Conference, as well as IATA and ISTAT Europe events around the world. It can help us to identify prospective customers and explore potential business opportunities, as well as strengthen our position in the industry.

As a full-value chain aircraft solutions provider, we will continue to utilise our expertise to create innovative and value-added fleet management solutions for airlines worldwide, as well as contribute to the future development of the global aviation finance sector.

## **OUR FINANCING STRATEGIES**

### **Source of financing**

In 2013, 2014 and 2015 and the first six months in 2016, we primarily relied on aircraft loans and PDP financing to support our aircraft acquisition. The aircraft loans are arranged for each individual aircraft purchased, and the PDP financing is used for the settlement of PDPs.

Financing cost is our largest operating cost. We are focused on maintaining a competitive debt funding cost, and we achieve this by adopting prudent financial policies and by maintaining a diverse range of financing sources. As our lease agreements are expected to generate stable cash inflows of lease income, our current financing strategy, which is embedded in our business model, is to fully utilise the available

banking facilities so long as (a) the interest rates of such aircraft loans are in the acceptable range and (b) the cash inflows of lease income during the lease term of each aircraft is sufficient for the regular repayments of the principal and the interest during the same time period. Hence, each aircraft leased by us will generate positive cash inflow to us. As at 31 December 2013, 2014 and 2015 and 30 June 2016, our aircraft loans amounted to HK\$9,195.7 million, HK\$12,262.7 million, HK\$15,908.9 million and HK\$17,561.6 million, respectively.

In addition to the aircraft loans for aircraft acquisitions we have also arranged for PDP financing for the settlement of the PDPs. The PDPs normally represent 30.0% to 40.0% of the total purchase price of the relevant aircraft. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the balances of our PDP financing were HK\$1,820.1 million, HK\$2,304.9 million, HK\$2,063.6 million and HK\$1,998.8 million, respectively.

The determination of the interest rates for our aircraft loans and PDP financing are based on commercial negotiations between us and the relevant banks and financial institutions and are principally subject to floating interest rates. The amount of lease payments under our aircraft lease agreements are determined with reference to the market value of the relevant aircraft and the lease terms and rates offered by other aircraft companies. Hence, we may not be able to pass any increase in our costs to our airline customers.

Since 2013, we have diversified our source of financing by realising our finance lease receivables. For the year ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, we received a gain of HK\$57.1 million, HK\$111.5 million and HK\$54.1 million and HK\$145.1 million, respectively, from the realisation of our finance lease receivables.

Since 2015, we have further diversified our source of financing by obtaining export credit agencies' guaranteed project financing and issuing convertible bonds, medium-term notes and guaranteed bonds in the capital markets. As at 30 June 2016, the balances of our convertible bonds, medium-term notes and guaranteed bonds were HK\$816.7 million, HK\$392.4 million and HK\$2,300.1 million, respectively.

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, we incurred interest expense of HK\$374.4 million, HK\$584.8 million, HK\$771.8 million and HK\$475.4 million, respectively on our total indebtedness (including bank borrowings, long-term borrowings, medium-term notes, convertible bonds and guaranteed bonds).

### **Aircraft loans**

We finance our aircraft acquisitions through PDP financing and aircraft loans. For our aircraft loans, the interest rate per annum was in the range between 1.20% and 6.48% as at 30 June 2016, and the interest rate for certain aircraft loans agreements, which are subject to floating interest rates, is determined with reference to three-month or six-month LIBOR and will be adjusted at regular intervals according to the market conditions.

Before entering into any aircraft loans transaction, we will review the terms in details and will ensure that the repayment instalments under the aircraft loans match the expected cash inflows of lease income over the entire lease term from the aircraft. We will only secure and confirm the aircraft loans for aircraft acquisitions about three months before the scheduled delivery date of the aircraft. This is intended to reduce the finance cost for standby but unused facilities involved. We have never experienced any situation in which we are not able to obtain aircraft loans for the leased aircraft delivered in 2013, 2014 and 2015 and the first six months in 2016.

The aircraft loans were secured by a legal charge over the leased aircraft, a pledge of the shares of the SPC being the registered owner of the relevant aircraft, corporate guarantees provided by certain members of our Group, and pledge of bank deposits amounting to HK\$70.6 million, HK\$158.3 million, HK\$119.2 million and HK\$351.6 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively.

### **PDP financing**

We need to pay PDPs for certain aircraft agreed to be purchased and delivered to us. The PDP financing is a specific purpose bank borrowing obtained by us solely for the purpose of settling PDPs. We obtained PDP financing in the amount of HK\$1,820.1 million, HK\$2,304.9 million, HK\$2,063.6 million and HK\$1,998.8 million, respectively, as at 31 December 2013, 2014 and 2015 and 30 June 2016. As the PDP financing is attributable to the acquisition of aircraft under construction, the interest incurred by us on the PDP financing will not be charged to our profit and loss, but treated as capitalised interest cost as part of our prepayments. The amount of interest will then be re-classified to property, plant, and equipment under operating leases or finance lease receivable under finance leases.

### **Realisation of finance leases receivable**

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, we completed realisations of the finance lease receivables in respect of one, four, two and four aircraft, respectively, by way of sales of the finance lease receivables to an independent third parties. As part of our business model, we would continue to realise our investment in finance lease receivables. The transaction demonstrates that we have the capability to complete our business model and more importantly, our financing strategies to realise our financial assets for additional financial resources for our business development.

### **Export credit agencies' guaranteed project financing**

In March 2015, we obtained the first guarantee arrangement from the Export Credit Guarantee Department of the United Kingdom for the financing of three aircraft delivered to Air India in 2015. This has become an important financing support alternative for our global business expansion strategy.

### **Convertible bonds**

In March to May 2015, convertible bonds at a total par value of HK\$892.2 million were placed to three asset managers, namely China Huarong International Holdings Limited (formerly known as Huarong (HK) International Holdings Limited), Great Wall Pan Asia International Investment Co., Limited and China Everbright Financial Investments Limited. The bonds bear interest rate of 3.0% per annum and arrangement fee of 3.5% per annum with maturity of three years from the issue date and can be converted into shares at the holder's option at any time on or after the 41st day from the bonds issue date to the 10th day prior to the maturity date. The conversion price is HK\$11.28 per share, subject to adjustments in accordance with the terms and conditions of the Bonds. For the six months ended 30 June 2016, we have incurred HK\$49.2 million on interest expenses in relation to the convertible bonds.

### **Medium term notes**

In July 2015, our wholly-owned subsidiary, China Asset Leasing Company Limited, issued RMB340.0 million medium-term notes, becoming the first aircraft lessor to obtain approval and the first member of Tianjin Dongjiang Free Trade Port Zone to be approved for note issuance. The notes bear interest at 6.5% per annum with maturity of five years. For the six months ended 30 June 2016, we have incurred HK\$13.7 million on interest expenses in relation to the medium term notes.

### **Guaranteed bonds**

In May 2016, our wholly-owned subsidiary, CALC Bond 1 Limited, issued three-year U.S.\$300.0 million bonds due in 2019 which were listed on The Stock Exchange of Hong Kong Limited and guaranteed by the Group. These bonds bear coupon interest at 5.9% per annum, payable semi-annually in arrears. For the six months ended 30 June 2016, we have incurred HK\$22.6 million on interest expenses in relation to the guaranteed bonds.

## **Financing channels**

Because of our independence from major commercial banks, we can select different banks to provide us with aircraft loans and PDP financing based on a number of factors such as the interest rate, percentage of the aircraft valuation covered, and the collaterals required. We obtained aircraft acquisition financing (including aircraft loans and PDP financing) from various commercial banks and we did not have any experience in any situation where we were not able to obtain bank commitment for aircraft loans or PDP financing for our aircraft acquisitions for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

We will also consider re-financing as and when appropriate to enhance our interest margin in light of the changing interest-rate environment.

We will continue to diversify our financing strategies and alternatives to support our finance needs for fleet expansion and business growth.

## **Residual value insurance**

In addition to the insurance coverage required to be maintained by our airline customers over the aircraft leased to them, we also maintain residual value insurance in respect of our leased aircraft. As at 30 June 2016, the guaranteed residual values amounted to HK\$5,377.98 million. Our directors confirm that maintaining residual value insurance on selected aircraft is part of our risk management measures. The purpose of maintaining the residual value insurance is to protect us against future risks associated with the value of the aircraft, including the risk of diminution of value of the insured aircraft resulting from changing market conditions. Hence, our residual value insurance are arranged with reputable insurers which are independent third parties. The residual value insurance also aligns our project financing arrangement for aircraft acquisition, which enables us to maintain a high leverage with manageable level of risks.

Under the residual value insurance policy, the insurer is required to make a payment to us representing the difference between the insured termination value and the proceeds received from the sale of the aircraft if the insured termination value is higher. This helps us to mitigate the finance risk in the disposal of used aircraft.

## **Hedging transactions**

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our aircraft loans subject to floating interest rate represented 50.4%, 45.7%, 49.3% and 54.8%, respectively, of the balance of our total bank borrowings. We expect that most of our bank borrowings will continue to be subject to floating interest rates in the future.

Because of the exposure to the floating interest rates, we entered into interest rate swaps contracts for the sole purpose of managing our exposure on our aircraft loans to interest rate fluctuations. As at 30 June 2016, we maintained 18 interest rate swap contracts of which 17 contracts are effectively hedged. Under each of the 18 contracts as at 30 June 2016, a fixed interest rate was offered by the counterparty for the floating interest rates multiplied by the related amounts of principal. Four interest rate swap contracts will expire in 2018, six interest rate swap contracts will expire in 2019, three interest rate swap contracts will expire in 2020, two interest rate swap contracts will expire in 2021 and the remaining interest rate swap contracts will expire in 2024.

The current 18 interest rate swap contracts are implemented to exchange the floating interest rates with reference to three-month and six-month U.S.\$ LIBOR into fixed interest rates in the range between 1.3% and 2.1%. As at 30 June 2016, the interest rate swap contracts were secured by pledged deposits of HK\$85.6 million.

We are not engaged in any interest hedging activity for the PDP financing as PDP financing is of short term of approximately two to four years.

Our strategy on hedging focuses on reducing our exposure to interest rate fluctuations because of a significant portion of our aircraft loans is subject to floating interest rates with reference to three-month and six-month LIBOR. We have not been involved in any speculative activities in 2013, 2014 and 2015 and the first six months in 2016, and the interest rate swap contracts entered into by us are accounted for under hedging accounting policies except for one contract.

### **Managing our liquidity risk**

As at 31 December 2013, 2014 and 2015 and 30 June 2016, our gearing ratio (calculated by dividing bank borrowings, long term borrowings, medium-term notes, convertible bonds and guaranteed bonds by total assets) was 90.3%, 87.3%, 86.7% and 86.6%, respectively. Most of our liabilities are aircraft loans incurred by us for aircraft acquisitions. We manage our liquidity risk by arranging aircraft loans such that their interest payments match our cash inflow of lease income under the relevant lease in terms of repayment schedules, type of interest (fixed or floating rate) and/or currency (U.S. dollar and Renminbi). Where there is a mismatch between the type of interest, we have retained the flexibility to enter into interest rate swap arrangements. Through such matching and hedging arrangements, we believe that we have implemented effective measures to limit our liquidity risk.

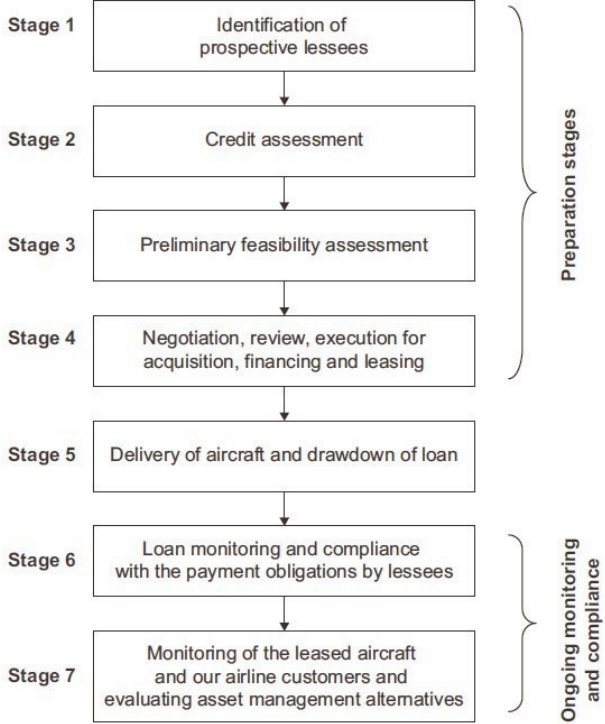
In December 2013, we realised the finance lease receivable in respect of an aircraft, which not only reduced our aircraft loan incurred for the acquisition, but also resulted in a gain of disposal of HK\$57.1 million. The realisation transaction represented a new financing source to us. In 2014, 2015 and the first six months in 2016, we further completed four, two and four aircraft lease receivable realisations, respectively. In March 2015 and January 2016, we signed a framework agreement with Bank of Communications Company Limited and Shanghai Branch of China Construction Bank Corporation, respectively, regarding the realisation of lease receivables for 20 aircraft and 15 aircraft, respectively. In May 2015, we also signed a framework agreement with China Everbright Group Ltd. regarding the realisation of lease receivables with annual caps. We will continue to explore further financing options both within and outside China by leveraging any financing opportunities then arise.

### **OUR FUNDING SUPPLIERS**

Commercial banks provide us with aircraft acquisition financing in the form of aircraft loan and PDP financing. The aircraft loans are arranged for each individual aircraft purchase, and the PDP financing is used for the settlement of the PDPs. Commercial banks further provide us with working capital loans for general corporate purposes.

**OUR BUSINESS OPERATIONS IN AIRCRAFT LEASING BUSINESS**

We have a clear segregation of business departments with delineation of roles and responsibilities to execute our business model. We have established different departments responsible for project management, sales and marketing, technical review, finance and accounting, and legal and compliance. We set forth below the operational workflow in our aircraft acquisition and leasing transactions:



It may take several months to complete the preparation stages depending on the complexity of the transaction and whether the airline is a new customer. The delivery of aircraft will be subject to the availability of a particular aircraft type and model in the market and configuration required to be done to the aircraft. Throughout the entire lease term, we closely monitor the repayment status under the relevant loan agreement, the operational condition of the leased aircraft and compliance with the maintenance requirements by our lessee as well as the overall operational and financial status and creditworthiness of our airline customers.

**Stage 1: Identification of prospective lessees**

We prepare on a semi-annual basis, a demand forecast for aircraft by our existing airline customers and prospective airline customers in the next six to 12 months according to the published market data, analysis performed by our sales and marketing department, and our close contacts with our airline customers. We contact our existing airline customers from time to time to explore any potential business opportunities.

**Stage 2: Credit assessment**

We have internal assessment procedures to evaluate the background and the credit worthiness of any new airline customers by considering its financial position, market share, background of shareholders and business reputation. We also take into consideration their business strategies in future and their fleet expansion plan.



### **Stage 3: Preliminary feasibility assessment**

For any potential transactions identified, our banking and financing team will perform a preliminary feasibility assessment.

The preliminary feasibility assessment covers different aspects. We study and analyse the background of the airline customer including its operating history and shareholders, the routes operated by it, and other financial information. Specific needs of the airline in respect of the type and specification requirements will also be studied and compared with our aircraft ordered or to be ordered.

We will also evaluate different transaction structures and the relevant leasing and financing options. Lease terms including time frame, the amount of the lease payment, the payment schedule, and financing terms including interest rate, duration and the amount of loan will also be considered for the purpose of making an overall assessment of the legal and operational risks of a particular transaction. Interest rate risk, counterparty and credit risk, our level of debt, and the residual value risk of the aircraft will also be assessed at this stage. Cash flow analysis will also be performed to assess the financial impact of the transaction.

In evaluating an aircraft sale and leaseback transaction, we will assess the profitability and the return on investment, our counter-party risk, leverage risk, and the residual value risk. For a direct aircraft purchase and lease transaction, we may or may not have the prospective lessees identified at the time of aircraft acquisition. In assessing the commercial merits in making the acquisition, we will assess the overall market conditions, features of the aircraft to be purchased, whether the aircraft to be purchased will enhance our existing fleet, and how can the purchase enhance our profitability.

After completing the feasibility assessment, we will commence further discussions and negotiations on the leasing letter of intent with the prospective airline customers, if we are satisfied that the proposed aircraft acquisition is commercially viable and that the acquisition would not result in any negative impact on our business operations.

### **Stage 4: Negotiation, review, and execution for acquisition, financing and leasing**

We will proceed to obtain preliminary indications from banks for the financing arrangements. In respect of aircraft acquisitions, we will generally require indications from at least two banks on the proposed financing arrangements.

We will then proceed to prepare documentation on the basis of the negotiated and approved terms of the aircraft acquisition, lease and financing of the acquisition.

### **Stage 5: Delivery of aircraft and drawdown of loan**

Following the determination of the aircraft specifications and the detailed terms of the financing arrangements, we will proceed to coordinate with different parties for aircraft delivery and drawdown of the aircraft loan(s). The process represents the collaborative efforts of our different departments to ensure that all the related arrangements will be completed according to the planned schedule.

Our banking and financing team monitors the drawdown of loan pursuant to the time schedule stipulated in the aircraft loan agreement.

### **Stage 6: Loan monitoring and compliance with the payment obligations by lessees**

Our accounting department monitors the receipt of the lease income from our airline customers, and ensures adequate fund would be available for repayment of loan interest and principal of bank loans to the financiers. We will closely monitor if there is any delay in the lease payment by our airline customers and follow-up actions to be taken promptly in case of such delay.

Compliance review will be conducted from time to time on our compliance with the loan covenants (including information regarding the financial ratios and capital requirements as stipulated under the covenants in the financing agreement) under the bank loan agreement. We will monitor any breach of covenant and any likely impact as a result.

#### **Stage 7: Monitoring of the leased aircraft and our airline customers and evaluating asset management alternatives**

Our sales and marketing team and asset management team will closely monitor the condition of our leased aircraft. We monitor whether the maintenance is duly performed and whether the required maintenance standards are duly complied with by our airline customers. Our airline customers are required to produce maintenance reports annually in respect of the condition and maintenance of the leased aircraft. The purpose of these regular reviews is to ensure that the aircraft is operated under the prescribed conditions set forth in the relevant aircraft lease agreements.

In addition, we also closely monitor the operating and credit condition of our airline customers in order to assess the creditworthiness of our airline customer and to identify any potential risk of default.

As part of our on-going monitoring process, we also explore opportunities to realise our investments in finance lease receivable through different financing strategies.

#### **COMPETITION**

We are an independent and fast-growing aircraft leasing company. Referring to the leasing market in China, we are currently the largest independent aircraft operating lessor in China, in terms of the total number of aircraft under ownership and new aircraft order book. We have over 20% market share of Airbus A320 series aircraft deliveries in China market in 2015, and tied for second in number of deliveries from Airbus among aircraft leasing companies in 2016. We also ranked seventh among all financing and operating lessors in terms of the total amount orders with Airbus as at 31 December 2016. We compete with aircraft leasing companies domestically and internationally. The aircraft leasing industry has high entry barriers, which include licence, initial capital, continuous funding capabilities, adequate risk management measure, and strong technical support capability.

Competition in the aircraft leasing industry is keen. Our competitors are mainly aircraft leasing companies which are affiliates of commercial banks, leasing division or subsidiary leasing arm owned and operated by airlines and aircraft manufacturers and independent aircraft leasing companies. Our competitors include domestic aircraft leasing companies in China, such as BOC Aviation and ICBC Leasing Co., and international leasing companies, such as GE Capital Aviation Services, SMBC and AerCap Holdings N.V. Bank-affiliated aircraft leasing companies. Leasing divisions or subsidiaries operated by aircraft manufacturers generally focus on providing alternative financing options to their airline customers in the sale of aircraft and equipment, and as such the business demand of these leasing subsidiaries is largely to support and satisfy the business need and expansion of their parent companies. Leasing businesses affiliated with airline operators may only serve their affiliated airlines. Independent aircraft leasing companies have wider customer base owing to their independence and greater flexibility to structure leasing and financing options and the accessibility to diversified funding options. We are also not subject to the banking restrictions on leverage and equity. Competition in leasing business are in different aspects, including the lease rates, lease terms, delivery dates, availability of the aircraft model in the market, aircraft specifications, condition of the aircraft, and other lease provisions. Competition in aircraft re-marketing focus principally on the availability of suitable aircraft at the appropriate prices.

Our ability to compete against our competitors depends on our ability to distinguish ourselves from other aircraft leasing companies in the industry by way of our innovative business model and comprehensive tailored services to be provided to our airline customers. Upon the establishment and operations of our aircraft disassembly plan expected in the second half of 2017, we will be the first in Asia to provide aircraft full life-cycle solutions.

## **INTELLECTUAL PROPERTY**

We conduct our business under the trade names of “CALC” in English and “中飛” in Chinese. We have registered various trademarks in China and Hong Kong to ensure that we have the right to use the trade names and the registered trademarks. The trade names and the trademarks are important in recognising us as a Chinese aircraft leasing company.

We confirm that we are not involved in any proceedings in respect of, and we have not received notice of any claim for infringement of, any intellectual property rights of any third party.

## **EMPLOYEES**

As at 30 June 2016, we had over 110 employees across nine offices worldwide.

We believe that our staff management and recruitment policies, working environment, and career development opportunities have contributed to good staff relationship and retention of our staff members.

We provide regular training to our staff members to keep them informed of the latest information on the market and industry. We recruit such number of staff based on our business development. We recruit employees from a number of sources, including universities, internal referral, and career fairs and advertising.

We have established effective employee incentive systems to remunerate our employees with outstanding performance.

With regard to our employees in China, we have complied with the applicable laws and regulations on employees' benefits. As of the date of this Offering Circular, we have also fully complied with the provident fund requirements and other statutory requirements for our employees in Hong Kong. We have not experienced any major dispute with any of our employees which have a material adverse impact on our business and operating results. We believe that our relations with our employees are good.

## **INSURANCE**

Our operations involve a number of inherent risks, such as risks associated with the value of the aircraft, business interruption, hostilities and labour strikes. We and certain of our subsidiaries are covered by insurance policies by reputable insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage. We believe that the insurance coverage in place is in line with industry and market standards and is adequate and sufficient for the conduct of our business.

## **LEGAL PROCEEDINGS**

As at the date of this Offering Circular, we and our subsidiaries have not been involved in any legal or administrative proceedings or arbitration that could have a material adverse effect on our respective financial condition or results of operations, nor are we aware of any potential legal or administrative proceedings or arbitration involving us or any of our subsidiaries that would have a material adverse effect on our financial condition or results of operations. We and our subsidiaries however may from time to time be involved in certain legal proceedings arising in the ordinary course of business.

## MANAGEMENT

### DIRECTORS

Our board of directors consists of ten directors, comprising three executive directors, three non-executive directors, and four independent non-executive directors. The powers and duties of our board of directors include:

- convening shareholders' meetings and reporting at shareholders' meetings our board of directors' responsibilities and work done;
- implementing the resolutions passed at shareholders' meetings;
- determining our business plans and investment plans;
- formulating our annual budget and final accounts;
- formulating our proposals for profit distributions and for the increase or reduction of our share capital; and
- exercising other powers, functions and duties as conferred by our memorandum and articles of association.

The table below sets forth the age and designation of each of our directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. Chen Shuang . . . . .	49	Chairman and Executive Director
Mr. Poon Ho Man . . . . .	44	Executive Director and Chief Executive Officer
Ms. Liu Wanting . . . . .	35	Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer
Mr. Tang Chi Chun . . . . .	55	Non-executive Director
Mr. Guo Zibin . . . . .	48	Non-executive Director
Ms. Chen Chia-Ling . . . . .	46	Non-executive Director
Mr. Fan Yan Hok, Philip . . . . .	67	Independent Non-executive Director
Mr. Nien Van Jin, Robert . . . . .	69	Independent Non-executive Director
Mr. Cheok Albert Saychuan . . . . .	66	Independent Non-executive Director
Mr. Chow Kwong Fai, Edward, <i>J.P.</i> . . . . .	64	Independent Non-executive Director

### Executive Directors

**Mr. Chen Shuang**, aged 49, is the Chairman and an Executive Director and is also the Chairman of Strategy Committee of the Company. Mr. CHEN is responsible for formulating the Group's overall strategic planning and directions.

Mr. Chen is also an executive director and deputy general manager of China Everbright Holdings Company Limited; an executive director, the chief executive officer, and a member of the executive committee and strategy committee, as well as the chairman of management decision committee of China Everbright Limited, a company listed on the Hong Kong Stock Exchange (stock code: 165). Mr. Chen is currently a non-official member of the Financial Services Development Council, the Honorary chairman of Chinese Financial Association of Hong Kong, the vice-chairman of Chinese Securities Association of Hong Kong, and a visiting professor of East China University of Political Science and Law (華東政法大學).

Mr. Chen was (i) an independent director of Noah Holdings Limited, a company listed on the New York Stock Exchange (stock code: NOAH.N) from November 2010 to April 2015; (ii) a supervisor of China Everbright Bank Company Limited, a company listed on the Hong Kong Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: SH601818) from December 2007 to October 2014; (iii) a director of Everbright Securities Company Limited, a company listed on the Shanghai Stock

Exchange (stock code: SH601788) from August 2007 to October 2014; and (iv) an independent non-executive director of China Nonferrous Mining Corporation Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1258) from June 2012 to August 2014.

Mr. Chen obtained the degree of master of law from East China University of Political Science and Law (華東政法大學) and a diploma in legal studies from the School of Professional and Continuing Education of The University of Hong Kong. Mr. Chen is a qualified lawyer and a senior economist in the PRC.

**Mr. Poon Ho Man**, aged 44, is an Executive Director, the Chief Executive Officer and a member of Strategy Committee of the Company. He rejoined the Company in 2017 as the Chief Executive Officer and is responsible for formulating the Group's overall strategic planning and managing overall business operations. Mr. Poon founded the Group in March 2006.

Mr. Poon is also the founder and the Chairman of Friedmann Pacific Asset Management Limited ("FPAM"), a substantial shareholder of the Company. FPAM has developed into an investment holding company focusing on value creation along the aviation industry value chain.

Mr. Poon founded China Airport Synergy Investment Limited in 2014, which is mainly engaged in the investment and operations of airports around the world. It acquired Toulouse-Blagnac Airport, the 5th largest airport in France, which marked the first airport privatization in France and the first Chinese consortium purchased an overseas airport, and Tirana International Airport, the capital airport of Albania. With his insights and intelligence of the aviation industry, he initiated Aircraft Recycling International Limited ("ARI") in 2014 and its aircraft disassembly project in China in 2015, which is Asia's first and largest aircraft disassembly center, with an objective to complete the last part of the incomplete aviation industry value chain in the country. He is a Director and Chief Executive Officer of ARI.

Mr. Poon obtained the degree of bachelor of engineering from the University of Hong Kong in 1995, and obtained the degree of executive master of business administration (高級管理人員工商管理碩士) from Tsinghua University in 2005. Mr. Poon has been a CFA® charterholder of the Association for Investment Management and Research (now known as the Chartered Financial Analysts Institute) since March 2002.

Mr. Poon is currently a member of Heilongjiang Province Committee of the Chinese People's Political Consultative Conference ("CPPCC") (中國人民政治協商會黑龍江省政協委員), the Vice Chairman of HKCPPCC (Provincial) Members Association Foundation Limited (港區省級政協委員聯誼會基金會副主席), the Executive Vice President of the Association for the Promotion of Hong Kong Heilongjiang Economy ("APHKHE") and a member of the Youth Committee of APHKHE (香港黑龍江經濟合作促進會常務副會長及屬下青年委員會主任), the Vice President of Chinese Financial Association of Hong Kong (香港中國金融協會副主席), the Honorary President of Hong Kong Overseas Chinese Association (香港華僑華人總會名譽會長) and a member of the Youth Committee of All-China Federation of Returned Overseas Chinese (中華全國歸國華僑聯合會青年委員會委員). Mr. Poon also obtained the World Outstanding Chinese Award (世界傑出華人獎) from World Chinese Business Investment Foundation (世界華商投資基金會) in 2006.

**Ms. Liu Wanting**, aged 35, is our Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer. Within our Group, Ms. Liu is also a director of certain subsidiaries of us and a member of our strategy committee. Ms. Liu is responsible for our Group's overall strategic planning and implementation, as well as managing overall commercial operations, including business development, aircraft leasing, financing and aircraft procurement.

Ms. Liu joined our Group in June 2006. She has established extensive network with airlines, banks, financial institutions, governments and manufacturers.

Ms. Liu is currently a director of Sino Asset Financial Leasing Limited (中僑融資租賃有限公司), a company established in China and an associate of FPAM which is one of the controlling shareholders of us. She is also the vice president of China Group Companies Promotion Association (中國集團公司促進會) and a founding member of Chinese Financial Association of Hong Kong (香港中國金融協會). Ms. Liu is the vice chairman of the Aviation Safety 《航空安全》 magazine of the Aviation Safety Office under the Civil Aviation Administration of China (中國民用航空局航空安全辦公室), with a term from July 2014 to 2016. Ms. Liu has been our representative in the Leasing Committee of China Association Enterprise with Foreign Investment from April 2010 to April 2011.

Ms. Liu holds a master's degree in communication management from Hong Kong Baptist University. She is currently an EMBA candidate at the PBC School of Finance at Tsinghua University in China. Ms. Liu has given speeches in various conferences and forums on leasing and also delivered lectures to financing experts in the Greater China region from time to time. Ms. Liu is also actively engaged in social contribution activities. She is a permanent member of Yes We Do Foundation and an active participant of Orbis' charity events.

### **Non-executive Directors**

**Mr. Tang Chi Chun**, aged 55, is our Non-executive Director appointed on 12 August 2013 and is also a member of our strategy committee. Mr. Tang is responsible for advising the business development and financial related operations of our Group.

Mr. Tang is an executive director and the chief financial officer of China Everbright Limited, a company listed on the Hong Kong Stock Exchange (stock code: 165). Mr. Tang was a director of Everbright Securities Company Limited, a company listed on the Shanghai Stock Exchange (stock code: SH601788), during the period from February 2008 to January 2011.

Since 1990, Mr. Tang has been engaged in senior positions of the financial and business operations of various international financial institutions. Mr. Tang worked as the assistant vice president with a functional title of audit manager in the Regional Audit Department in Bankers Trust Company, an American banking company, from August 1990 to February 1993, during which he was responsible for managing audit projects and introducing new banking products, and thus gained the experience in managing interest rate risks and conducting hedging activities.

Mr. Tang is a certified public accountant and is a graduate of the accountancy department at the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University). Mr. Tang is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a founding member of Hong Kong Business Accountants Association. Mr. Tang has over 30 years of experience in audit, investment, accounting, and finance.

**Mr. Guo Zibin**, aged 48, is our Non-executive Director appointed on 10 March 2014 and also a member of our audit committee. Mr. Guo is responsible for attending meetings of our board of directors to perform duties as a member of our board of directors, but not participating in the day-to-day management of our business operations.

Mr. Guo has been acting as the vice general manager of China Aerospace Investment Holdings Ltd (航太投資控股有限公司) since February 2012. Mr. Guo had been a project manager of the investment banking department of Industrial Securities Company Limited (興業證券股份有限公司) during the period between April 2000 and August 2004 and Everbright International Investment Consulting Corporation (光大國際投資諮詢公司) during the period of April 1998 to April 2000. Mr. Guo also served as a project manager, assistant to the general manager and vice general manager of the Investment Management Division of China Everbright Investment Management Corporation (中國光大投資管理公司) during the period between August 2004 and February 2014.



Mr. Guo graduated with a bachelor's degree in economics from Anhui University (安徽大學) in 1991 and obtained a master's degree in industry and foreign trade from Beijing University of Technology (北京工業大學) in 1996.

**Ms. Chen Chia-Ling**, aged 46, is our Non-executive Director appointed on 19 January 2016.

Ms. Chen holds a master's degree in international business from the University of Bristol in the United Kingdom and a Bachelor's degree from York University in Canada. Ms. Chen has over 20 years of experience in the financial services industry and over 10 years of experience in asset management, including experience with regard to launching exchange-traded funds ("ETF"). Since 2015, Ms. Chen has been appointed as an independent trustee of CSOP ETF Trust ("CSOP Trust") and a member of the board of trustees of CSOP Trust. As at 31 December 2015, CSOP Trust consisted of three investment portfolios: CSOP FTSE China A50 ETF (AFTY:US), CSOP China CSI 300 A-H Dynamic ETF (HAHA:US) and CSOP MSCI China A International Hedged ETF (CNHX:US), all of which are listed on New York Stock Exchange. Currently, Ms. Chen is also a director of Chyang Sheng Dyeing & Finishing Co., Ltd. (1463:TW), a company listed on Taiwan Stock Exchange.

From September 2013 to October 2014, Ms. Chen was a director of China Asset Management (Hong Kong) Limited ("CAMHK") as the manager of ChinaAMC ETF series which are listed on Hong Kong Stock Exchange. Ms. Chen was also the chief executive officer of CAMHK from 2011 to 2014. Prior to taking over the chief executive officer role, Ms. Chen was the head of business development in charge of new business development including the infrastructure from 2009 to 2011. Before joining CAMHK, Ms. Chen served as head of sales (Greater China) at Deutsche Asset Management (Hong Kong) Limited and a director of the Equity Derivatives Desk at ABN AMRO Bank.

#### Independent Non-executive Directors

**Mr. Fan Yan Hok, Philip**, aged 67, is our Independent Non-executive Director appointed on 11 September 2013. Mr. Fan is also the Chairman of our remuneration committee and a member of our nomination committee. Mr. Fan is currently holding directorships in the following companies listed on the securities market in Hong Kong or overseas:

<u>Name of listed company</u>	<u>Securities exchange and stock code</u>	<u>Position held</u>
China Everbright International Limited . .	Hong Kong Stock Exchange: 257	Independent non-executive director
Hysan Development Company Limited . .	Hong Kong Stock Exchange: 14	Independent non-executive director
First Pacific Company Limited . . . . .	Hong Kong Stock Exchange: 142	Independent non-executive director
Goodman Group . . . . .	Australian Stock Exchange: GMG	Independent director
PFC Device Inc. . . . .	Hong Kong Stock Exchange: 8231	Independent non-executive director

In the last three years, Mr. Fan had held directorships in the following companies listed on the securities market in Hong Kong or overseas:

<u>Name of listed company</u>	<u>Securities exchange/ market and stock code</u>	<u>Position held</u>	<u>Period</u>
HKC (Holdings) Limited . . . . .	Hong Kong Stock Exchange: 190	Independent non-executive director	March 2010 – December 2014
Guolian Securities Co., Ltd. . . . .	Hong Kong Stock Exchange: 1456	Independent non-executive director	March 2015 – July 2016

Mr. Fan obtained the degree of bachelor of science in 1973 and the degree of master of science in the same year from Stanford University in the United States and the degree of master of science in management in 1976 from Massachusetts Institute of Technology in the United States. Mr. Fan is also a member of the Asia Advisory Committee of AustralianSuper, a pension fund established in Australia.

**Mr. Nien Van Jin, Robert**, aged 69, is our Independent Non-executive Director appointed on 27 August 2014. Mr. Nien is also a Chairman of our nomination committee and a member of each of our audit committee and remuneration committee. Mr. Nien was an executive director of Hopewell Holdings Limited (“**Hopewell**”) (stock code: 0054), a company listed on the Hong Kong Stock Exchange, during 1980 to 2010, and then became a principal consultant during 2010 to 2011. He retired from Hopewell in July 2011. Before joining Hopewell in 1976, he worked with a renowned multi-national bank during 1972 to 1976. Mr. Nien holds a bachelor’s degree in economics from the University of Pennsylvania and a master’s degree in business administration from the Wharton Graduate School of Business. He is a member of the Hong Kong Institute of Directors. Mr. Nien has over 40 years’ extensive financing experience in property in Hong Kong and infrastructure projects in PRC Pearl River Delta area, particularly in power plant and highway. He also has experience in the areas of corporate governance and corporate public relations.

**Mr. Cheok Albert Saychuan**, aged 66, is our Independent Non-executive Director appointed on 8 May 2015. Mr. Cheok is also the chairman of our audit committee and a member of each of our nomination committee and remuneration committee.

Mr. Cheok graduated from the University of Adelaide, Australia with First Class Honours in Economics. Mr. Cheok is a fellow of CPA Australia. He is a banker with over 35 years of experience in banking and business consultancy in the Asia-Pacific region. Mr. Cheok is also the vice president of the board of governors of the Malaysian Institute of Corporate Governance.

Between May 1979 and February 1982, Mr. Cheok was an advisor to the Australian Government Inquiry into the Australian Financial System which introduced comprehensive reforms to the Australian banking system. He was the chief manager at the Reserve Bank of Australia from October 1988 to September 1989 before becoming the deputy commissioner of Banking of Hong Kong for about three and a half years. He was subsequently appointed as an executive director in charge of banking supervision at the Hong Kong Monetary Authority from April 1993 to May 1995. Mr. Cheok was the chairman of Bangkok Bank Berhad in Malaysia, a wholly-owned subsidiary of Bangkok Bank of Thailand, from September 1995 to November 2005. Mr. Cheok was formerly the vice chairman of Export and Industry Bank, Inc., which is listed on The Philippine Stock Exchange, from February 2006 to April 2012. Mr. Cheok was also an independent non-executive director of Metal Reclamation Berhad, a public listed company in Malaysia from 1 July to 1998 to 17 June 2015. Mr. Cheok was also the chairman and an independent non-executive director of AcrossAsia Limited, a public listed company in Hong Kong (retired on 26 August 2016).

Mr. Cheok is the independent non-executive chairman of Auric Pacific Group Limited of Singapore, a food group listed in Singapore. He is the independent non-executive chairman of Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust (“**REIT**”), a listed healthcare REIT in Singapore and the independent non-executive chairman of Lippo Malls Indonesia Retail Trust (“**LMIRT**”) Management Limited, the manager of LMIRT, a listed shopping mall REIT in Singapore. He is also the independent non-executive chairman of Amplefield Limited, listed in Singapore. Mr. Cheok is the independent non-executive chairman and an independent non-executive director of International Standard Resources Holdings Limited, a public listed company in Hong Kong. He is also an independent non-executive director of Hongkong Chinese Limited in Hong Kong and Adavale Resources Limited in Australia. Outside his various board capacities, Mr. Cheok is a well accomplished personal investment banker and financial adviser to select clients in Hong Kong, China and South East Asia. In this capacity he has been involved in several high profile mergers and acquisitions, asset acquisitions, corporate re-structuring, corporate strategies, brand image and building and private fund management. He has also been an adviser to governments in various capacities.

**Mr. Chow Kwong Fai, Edward, J.P.**, aged 64, is our Independent Non-executive Director appointed on 19 July 2016. Mr. Chow is also a member of each of our Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Chow holds an honours bachelor’s degree in business studies from Middlesex Polytechnic (now Middlesex University) in the United Kingdom and is a fellow member of The Institute of Chartered Accountants in England and Wales (“ICAEW”) and chairman of its Hong Kong Chapter. He served on the Council of ICAEW for six years from 2000 to June 2016 and chaired its Commercial Board. He is a past president of the Hong Kong Institute of Certified Public Accountants and chaired its Corporate Governance Committee and Professional Accountants in Business Committee. He also served as a Deputy Chairman of The Hong Kong Institute of Directors, of which he is a fellow member, chaired the Professional Accountants in Business Committee of the International Federation of Accountants and served as an expert advisor of the Accounting Standards Committee of the Ministry of Finance, the People’s Republic of China.

Mr. Chow was appointed a Justice of Peace by the Chief Executive of the Hong Kong Special Administrative Region in July 2008 and was an awardee of the Directors of the Year Award 2010 in the non-executive director of listed companies (SEHK – Hang Seng Index Constituents) category, awarded by the Hong Kong Institute of Directors.

Mr. Chow is currently a core member of the OECD/World Bank Asian Corporate Governance Roundtable, the Chairman of China Infrastructure Group, an advisor of the Business and Professionals Federation of Hong Kong, a Standing Committee member and a convenor of the Eleventh Zhejiang Province Committee of the Chinese People’s Political Consultative Conference, a member of the Election Committee of the Hong Kong Special Administrative Region, a non-executive director of the Urban Renewal Authority, a member of Council and Court of The University of Hong Kong.

Mr. Chow is also an independent non-executive director of Wing Lung Bank Limited, Redco Properties Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1622), and Melco International Development Limited, a company listed on the Hong Kong Stock Exchange (stock code: 200). Mr. Chow was previously the chairman of CIG Yangtze Ports PLC and an independent non-executive director of COSCO Pacific Limited and China Merchants Bank Co., Ltd., all are public listed companies in Hong Kong.

Prior to entering the commercial sector, Mr. Chow spent 11 years working for two major accounting firms, Deloitte Haskins & Sells and Price Waterhouse (as they were then known), respectively in London and Hong Kong.

## SENIOR MANAGEMENT

The table below sets forth the age and designation of our key senior management:

<u>Name</u>	<u>Age</u>	<u>Current position</u>
Mr. Mok Chung Tat, Barry . . . . .	58	Deputy Chief Executive Officer and Chief Financial Officer
Mr. Tang Yu Ping . . . . .	47	Chief Operating Officer

**Mr. Mok Chung Tat, Barry**, aged 58, joined us on 1 June 2015 as Chief Financial Officer. He was appointed as Deputy Chief Executive Officer on 14 December 2015. Mr. Mok is responsible for our Group’s overall strategic planning and implementation. He also oversees the financing, accounting and risk management as well as other corporate functions including legal and compliance, human resources and administration, as well as investor and public relations.

Mr. Mok has held senior management positions in major listed companies in Hong Kong. He has over 30 years of extensive corporate and banking experience, and has arranged around HK\$500 billion debt capital market facilities.

Mr. Mok was previously an executive director of Hopewell Holdings Limited (SEHK Stock Code: 054) and Hopewell Highway Infrastructure Limited (SEHK Stock Code: 737). Mr. Mok worked for BOCI Capital Limited from 1987 to 2004. His last position with the bank was the chief executive, overseeing the debt capital market businesses of the Bank of China group in Hong Kong.

Mr. Mok obtained his bachelor degree in economics/accounting from the University of Reading, United Kingdom. He was the founding board member of the Asian Pacific Loan Market Association when it was established in 1998.

**Mr. Tang Yu Ping**, aged 47, is our Chief Operating Officer, who oversees all aspects of transaction-related functions and responsible for transaction planning and closing, business analysis and pricing, financial risk management, tax planning, structured finance as well as transaction legal. Mr. Tang joined our Group on 7 November 2011 as Financial Controller, responsible for financial management and accounting.

Prior to joining our Group, Mr. Tang held senior financial positions in various companies listed in Hong Kong. He has over 20 years of experience in corporate development, financial management, consulting for various industries including aircraft leasing, aviation logistics, corporate finance advisory and manufacturing. By profession, Mr. Tang is a certified public accountant in Hong Kong and a chartered accountant in England and Wales. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom.

Mr. Tang graduated with the degree of bachelor of arts in economic and social studies from the University of Manchester, and obtained the degree of master of science in operational research and information systems from the London School of Economics and Political Science, University of London.

## **BOARD COMMITTEES**

### **Audit Committee**

Our audit committee was established by our board of directors in September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 of the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the “**CG Code**”). Such terms of reference have been revised on 1 January 2016 pursuant to the Listing Rules. The primary duties of our audit committee include but not limited to reviewing and supervising our Group’s financial reporting process and internal control system and providing advices and comments to our board of directors. Our audit committee consisted of Mr. Cheok Albert Saychuan (Chairman), Mr. Guo Zibin, Mr. Nien Van Jin, Robert and Mr. Chow Kwong Fai, Edward, *J.P.*.

### **Remuneration Committee**

Our remuneration committee was established by our board of directors in September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code. The primary duties of our remuneration committee include but not limited to regular monitoring of the remuneration of all the Directors and senior management to ensure that levels of their remuneration and compensation are appropriate. Our remuneration committee consisted of Mr. Fan Yan Hok, Philip (Chairman), Mr. Nien Van Jin, Robert, Mr. Cheok Albert Saychuan and Mr. Chow Kwong Fai, Edward, *J.P.*.

### **Nomination Committee**

Our nomination committee was established by our board of directors in September 2013 with written terms of reference in compliance with Code Provision A.5 of the CG Code. The primary duties of our nomination committee include but not limited to selecting and recommending candidates for directorship, review of the structure, size and composition of our board of directors and assessment of the independence of independent non-executive directors. Our nomination committee consisted of Mr. Nien Van Jin, Robert (Chairman), Mr. Fan Yan Hok, Philip, Mr. Cheok Albert Saychuan and Mr. Chow Kwong Fai, Edward, *J.P.*.

## SUBSTANTIAL SHAREHOLDERS

Based on the information available to us as at 31 December 2016 or so far as we are aware of, as at 31 December 2016, the entities and/or persons who had interests or short positions in our shares or underlying shares which fall to be disclosed by us under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by us under Section 336 of the SFO or had otherwise notified to us were as follows:

<u>Name of shareholders</u>	<u>Capacity/nature of interest</u>	<u>Number of ordinary shares held (L)<sup>(1)</sup></u>	<u>Number of underlying shares held (L)<sup>(1)</sup></u>	<u>Approximate percentage of shares in issue<sup>(2)</sup></u>
China Everbright Aerospace Holdings Limited (“ <b>CE Aerospace</b> ”). . . . .	Beneficial owner	208,299,479 <sup>(5)</sup>	–	31.09%
	Beneficial owner	–	680,000 <sup>(3)</sup>	0.10%
China Everbright Financial Investments Limited (“ <b>CE Financial</b> ”). . . . .	Beneficial owner	8,220,000 <sup>(5)</sup>	–	1.23%
	Beneficial owner	–	27,510,638 <sup>(4)</sup>	4.11%
China Everbright Limited (“ <b>CEL</b> ”). . . . .	Interest of controlled corporation	216,519,479 <sup>(5)</sup>	–	32.32%
	Interest of controlled corporation	–	27,510,638 <sup>(4)</sup>	4.11%
	Interest of controlled corporation	–	680,000 <sup>(3)</sup>	0.10%
China Everbright Holdings Company Limited (“ <b>CE Hong Kong</b> ”). . . . .	Interest of controlled corporation	216,519,479 <sup>(6)</sup>	–	32.32%
	Interest of controlled corporation	–	27,510,638 <sup>(4)</sup>	4.11%
	Interest of controlled corporation	–	680,000 <sup>(3)</sup>	0.10%
China Everbright Group Ltd (“ <b>CE Group</b> ”). . . . .	Interest of controlled corporation	216,519,479 <sup>(7)</sup>	–	32.32%
	Interest of controlled corporation	–	27,510,638 <sup>(4)</sup>	4.11%
	Interest of controlled corporation	–	680,000 <sup>(3)</sup>	0.10%
Central Huijin Investment Limited (“ <b>Huijin Limited</b> ”). . . . .	Interest of controlled corporation	216,519,479 <sup>(7)</sup>	–	32.32%
	Interest of controlled corporation	–	27,510,638 <sup>(4)</sup>	4.11%
	Interest of controlled corporation	–	680,000 <sup>(3)</sup>	0.10%
Friedmann Pacific Asset Management Limited (“ <b>FPAM</b> ”). . . . .	Beneficial owner	182,112,589 <sup>(11)</sup>	–	27.19%
	Beneficial owner	–	442,000 <sup>(8)</sup>	0.07%
Capella Capital Limited (“ <b>Capella</b> ”). . . . .	Interest of controlled corporation	182,112,589 <sup>(11)</sup>	–	27.19%
	Interest of controlled corporation	–	442,000 <sup>(8)</sup>	0.07%
Mr. Poon Ho Man . . . . .	Interest of controlled corporation	192,012,589 <sup>(12)</sup>	–	28.66%
	Interest of controlled corporation	–	442,000 <sup>(8)</sup>	0.07%
	Interest of controlled corporation	–	5,100,000 <sup>(9)</sup>	0.76%
	Interest of spouse	–	3,800,000 <sup>(10)</sup>	0.57%
Ms. Christina Ng. . . . .	Interest of spouse	192,012,589 <sup>(13)</sup>	–	28.66%
	Interest of spouse	–	442,000 <sup>(8)</sup>	0.07%
	Interest of spouse	–	5,100,000 <sup>(9)</sup>	0.76%
	Beneficial owner	–	3,800,000 <sup>(10)</sup>	0.57%

*Notes:*

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) Based on 669,900,640 Shares in issue as at 31 December 2016.
- (3) These interests represented the interests in underlying shares in respect of the share options granted by us to CE Aerospace pursuant to the pre-IPO share option scheme.
- (4) These interests represented the interests in underlying shares in respect of the convertible bonds issued by us to CE Financial pursuant to a subscription agreement with CE Financial dated 26 March 2015.
- (5) Each of the entire issued share capital of CE Aerospace and CE Financial is wholly-owned by CEL. Accordingly, CEL is deemed to be interested in all Shares and underlying shares held by CE Aerospace and CE Financial.



- (6) CE Hong Kong indirectly holds more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong is deemed to be interested in all Shares and underlying shares mentioned in notes (3) to (5) above.
- (7) According to our announcements in respect of the proposed restructuring dated 10 November 2014, 25 November 2014, 8 December 2014 and 14 May 2015, CE Group and Huijin Limited are deemed to be interested in all Shares and underlying shares mentioned in notes (3) to (5) above.
- (8) These interests represented the interests in underlying shares in respect of the share options granted by us to FPAM pursuant to the pre-IPO share option scheme.
- (9) These interests represented the interests in underlying shares in respect of the share options granted by us to Equal Honour Holdings Limited (“**Equal Honour**”), a company wholly-owned by Mr. Poon Ho Man, pursuant to the pre-IPO share option scheme.
- (10) These interests represented the interests in underlying shares in respect of the share options granted by us to Ms. Christina Ng pursuant to the post-IPO share option scheme.
- (11) The issued share capital of FPAM is owned as to 0.000001% by Ms. Christina Ng and 99.999999% by Capella. Accordingly, Capella is deemed to be interested in all Shares and underlying shares mentioned in note (8) held by FPAM.
- (12) The issued share capital of Capella is owned as to 10% by Ms. Christina Ng and 90% by Mr. Poon Ho Man. Accordingly, Mr. Poon is deemed to be interested in all Shares and underlying shares mentioned in notes (11) above. Mr. Poon is also interested in 9,900,000 Shares held by Equal Honour.
- (13) Ms. Christina Ng is the spouse of Mr. Poon Ho Man.

Save as disclosed above, as at 31 December 2016, our Directors are not aware of any person who had an interest or short position in the shares or underlying shares of us which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of us.

## PRC REGULATIONS

*This section is a general introduction into the PRC legal system and the principal PRC laws and regulations which are relevant to our business and operations. As this is not a detailed analysis, it may not be that comprehensive. Persons considering the purchase of the Bonds should consult their own legal advisors.*

### **The PRC Legal System**

The PRC legal system is made up of the PRC Constitution national laws, regulations, directives and local laws, laws of Special Administrative Regions, laws resulting from international treaties entered into by the PRC government and judicial interpretations. In general, PRC court judgments do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing state agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council of the PRC (中華人民共和國國務院)(the "State Council") is the highest organ of the state administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

### **The PRC Judicial System**

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in an effective judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures. A party which deems that an effective judgement is erroneous may also apply for retrial.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and amended on 28 October 2007 and 31 August 2012, respectively, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant domicile. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's domicile, the place of execution or implementation of the contract or the place of the object of the contract. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years after the enforcement period stipulated in the judgement by the court. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by any party to the action, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognised and enforced by a PRC court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination in accordance with the principle of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

### **Foreign Exchange Controls**

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centres. The exchange rates used by swap centres were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre had to obtain the prior approval of the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System, effective from 1 January 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres. On 26 March 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (the “**Provisional Regulations**”), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organisations and social organisations in the PRC.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply of Renminbi. Pursuant to such system, the PBOC set and published the daily Renminbi-U.S. dollar exchange rate. Such exchange rate was determined with reference to the transaction price for Renminbi-U.S. dollar in the inter-bank foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On 29 January 1996, the State Council promulgated the Regulations of the People’s Republic of China on the Administration of Foreign Exchange (“**Control of Foreign Exchange Regulations**”) which became effective from 1 April 1996. The Control of Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most current account items are subject to the approval by relevant banks that are duly authorised by the SAFE to do so, while capital account items are still subject to the SAFE approval directly. The Control of Foreign Exchange Regulations was subsequently amended on 14 January 1997. Such amendment affirms that the State shall not restrict international current account payments and transfers. On 1 August 2008, the Control of Foreign Exchange Regulations was further amended pursuant to a resolution of the State Council of China and came into effect on 5 August 2008 (the “**New Forex Regulation**”). Under the New Forex Regulation, foreign currency received under current account by onshore entities will not be asked to be settled into Renminbi automatically, while foreign currency under capital account may also be maintained upon approval. The Renminbi will be convertible for current account items (including the distribution of dividends, interest and royalties payments, and trade and service-related foreign exchange transactions) upon presentation of valid receipts and proof certifying the purposes of the conversion of Renminbi into foreign currency to the designated foreign exchange banks. Conversion of Renminbi into foreign exchange and remittance of foreign exchange funds outside of PRC for capital account items, like direct investment, loan, loan guarantee, securities investment, capital contribution and repatriation of investment, is still subject to restriction, and prior approval from the SAFE or its competent branch.

On 20 June 1996, the PBOC promulgated the Provisions on the Settlement and Sale of and Payment in Foreign Exchange (the “**Settlement Regulations**”) which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing

restrictions on foreign exchange transactions in respect of capital account items. Domestic entities seeking to enter into foreign exchange transactions are required to open up foreign exchange accounts for current account or capital account transactions, as the case may be, at banks involved in foreign exchange business. Interest payments for foreign debt may be made from a foreign exchange account of a domestic entity or using foreign exchange purchased at designated foreign exchange banks after the verification of the bona fide nature of the transaction by the SAFE. Domestic entities may apply to the SAFE for approval to purchase foreign exchange by presenting valid documents required by the Settlement Regulations for repayment of foreign debt principal and such payment can be made upon the approval of the SAFE.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swap Business pursuant to which and with effect from 1 December 1998, all foreign exchange swap business in the PRC for foreign-invested enterprises was discontinued, while the trading of foreign exchange by foreign-invested enterprises was to be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On 21 July 2005, the PBOC announced that, beginning from 21 July 2005, the PRC will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar only. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of Renminbi on the following business day.

On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate for the last trading date. It is possible that the PRC government could adopt a more flexible currency policy in the future, which could result in further and more significant revaluations of Renminbi against the U.S. dollar or any other foreign currency. Any future exchange rate volatility relating to Renminbi or any significant revaluation of Renminbi may materially and adversely affect our cash flows, revenue, earnings and financial position, as well as the value of any distributions payable to the Guarantor by its PRC subsidiaries.

## **Regulations Regarding Overseas Investment and Acquisition Activities**

### ***The NDRC Supervision***

According to the Measures for the Administration of Approval and Filing of Overseas Investment Projects effective from 8 May 2014 and replacing the Interim Measures for the Administration of Verification and Approval of Overseas Investment Projects, which was later amended by the Decision for Amendment of Relevant Articles in the Measures for the Administration of Approval and Filing of Overseas Investment Projects and Measures for the Administration of Approval and Filing of Projects Invested by Foreign Investors issued on 27 December 2014, the approval administration and filing administration shall be respectively applied to different overseas investment projects. Specifically, if the project is related to the sensitive countries, areas or industries, the projects shall be subject to the approval of the NDRC. Specifically, where the amount of the investment made by the Chinese party is U.S.\$2 billion or more, the projects shall be subject to the examination of the NDRC and then shall be reported to the State Council for the approval. Other than the projects specified above, the other projects shall be subject to the filing administration. Specifically, overseas investment projects carried out by enterprises under central management, and those carried out by local enterprises in which the amount of Chinese investment reaches or exceeds U.S.\$300 million shall be subject to the record-filing by the NDRC. Those carried out by local enterprises in which the amount of Chinese investment is below U.S.\$300 million shall be subject to the record-filing by competent investment departments of the provincial government.

Investment projects to be carried out in Hong Kong and/or the Macau Special Administrative Region shall be governed by the Measures for the Administration of Approval and Filing of Overseas Investment Projects.

### ***MOFCOM Supervision***

MOFCOM issued the new version of the Administration of Overseas Investment on 6 September 2014, effective from 6 October 2014 (the “**New Overseas Investment Rules**”). Under the New Overseas Investment Rules, a domestic enterprise intending to carry out any overseas investment shall report to the competent department of commerce for verification or filing and shall, with regard to an enterprise so verified or filed, issue thereto an Enterprise Overseas Investment Certificate. If two or more enterprises make joint investment to establish an overseas enterprise, the larger (or largest) shareholder shall be responsible for the verification or filing procedure after soliciting written consent of other investing parties.

An enterprise that intends to invest in a sensitive country or region or a sensitive industry shall apply for the verification by MOFCOM. “Sensitive countries and regions” mean those countries without a diplomatic relationship with the PRC, or subject to the UN sanctions or otherwise under the list of verified countries and regions published by MOFCOM from time to time. “Sensitive industries” mean those industries involving the products and technologies which are restricted from being exported, or affecting the interests of more than one country (or region). In accordance with the New Overseas Investment Rules, a Central Enterprise shall apply to MOFCOM for verification and MOFCOM shall, within 20 working days of accepting such application, decide whether or not the verification is granted.

For a local enterprise, it shall apply through the provincial department of commerce to MOFCOM for such verification. The provincial department of commerce shall give a preliminary opinion within 15 working days of accepting such local enterprise’s application and report all application documents to MOFCOM, while MOFCOM shall decide whether or not the verification is granted within 15 working days of receipt of such preliminary opinion from the provincial department of commerce. Upon verification, the Enterprise Overseas Investment Certificate shall be issued to the investing enterprise by MOFCOM.

Other than those overseas investments subject to MOFCOM verification as described above, all other overseas investments are subject to a filing requirement. The investing enterprise shall fill and complete the filing form through the Overseas Investment Management System, an online system maintained by MOFCOM and print out a copy of such filing form for stamping with the company chop, and then submit such stamped filing form together with a copy of its business licence, for filing at MOFCOM (for a Central Enterprise) or the provincial department of commerce (for a local enterprise) respectively. MOFCOM or the provincial department of commerce shall accept the filing and issue the Enterprise Overseas Investment Certificate within 3 working days of receipt of such filing form. The investing enterprise must carry out the investment within 2 years of the date of the relevant Enterprise Overseas Investment Certificate, otherwise such Certificate will automatically expire and a new filing or verification application has to be made by the investing enterprise after such expiry. In addition, if any item recorded in such Certificate is changed, the investing enterprise shall handle an updating process at MOFCOM or the provincial department of commerce (as the case may be).

If an overseas invested company carries out a re-investment activity offshore, the investing enterprise shall report such re-investment activity to MOFCOM or the provincial department of commerce (as the case may be) after the investment is completed offshore. The investing enterprise shall fill in and print out a copy of the Overseas Chinese-invested Enterprise Re-investment Report Form from the Overseas Investment Management System and stamp and submit such Report Form to MOFCOM or the provincial department of commerce.

The New Overseas Investment Rules specifically provide that an overseas invested company cannot use the words of “China” (“中國” or “中華”) in its name, unless otherwise approved.



### ***Foreign Exchange Administration***

The SAFE issued the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment on 13 February 2015, abolishing the verification and approval of foreign exchange registration under overseas direct investment. The banks shall directly examine and handle foreign exchange registration under overseas direct investment. The SAFE and its branches shall conduct indirect regulation of foreign exchange registration of overseas direct investment via banks.

### ***State-owned Assets Supervision***

The Interim Measures for Administration of Overseas State-owned Property Rights of Central Enterprises and the Interim Measures for the Supervision and Administration of Overseas State-owned Assets of Central Enterprises also apply to overseas investment projects. Where overseas enterprises wholly-owned or controlled by Central Enterprises and their subsidiaries at all levels are involved in contribution with non-monetary assets, they shall retain a professional agency with the corresponding qualifications, professional experiences and good reputation to evaluate or value subject matters, and the evaluation items or valuation results shall be submitted to SASAC for record-filing or approval.

If the domestic enterprise is a Central Enterprise, it shall establish and perform investment decision-making procedures and management control system, establish and improve administration systems and submit them to SASAC for record-filing, and establish annual investment plan and submit it to SASAC and make a copy of the project approval documents to SASAC.

Overseas enterprises which have completed overseas registration shall make state-owned assets ownership registration with SASAC.

### **EIT LAW**

Prior to 1 January 2008, under the then applicable PRC law and regulations, entities established in the PRC were generally subject to a 33 per cent. EIT. However, entities that satisfied certain conditions enjoyed preferential tax treatment. In accordance with the tax laws and regulations effective until 31 December 2007, foreign invested manufacturing enterprises scheduled to operate for a period not less than ten years were exempted from paying state income tax for two years starting from its first profit making year and were allowed a 50 per cent. reduction in its tax rate in the third, fourth and fifth years (“**two-year exemption and three-year reduction by half**”).

On 16 March 2007, the NPC enacted the EIT law, which, together with its related implementation rules issued by the State Council on 6 December 2007, became effective on 1 January 2008. The new EIT law imposes a single uniform income tax rate of 25 per cent. on all Chinese enterprises, including foreign invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatments available under the previous tax laws and regulations. On 26 December 2007, the State Council issued a Notice on the Implementation of the Transitional Preferential Tax Policies, or Circular 39. Further, as at 1 January 2008, the enterprises that previously enjoyed “two-year exemption and three-year reduction by half” of EIT and other preferential treatments in the form of tax deductions and exemptions within specified periods may, after the implementation of the new EIT law, continue to enjoy the relevant preferential treatments until the expiration of the time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008.

After the implementation of the new EIT law, the preferential tax treatment for encouraged enterprises located in western China and certain industry-oriented tax incentives are still available. Pursuant to the Notice on Tax Policy Issues Concerning Further Implementing the Western China Development Strategy, effective from 1 January 2011, the enterprises within the state-encouraged industry located in western China are taxed at a preferential income tax rate of 15 per cent. for years from 1 January 2011 to 31 December 2020 after being approved by the competent tax authority.

## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisors concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.*

### HONG KONG

#### *Withholding Tax*

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

#### *Profits Tax*

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**Inland Revenue Ordinance**”) as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- interest on the Bonds is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;
- interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds may be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Bonds may be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on of a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

### ***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

### ***Estate Duty***

No Hong Kong estate duty is payable in respect of the Bonds.

### **PRC**

The following summary describes certain PRC tax consequences of ownership and disposition of the Bonds by beneficial owners who, or which, are not residents of China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this “*Taxation – PRC*” section. In considering whether to invest in the Bonds, investors should consult their own tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law (the “**EIT Law**”) and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau Special Administrative Region and Taiwan) but whose “de facto management body” are within the territory of PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay PRC enterprise income tax at the rate of 25 per cent. in respect of their taxable income. Although the rules are not entirely clear, dividends from a PRC tax resident enterprise should be excluded from the taxable income of a recipient that is also a PRC tax resident enterprise. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of PRC, the Issuer may be treated as a PRC tax resident enterprise for the purpose of the EIT Law, and the Issuer may be subject to PRC enterprise income tax at the rate of 25 per cent. on its taxable income. At the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law.

However, the Issuer may be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no connection to its establishment inside the PRC must pay enterprise income tax on income sourced within the PRC, and such income tax must be withheld at source by the PRC payer. Accordingly, if the Issuer is treated as a PRC tax resident enterprise by the PRC tax authorities, the Issuer may be required to withhold income tax from the payments of interest in respect of the Bonds to any non-PRC Bondholder, and gain from the disposition of the Bonds may be subject to PRC tax, if the income or gain is treated as PRC-source. The tax rate is generally 10 per cent. for non-resident enterprise Bondholders and 20 per cent. in the case of non-resident individuals, subject to the provisions of an applicable tax treaty. The Issuer has agreed to pay additional amounts to Bondholders, subject to certain exceptions, so that they would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

In addition, if the Guarantor is regarded as a PRC tax resident enterprise and if the Issuer is not able to make payments under the Bonds and the Guarantor fulfils the payment obligations under the Guarantee, the Guarantor must withhold PRC income tax on payments with respect to the interest accrued on the Bonds to non-resident enterprise holders generally at the rate of 10 per cent. (and possibly at a rate of 20 per cent. in the case of payments to non-resident individual holders), subject to the provisions of any applicable tax treaty.

## EU

### *EU Directive on the Taxation of Savings Income*

EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”) requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

A number of non-EU countries and territories have adopted similar measures to the Savings Directive.

The Council of the European Union has adopted a Directive (the “**Amending Savings Directive**”) which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above.

However, the Council of the European Union has adopted a Directive repealing the Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). The recitals to the Directive also provide that EU Member States will not be required to implement the Amending Savings Directive.

Investors who are in any doubt as to their position or would like to know more should consult their professional advisors.

### *The proposed financial transactions tax (“FTT”)*

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States, and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

## **FATCA**

A tax for withholding may be payable under FATCA if an investor or custodian of the Bonds is unable to receive payments free of withholding. Whilst the Bonds are in global form and held within the Clearing Systems, in all likely circumstances, it is expected that FATCA, as currently implemented, will not affect the amount of any payments made under the Bonds and received by the Clearing Systems. However, FATCA may affect payments (including payments of principal, interest and any premium on the Bonds and sales proceeds of Bonds) made to brokers, custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such broker, custodian or intermediary generally is unable to receive payments free of FATCA withholding. It may also affect payments to, among others, an investor that is a financial institution that is not entitled to receive payments free of FATCA withholding or an investor that fails to provide any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. It is possible that the Bonds may become issued in definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, additional FATCA withholding considerations may apply. Prospective investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them and their investment in, and acquisition and sale of, the Bonds.

## **BRITISH VIRGIN ISLANDS**

The following is a discussion on certain British Virgin Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under British Virgin Islands law.

Under existing British Virgin Islands laws:

- (i) The Issuer and all payments of interest and principal on the Bonds and other amounts made by the Issuer to persons who are not persons resident in the British Virgin Islands and any capital gains realised with respect to the disposal of the Bonds by persons who are not persons resident in the British Virgin Islands are exempt from all provisions of the Income Tax Act in the British Virgin Islands.
- (ii) No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligation or other securities of the Issuer. Save for interest payable to or for the benefit of an individual resident in the European Union.
- (iii) All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer does not hold an interest in real estate in the British Virgin Islands.
- (iv) There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its shareholders.

## **CAYMAN ISLANDS**

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. An exempted company may apply to the Governor of the Cayman Islands for a written undertaking that, should taxes ever be introduced into the Cayman Islands, the company will remain tax-free for a period of up to 30 years from the date of the undertaking. This undertaking is normally granted for up to 20 years, in the first instance, and may provide that (in addition to the exemption from capital gains, profits and income taxes) no tax in the nature of estate duty or inheritance tax shall be payable on, or in respect of shares, debentures or other obligations of the company.



## SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Lead Managers dated [•] 2017 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Lead Managers, and the Lead Managers have severally and not jointly agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the 2022 Bonds at an issue price of [•] per cent. and the 2024 Bonds at an issue price of [•] per cent. of their respective principal amount in the amount set forth below:

	<b>Principal Amount of the 2022 Bonds</b>	<b>Principal Amount of the 2024 Bonds</b>
	<i>(U.S.\$)</i>	<i>(U.S.\$)</i>
China Everbright Bank Co., Ltd., Hong Kong Branch. . . . .	[•]	[•]
Citigroup Global Markets Limited . . . . .	[•]	[•]
DBS Bank Ltd. . . . .	[•]	[•]
China Everbright Securities (HK) Limited. . . . .	[•]	[•]
<b>Total</b> . . . . .	<b>[•]</b>	<b>[•]</b>

The Subscription Agreement provides that the Issuer and the Guarantor will indemnify the Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Lead Managers are subject to certain conditions precedent, and entitles the Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer and the Bonds being issued.

The Issuer (failing whom the Guarantor) will pay to the Lead Managers’ customary commissions in connection with the offering and will reimburse the Lead Managers for certain fees and expenses incurred in connection with the offering. In addition, the Issuer and the Guarantor have agreed with the Lead Managers that the Issuer (failing whom the Guarantor) will pay a commission to certain private banks in connection with the distribution of the Bonds to clients. This commission will be based on the principal amount of the Bonds so distributed.

The Lead Managers and certain of their respective subsidiaries and/or affiliates have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with, the Issuer and/or the Guarantor and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Lead Managers and their respective subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer and/or the Guarantor and/or its subsidiaries and affiliates in the ordinary course of business.

In connection with the offering of the Bonds, the Lead Managers and/or their respective affiliate(s) may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Guarantor or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of the Bonds to the Lead Managers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, only a limited number of investors may subscribe for a significant portion of the Bonds. Such investors may be entities affiliated with the Issuer or the Guarantor.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as

to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

## **GENERAL**

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds. The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. The Group will have no responsibility for, and each of the Lead Managers will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. None of the Lead Managers is authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds, other than as contained in this Offering Circular or any amendment or supplement thereto.

## **UNITED STATES**

The Bonds and the Guarantee have not been or will not be registered under the Securities Act and may not be offered or sold within the United States, unless pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. The Bonds are being offered and sold outside of the United States in reliance on Regulation S.

Each of the Lead Managers has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of the Lead Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Bonds. Terms used in the paragraph above have the meanings given to them by Regulation S.

## **EUROPEAN ECONOMIC AREA**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each of the Lead Managers has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive subject to obtaining the prior consent of the relevant Lead Manager or Lead Managers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer, the Guarantor or any Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Bonds to the public**” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

## **UNITED KINGDOM**

Each of the Lead Managers has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

## **HONG KONG**

Each of the Lead Managers has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to “Professional Investors” as defined in the SFO and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “Professional Investors” as defined in the SFO and any rules made under that Ordinance.

## **SINGAPORE**

Each of the Lead Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Lead Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or

purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Bonds may not be circulated or distributed, nor may Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:
  - (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
  - (ii) where no consideration is or will be given for the transfer;
  - (iii) where the transfer is by operation of law;
  - (iv) as specified in Section 276(7) of the SFA; or
  - (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **JAPAN**

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each of the Lead Managers has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations of Japan.

## **THE PRC**

Each of the Lead Managers has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

## **BRITISH VIRGIN ISLANDS**

No invitation has been or will be made to the public in the British Virgin Islands or a natural person who is a British Virgin Islands resident or citizen to offer to sell the Bonds, the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by British Virgin Islands law, no action has been taken to permit an offer of the Bonds in the British Virgin Islands and the Offering Circular is not a registered prospectus within the meaning of section 25 of the British Virgin Islands Securities and Investment Business Act, 2010.

## **CAYMAN ISLANDS**

No invitation will be or has been made directly or indirectly to any person resident in the Cayman Islands to subscribe for any of the Bonds.

## GENERAL INFORMATION

1. **Clearing System:** The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN and Common Code for the 2022 Bonds are XS[•] and [•], respectively. The ISIN and Common Code for the 2024 Bonds are XS[•] and [•], respectively.
2. **Authorisations:** The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by the resolutions of the directors of the Issuer dated 27 February 2017. The Guarantee was authorised by the resolutions of the board of directors of the Guarantor dated 27 February 2017.
3. **No Material Adverse Change:** There has been no material adverse change in the financial or trading position, prospects or results of operations of the Issuer, the Guarantor and the Group since 30 June 2016.
4. **Litigation:** None of the Issuer, the Guarantor or any member of the Group is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened. The Issuer or the Guarantor may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business.
5. **Available Documents:** Copies of the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2014 and 2015, the Guarantor's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2016, the Trust Deed and the Agency Agreement relating to the Bonds will be available for inspection from the Issue Date at the Guarantor's principal place of business in Hong Kong at 28th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong so long as any Bond is outstanding.
6. **Financial Statements:** The Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2014 and 2015 and the Guarantor's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2016, which are included elsewhere in this Offering Circular, have been audited or reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Auditing and Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, respectively.
7. **Reliance by the Trustee:** The Trustee may rely without liability to the Bondholders (i) on any certificate signed by any director or any authorised signatory of the Issuer or the Guarantor and (ii) on, among other things, a certificate or report prepared by an internationally recognised firm of accountants pursuant to the Terms and Conditions of the Bonds and/or the Trust Deed whether or not addressed to the Trustee and whether or not the internationally recognised firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded. Any such certificate or report relied on by the Trustee (where the Trust Deed and/or the Terms and Conditions of the Bonds so provide) shall be conclusive and binding on the Bondholders.
8. **Listing of Bonds:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about [•] 2017.



## INDEX TO FINANCIAL STATEMENTS

	<b>Pages</b>
<b>Audited Consolidated Financial Statements of the Guarantor as at and for the year ended 31 December 2014</b>	
Independent Auditor's Report .....	F-2
Consolidated Balance Sheet .....	F-4
Balance Sheet of the Company .....	F-5
Consolidated Statement of Income .....	F-6
Consolidated Statement of Comprehensive Income .....	F-7
Consolidated Statement of Changes in Equity .....	F-8
Consolidated Statement of Cash Flows .....	F-9
Notes to the Consolidated Financial Statements .....	F-10
<b>Audited Consolidated Financial Statements of the Guarantor as at and for the year ended 31 December 2015</b>	
Independent Auditor's Report .....	F-80
Consolidated Balance Sheet .....	F-82
Consolidated Statement of Income .....	F-83
Consolidated Statement of Comprehensive Income .....	F-84
Consolidated Statement of Changes in Equity .....	F-85
Consolidated Statement of Cash Flows .....	F-87
Notes to the Consolidated Financial Statements .....	F-88
<b>Unaudited Interim Condensed Consolidated Financial Statements of the Guarantor as at and for the six months ended 30 June 2016</b>	
Independent Auditor's Report .....	F-162
Interim Consolidated Balance Sheet .....	F-163
Interim Consolidated Statement of Income .....	F-164
Interim Consolidated Statement of Comprehensive Income .....	F-165
Interim Consolidated Statement of Changes in Equity .....	F-166
Interim Consolidated Statement of Cash Flows .....	F-167
Notes to the Interim Condensed Consolidated Financial Statements .....	F-168

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*Note:* The consolidated financial statements of the Guarantor set out herein are reproduced from the Guarantor's annual reports for the years ended 31 December 2014 and 2015 and the Guarantor's interim report for the six months ended 30 June 2016. Pages references included in the consolidated financial statements as at and for the years ended 31 December 2014 and 2015 and as at and for the six months ended 30 June 2016 set out herein refer to pages set out in the relevant annual report or interim report (as the case may be).

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

## To the shareholders of China Aircraft Leasing Group Holdings Limited

*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 90 to 167, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 March 2015

# CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2014	2013
		HK\$'000	HK\$'000
<b>ASSETS</b>			
Property, plant and equipment	5	1,706,695	1,487,127
Finance lease receivables – net	7	11,443,485	7,678,876
Derivative financial assets	16	14,979	13,620
Prepayments and other receivables	8	3,503,360	2,183,474
Restricted cash	9	218,951	102,411
Cash and cash equivalents	10	1,425,570	1,367,344
<b>Total assets</b>		<b>18,313,040</b>	<b>12,832,852</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	11	58,578	78
Reserves	12	1,273,531	743,099
Retained earnings			
– Proposed dividends	26	93,725	69,000
– Others		335,446	126,421
		<b>1,761,280</b>	<b>938,598</b>
<b>Non-controlling interests</b>	6	<b>19,416</b>	<b>19,500</b>
<b>Total equity</b>		<b>1,780,696</b>	<b>958,098</b>
<b>LIABILITIES</b>			
Deferred income tax liabilities	13	67,161	26,267
Bank borrowings	14	15,342,648	11,436,394
Long-term borrowings	15	642,116	155,172
Derivative financial liabilities	16	33,361	7,488
Income tax payables		21,991	8,613
Interest payable		42,411	34,547
Other payables and accruals	17	382,656	206,273
<b>Total liabilities</b>		<b>16,532,344</b>	<b>11,874,754</b>
<b>Total equity and liabilities</b>		<b>18,313,040</b>	<b>12,832,852</b>

The notes on pages 98 to 167 are an integral part of these consolidated financial statements.

The financial statements on pages 92 to 167 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

**POON Ho Man**  
Director

**LIU Wanting**  
Director

# BALANCE SHEET OF THE COMPANY

	Note	As at 31 December	
		2014	2013
		HK\$'000	HK\$'000
<b>ASSETS</b>			
Investment in subsidiaries	6	1,174,126	785,587
Amounts due from subsidiaries	6	398,433	–
Prepayments	8	403	3,931
Cash and cash equivalents	10	52,573	–
<b>Total assets</b>		<b>1,625,535</b>	<b>789,518</b>
<b>EQUITY</b>			
Share capital	11	58,578	78
Reserves	12	1,359,292	785,109
Retained earnings/(accumulated losses)			
– Proposed dividends	26	93,725	69,000
– Others		104,720	(81,166)
<b>Total equity</b>		<b>1,616,315</b>	<b>773,021</b>
<b>LIABILITIES</b>			
Amount due to the shareholder		–	428
Amounts due to subsidiaries		–	13,935
Other payables and accruals	17	9,220	2,134
<b>Total liabilities</b>		<b>9,220</b>	<b>16,497</b>
<b>Total equity and liabilities</b>		<b>1,625,535</b>	<b>789,518</b>

The notes on pages 98 to 167 are an integral part of these consolidated financial statements.

The financial statements on pages 92 to 167 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

**POON Ho Man**  
Director

**LIU Wanting**  
Director

# CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December	
		2014 HK\$'000	2013 HK\$'000
<b>Revenues</b>			
Finance lease income	18	714,724	477,966
Operating lease income	18	182,127	145,359
Other income	19	248,114	63,610
		<b>1,144,965</b>	686,935
<b>Expenses</b>			
Interest expense	20	(520,532)	(329,906)
Depreciation		(71,312)	(54,147)
Operating expenses	21	(199,886)	(90,437)
		<b>(791,730)</b>	(474,490)
<b>Operating profit</b>			
		<b>353,235</b>	212,445
Foreign exchange gains/(losses)		27,480	(2,485)
<b>Profit before income tax</b>			
		<b>380,715</b>	209,960
Income tax expense	23	(78,049)	(37,460)
<b>Profit for the year</b>			
		<b>302,666</b>	172,500
<b>Profit attributable to:</b>			
Owners of the Company		302,750	172,500
Non-controlling interests		(84)	–
		<b>302,666</b>	172,500
<b>Earnings per share for profit attributable to owners of the Company (expressed in HK\$ per share)</b>			
– Basic earnings per share	25(a)	0.577	0.376
– Diluted earnings per share	25(b)	0.545	0.376

The notes on pages 98 to 167 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December	
		2014 HK\$'000	2013 HK\$'000
<b>Dividends</b>	26	<b>93,725</b>	122,000



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2014 HK\$'000	2013 HK\$'000
<b>Profit for the year</b>		<b>302,666</b>	172,500
<b>Other comprehensive income for the year:</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of interest rate swaps – cash flow hedges	16	<b>(40,461)</b>	13,538
Effect of termination of interest rate swap – cash flow hedges	16	–	15,187
Reclassified from other comprehensive income to profit or loss – cash flow hedges	16	<b>(1,267)</b>	–
Currency differences on translation of financial statements of overseas subsidiaries		<b>(2,023)</b>	5,300
<b>Total other comprehensive income for the year, net of tax</b>		<b>(43,751)</b>	34,025
<b>Total comprehensive income for the year</b>		<b>258,915</b>	206,525
<b>Attributable to:</b>			
Owners of the Company		<b>258,999</b>	206,525
Non-controlling interests		<b>(84)</b>	–
		<b>258,915</b>	206,525

The notes on pages 98 to 167 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
<b>Balance at 1 January 2013</b>	–	618,788	75,921	694,709	–	694,709
<b>Comprehensive income</b>						
Profit for the year	–	–	172,500	172,500	–	172,500
<b>Other comprehensive income</b>						
Change in fair value of interest rate swaps – cash flow hedges (Note 16)	–	13,538	–	13,538	–	13,538
Effect of termination of interest rate swap – cash flow hedges (Note 16)	–	15,187	–	15,187	–	15,187
Currency translation differences	–	5,300	–	5,300	–	5,300
<b>Total comprehensive income</b>	–	34,025	172,500	206,525	–	206,525
<b>Transactions with owners</b>						
Issue of ordinary shares	78	89,132	–	89,210	–	89,210
Contribution by non-controlling interests	–	–	–	–	19,500	19,500
Employee share option scheme: – Value of employee services (Note 12(a))	–	1,154	–	1,154	–	1,154
Dividends (Note 26)	–	–	(53,000)	(53,000)	–	(53,000)
<b>Total transactions with owners</b>	78	90,286	(53,000)	37,364	19,500	56,864
<b>Balance at 31 December 2013</b>	78	743,099	195,421	938,598	19,500	958,098
<b>Balance at 1 January 2014</b>	<b>78</b>	<b>743,099</b>	<b>195,421</b>	<b>938,598</b>	<b>19,500</b>	<b>958,098</b>
<b>Comprehensive income</b>						
Profit for the year	–	–	302,750	302,750	(84)	302,666
<b>Other comprehensive income</b>						
Change in fair value of interest rate swaps – cash flow hedges (Note 16)	–	(40,461)	–	(40,461)	–	(40,461)
Reclassified from other comprehensive income to profit or loss – cash flow hedges (Note 16)	–	(1,267)	–	(1,267)	–	(1,267)
Currency translation differences	–	(2,023)	–	(2,023)	–	(2,023)
<b>Total comprehensive income</b>	–	(43,751)	302,750	258,999	(84)	258,915
<b>Transactions with owners</b>						
Issue of new ordinary shares	11,681	608,996	–	620,677	–	620,677
Share repurchase and cancellation	(78)	78	–	–	–	–
Capitalisation of shares	46,897	(46,897)	–	–	–	–
Employee share option scheme: – Value of employee services (Note 12(a))	–	12,006	–	12,006	–	12,006
Dividends (Note 26)	–	–	(69,000)	(69,000)	–	(69,000)
<b>Total transactions with owners</b>	<b>58,500</b>	<b>574,183</b>	<b>(69,000)</b>	<b>563,683</b>	–	<b>563,683</b>
<b>Balance at 31 December 2014</b>	<b>58,578</b>	<b>1,273,531</b>	<b>429,171</b>	<b>1,761,280</b>	<b>19,416</b>	<b>1,780,696</b>

The notes on pages 98 to 167 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2014 HK\$'000	2013 HK\$'000
<b>Cash flows from operating activities</b>			
Profit after income tax		302,666	172,500
Adjustments for:			
– Depreciation of property, plant and equipment		71,312	54,147
– Interest expense of bank borrowings		520,532	328,022
– Interest expense of borrowings from related parties		–	1,884
– Share-based payments		12,006	1,154
– Unrealised foreign exchange loss/(gain)		4,260	(3,641)
– Fair value (gain)/loss on currency swap		(15,935)	968
– Interest income		(1,376)	(679)
		<b>893,465</b>	<b>554,355</b>
<b>Changes in working capital:</b>			
– Finance lease receivables – net		(3,806,252)	(3,290,501)
– Prepayments and other receivables		(156,748)	(12,343)
– Other payables and accruals		176,383	153,878
– Income tax payables		13,378	2,712
– Deferred income tax liabilities		40,894	12,301
Net cash flows used in operating activities		<b>(2,838,880)</b>	<b>(2,579,598)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(299,017)	(425)
Deposits paid for acquisition of aircraft		(1,173,953)	(1,363,281)
Interest received		1,376	679
Net cash flows used in investing activities		<b>(1,471,594)</b>	<b>(1,363,027)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of new shares		620,677	89,210
Capital contribution by non-controlling interests		–	19,500
Proceeds from bank borrowings		7,832,293	6,092,551
Proceeds from borrowings from related parties		–	120,120
Proceeds from long-term borrowings		492,423	155,172
Repayments of bank borrowings		(3,867,049)	(743,319)
Repayments of borrowings from related parties		–	(120,120)
Repayments of long-term borrowings		(116)	–
Interest paid on bank borrowings		(501,077)	(315,331)
Interest paid on borrowings from related parties		–	(1,884)
Interest paid on long-term borrowings		(12,953)	–
Proceeds from disposal of a derivative financial instrument		–	15,187
Deposits pledged in respect of bank borrowings		(91,419)	(23,056)
Deposits pledged in respect of derivative financial instruments		(25,764)	(664)
Dividend paid to shareholders	26	(69,000)	(53,000)
Net cash flows generated from financing activities		<b>4,378,015</b>	<b>5,234,366</b>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		1,367,344	73,499
Foreign exchange difference on cash and cash equivalents		(9,315)	2,104
<b>Cash and cash equivalents at end of the year</b>		<b>1,425,570</b>	<b>1,367,344</b>

The notes on pages 98 to 167 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION AND REORGANISATION

### (a) General information

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands using the name "China Aircraft Leasing Company Limited". On 19 September 2013, the Company changed its name to "China Aircraft Leasing Group Holdings Limited". The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Group has operations mainly in the People's Republic of China ("PRC").

The consolidated financial statements for the year ended 31 December 2014 are presented in Hong Kong Dollar ("HK\$"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors on 26 March 2015.

### (b) Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the "Reorganisation"), China Aircraft Leasing Company Limited ("CALC (BVI)"), incorporated in the British Virgin Islands ("BVI") and its subsidiaries, now comprising the Group, were wholly owned by China Aircraft Leasing Holdings Limited ("CALH").

The Group underwent the Reorganisation which principally involved the following steps:

- (i) On 21 December 2012, the Company was incorporated in the Cayman Islands and issued 1 share of USD1 to CALH upon its incorporation.
- (ii) On 21 December 2012, CALH transferred to the Company 30,000,000 shares of USD1 each in CALC (BVI), representing 37.5% equity interest in CALC (BVI) for the time being, satisfied by 9 ordinary shares of USD1 each in the Company allotted and issued to CALH.
- (iii) On 29 April 2013, CALH transferred to the Company 50,000,000 shares of USD1 each in CALC (BVI), representing 62.5% equity interest in CALC (BVI) for the time being, satisfied by 10 ordinary shares of USD1 each in the Company allotted and issued to CALH.

## **1 GENERAL INFORMATION AND REORGANISATION** *(continued)*

### **(b) Reorganisation** *(continued)*

The directors of the Company consider the above share swaps are, in substance, one transaction completed on 21 December 2012. The share swap on 29 April 2013 was administrative in nature to complete the legal form of the transaction. Accordingly CALC (BVI) was treated as a subsidiary of the Company from 21 December 2012, when the Company acquired control.

As a result of the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

On 30 June 2014, the Company issued the prospectus and launched a public offering of 116,800,000 shares at an offer price of HK\$5.53 per share. The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 11 July 2014 by way of Initial Public Offering ("IPO").

As at 31 December 2014, the Company was owned as to 35.33% and 30.94% by China Everbright Aerospace Holdings Limited ("CE Aerospace") and Friedmann Pacific Asset Management Limited ("FPAM") respectively. CE Aerospace is a wholly owned subsidiary of China Everbright Limited. FPAM is owned by Mr. Poon Ho Man.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The consolidated financial statements has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(a) Going concern*

As at 31 December 2014, the Group's current liabilities exceeded its current assets by HK\$3,238 million (Note 3.1.3). The Group had capital commitments amounting to HK\$45,902 million in relation to acquisition of aircraft (Note 29), of which HK\$5,836 million is payable within one year. In view of such circumstance, the directors of the Company have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil these commitments and continue as a going concern. The directors of the Company adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

- The net current liabilities position of the Group is mainly because the Group uses short-term borrowings to finance the pre-delivery payments ("PDPs") to the aircraft manufacturer when the new aircraft ordered by the Group are being built. PDP represents approximately 30% to 40% of the purchase consideration of the aircraft. The Group normally uses PDP financing for settlement of PDPs and PDP financing is repayable after the aircraft is delivered. As at 31 December 2014, PDPs amounting to HK\$3,241 million had been paid (Note 8) and the balance of corresponding PDP financing amounted to HK\$2,305 million (Note 14), of which HK\$1,937 million is related to the 19 aircraft to be delivered in 2015 and repayable within one year. The Group uses long-term aircraft borrowings for the repayment of PDP financing and the settlement of the balance payments of aircraft acquisition costs. However, the long-term aircraft borrowings can only be confirmed shortly before delivery of the relevant aircraft. Based on the industry practice and prior experience, long-term aircraft borrowings would be granted by the banks if the aircraft can be leased out to airline companies. Lease agreements or irrevocable letters of intent have already been signed for the aircraft scheduled for delivery in 2015 and thus the directors of the Company believe that long-term aircraft borrowings can be obtained to repay PDP financing and the balance payments of the aircraft acquisition costs due in 2015.
- According to the relevant aircraft purchase agreements, PDPs scheduled to be paid in the next 12 months from 31 December 2014 amounted to HK\$1,833 million. As at the approval date of the consolidated financial statements, the Group had signed PDP financing agreements and working capital facilities with various commercial banks which agree to provide funding of HK\$912 million to the Group during 2015. The Group also obtained a term sheet from a bank which agrees, in principle, to provide a banking facility of HK\$305 million to the Group during 2015. The drawdown of this banking facility is subject to the signing and execution of the loan agreement. The remaining balance of PDPs amounting to HK\$616 million is to be funded by internally generated financial resources of the Group.
- In June 2013, the Group entered into a cooperative agreement with China Development Bank, Hong Kong Branch, pursuant to which the bank agrees to provide to the Group a conditional loan facility amounting to USD1.5 billion (equivalent to approximately HK\$11.7 billion) during the period of 2013 to 2018 for the purpose of purchasing aircraft. The granting of each specific loan under this facility will be subject to the credit assessment and approvals to be performed by the bank and the agreement of terms and conditions of the respective loan agreements, which will only be confirmed shortly before the delivery of the relevant aircraft. The Group also entered into a framework strategic cooperative agreement with The Export-Import Bank of China on 4 November 2014, pursuant to which the bank agrees to provide the Group with a credit facility of no more than RMB10 billion (equivalent to approximately HK\$12.5 billion). The term of the framework agreement is three years from the date of signing of the framework agreement. The granting of each specific loan under this facility will be subject to the credit assessment and approvals to be performed by bank subject to the agreement of detailed terms and arrangements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(a) Going concern (continued)*

- As detailed in Note 30(a), on 26 March 2015, the Company entered into subscription agreements with China Everbright Financial Investments Limited and two independent third parties in respect of the issuance and subscription of the three-year convertible bonds in the aggregate principal amount of HK\$892 million. The completion of the issuance of the convertible bonds is subject to the satisfaction of the conditions precedent under the subscription agreements and the approval by independent shareholders, where applicable.
  
- For the existing long-term aircraft borrowings, under the business model of the Group, the expected cash inflows from lease receivables generally match with the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft.

The directors of the Company have reviewed the Group's cash flow projections prepared by management, covering a period of not less than twelve months from the balance sheet date. Based on these projections, the sufficiency of cash flows for the Group's present requirements for at least the next 12 months is heavily dependent on the Group's ability to obtain the necessary funding from the long-term aircraft borrowings and the availability of banking and other sources of financing, including the expected issuance of the convertible bonds. Based on the industry practice and prior experience, the directors are of the view that long-term aircraft borrowings can be obtained as the related lease agreements or irrevocable letters of intent have already been signed for the aircraft scheduled for delivery in 2015. In addition, the directors expect that the issuance of the convertible bonds can be completed in the first half of 2015.

On this basis, the directors of the Company are of the opinion that, taking into account the Group's operating performance and business prospects, internal resources, available banking facilities that have been granted or will be granted as detailed above and the convertible bonds to be issued as mentioned above, the Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those committed capital commitments in the next twelve months from 31 December 2014. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and have prepared the consolidated financial statements on a going concern basis.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### **(b) Changes in accounting policy and disclosure**

##### *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13.

Amendment to HKAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.

HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

##### *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### **(b) Changes in accounting policy and disclosure *(continued)***

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### ***New Hong Kong Companies Ordinance (Cap.622)***

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries

#### *(a) Consolidation*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised as "other gains" in the consolidated statement of comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries *(continued)*

#### **(b) Separate financial statement**

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### **(c) Structured entities**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, the Group has determined that the trust plans set up to acquire certain finance lease receivables from the Group are structured entities over which the Group has no control and are therefore not consolidated. They are referred to as unconsolidated structured entities (Note 3.1.4).

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

### 2.4 Foreign currency translation

#### **(a) Functional and presentation currency**

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollar ("HK\$"), which is the Company's functional and the Group's presentation currency. Functional currencies of the subsidiaries of the Company include Renminbi ("RMB"), US dollar ("USD") and HK\$.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Foreign currency translation *(continued)*

#### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

#### **(c) Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- (iii) all resulting foreign exchange differences are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.5 Property, plant and equipment *(continued)*

The estimated useful lives and estimated residual value rate of aircraft, leasehold improvements, motor vehicles and office equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft	25 years from the date of manufacture	15%
Leasehold improvements	Shorter of lease term or 3 years	0%
Motor vehicles	4 years	0%
Office equipment	2 to 5 years	5%

The assets' residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating income/expenses' in the consolidated statement of comprehensive income.

### 2.6 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.7 Financial assets

The Group classifies its financial assets into the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

During the year ended 31 December 2014, other than loans and receivables and derivatives at fair value through profit or loss that the Group has designated as an effective hedging instrument (Note 2.10), the Group did not hold any financial assets in other categories.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Financial assets *(continued)*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (ii) those that the Group upon initial recognition designates as available-for-sale; or (iii) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration. The Group's loans and receivables comprise "other receivables", "restricted cash" and "cash and cash equivalents" on the consolidated balance sheet.

Loans and receivables are initially recognised at fair value which the cash is paid to originate the assets including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

Interest on loans and receivables is recognised using the effective interest method and is included in the consolidated statement of comprehensive income as interest income.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Finance lease receivables are regarded as loans and receivables for the purpose of derecognition and impairment.

### 2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The financial assets and financial liabilities of the Group that are subject to such enforceable master netting arrangements or similar agreements are not offset in accordance with HKFRSs.

As at 31 December 2014, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements were not material to the Group.



## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **2.9 Impairment of financial assets carried at amortised cost**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a receivable is uncollectible, it is written off against the related allowances for its impairment. Such receivable is written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

For finance lease receivables, the amount of loss impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, discounted at the implicit effective interest rate used on initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of exposures to variability in cash flows (cash flow hedges) that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 16. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

#### ***Cash flow hedges***

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in "other gains/(losses) – net" in the consolidated statement of comprehensive income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the forecast transaction being hedged affects profit or loss (for example, when the interest payment that is hedged occurs). They are recorded in the revenue or expense lines in the consolidated statement of comprehensive income in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any gain or loss on the hedging instrument that has been accumulated in equity from the period when the hedge was effective remains in equity. When the forecast transaction is ultimately recognised in profit or loss, the related accumulated hedge gain or loss in equity is reclassified to profit or loss. When a forecast transaction is no longer expected to occur, any accumulated hedge gain or loss in equity is immediately reclassified and included in "other gains/(losses) – net" in the consolidated statement of comprehensive income.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **2.11 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in liabilities, if any.

### **2.12 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are recognised in equity as a deduction, net of tax, from the proceeds.

### **2.13 Borrowings and borrowing costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value, and less any repaid principal is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and is included in the computation of the loan's effective interest rate. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Interests related to progress payments made in respect of aircraft in the process of construction on forward order are capitalised and such amounts are added to prepayments on aircraft. The amount of interest capitalised is the actual interest costs incurred on funding specific to the progress payments or the amount of interest costs which could have been avoided in the absence of such progress payments.

Other borrowing costs are expensed as incurred.

### **2.14 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.14 Current and deferred income tax *(continued)*

#### **(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### **(b) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted before the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

#### **(c) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.15 Employee benefits

#### **(a) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees.

A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

#### **(b) Pension obligations**

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities or trustees. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities or trustees and are separate from those of the Group.

#### **(c) Profit-sharing and bonus plan**

The Group recognises a liability and an expense for bonuses and profit sharing, based on formulae that take into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.16 Share-based payments

#### **(a) Equity-settled share-based payment transactions**

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares over which the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.16 Share-based payments *(continued)*

#### **(a) Equity-settled share-based payment transactions *(continued)***

In addition, in some circumstances employees or consultants may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

#### **(b) Share-based payment transactions among group entities**

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

#### **(c) Social security contributions on share options gains**

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

### 2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.18 Leases

#### *(a) Where the Group is the lessor*

##### *Finance lease*

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. At the commencement of the lease term, the Group recognises the minimum lease payments receivable by the Group as a finance lease receivable and records the unguaranteed residual value as an asset within the same category. The difference between (a) the aggregate of the minimum lease payments and the unguaranteed residual value and (b) their present value (presented in the balance sheet as finance lease receivables-net) is recognised as unearned finance income. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make plus any residual value guaranteed to the lessor by the lessee, or a party unrelated to the lessor.

Unearned finance income is allocated to each period during the lease term using the effective interest method that allocates each rental between finance income and repayment of capital in each accounting period in such a way that finance income is recognised as a constant periodic rate of return (implicit effective interest rate) on the lessor's net investment in the lease. Lease agreements for which the base rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate existing at the commencement of the lease; any increase or decrease in lease payments that result from subsequent changes on floating interest rate is recorded as an increase or a decrease in finance lease income in the period of the interest rate change.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

See Notes 2.7 and 2.9 for accounting policies for derecognition and impairment of finance lease receivables.

##### *Operating lease*

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Payments received from lessees under operating leases (net of any incentives granted to the lessee) are recognised in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Initial direct costs incurred by the Group in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.18 Leases *(continued)*

#### **(b) Where the Group is the lessee**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

#### **(a) Finance lease income**

The income under finance lease is recognised in the consolidated statement of comprehensive income using the effective interest rate implicit in the lease over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

#### **(b) Operating lease income**

The income under operating lease is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

#### **(c) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

#### **(d) Service income**

Service income is recognised in the accounting period in which the service is rendered.

### 2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intend to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **2.21 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of comprehensive income within other operating expenses.

Where guarantees in relation to borrowings or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

### **2.22 Dividend distribution**

Dividend distribution to the shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

### **2.23 Segment information**

The Group is engaged in the provision of aircraft leasing services to airline companies mainly in China. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

## **3 FINANCIAL RISK MANAGEMENT**

### **3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### 3.1.1 Market risk

##### (a) Foreign exchange risk

The foreign exchange risk exposure of the Group mainly arises from the mismatch of transaction currencies between receipts and payments and assets and liabilities, the mismatch of transaction and functional currencies and the impact of applicable foreign exchange control regulations. To manage the foreign exchange rate risk, most of the lease and borrowing agreements are denominated in USD except that the Group has agreed to convert certain future rents to be received on behalf of a trust plan from USD to RMB at a pre-determined exchange rate (see Note 3.1.4). The Group manages this risk exposure by closely monitoring the current and forward exchange rate movement and assessing the estimated impact by sensitivity analysis.

##### (b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from finance lease receivables and bank borrowings. Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables and bank borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages the interest rate risk by matching the interest rates of the finance lease receivables with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the finance lease receivables and the corresponding bank borrowings do not match. As at 31 December 2014, there are 16 aircraft leases where the effective interest rates implicit in finance lease receivables are fixed for the whole lease term while the associated bank borrowings bear floating rates (2013: 10). Given the above scenario, the Group has managed its cash flow interest rate risk by entering into floating-to-fixed interest rate swaps for the associated floating-rate bank borrowings for 10 of the aircraft lease projects as at 31 December 2014 (2013: 6). Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining cases of interest rate mismatch, management monitors the interest rate exposure closely and will consider hedging the exposure where necessary and appropriate.

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2013 and 2014. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax by approximately HK\$26,367,000 (2013: HK\$22,353,000); and would also have increased/decreased the Group's reserves by approximately HK\$51,203,000 (2013: HK\$29,574,000), because of the impact of cash flow hedge interest derivatives.

### **3 FINANCIAL RISK MANAGEMENT** *(continued)*

#### **3.1 Financial risk factors** *(continued)*

##### **3.1.1 Market risk** *(continued)*

###### **(b) Cash flow and fair value interest rate risk** *(continued)*

The sensitivity analysis above indicates the annualised impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

##### **3.1.2 Credit risk**

The Group takes on exposure to credit risks, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risks. Credit exposures of the Group arise principally in aircraft leasing service.

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as shareholders support. The Group also obtained deposits from the lessees (Note 17(ii)). All these strengthen the control and management of credit risk.

The Group is also exposed to credit risks associated with its interest rate swaps arrangement with an investment bank, which has a high credit quality.

###### **(a) Probability of default**

Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

Late payment risk – in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which the Group may apply towards the payment or discharge of any obligation owed by the lessee.

###### **(b) Risk limit control and mitigation policies**

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

###### **(c) Impairment allowance policies**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group's policy requires a review of the financial statements of the lessee or its parent company and a valuation of the residual value of the aircraft (effectively the collateral held) under the lease at least annually or more regularly when circumstances require.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### 3.1.2 Credit risk *(continued)*

##### (c) Impairment allowance policies *(continued)*

Finance lease receivables and financial assets of the Group are neither past due nor impaired. The Group has not encountered any delay or default in the collection of lease receivable balances. No impairment allowance was made for finance lease receivables and financial assets of the Group as at 31 December 2014.

##### (d) Concentration of risks of financial assets with credit exposure

During the year ended 31 December 2014, all the lessees of the Group are airline companies located in China. Please see Note 7 for an analysis of concentration of lessees. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

To manage this risk, the Group assesses the business performance of the airline companies on a regular basis. In view of the fact that the airline companies are operating smoothly and the sound collection history of the receivable due from them, management believes that the credit risk inherent in the Group's outstanding finance lease receivable balances from these airline companies is low.

#### 3.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or settled within 12 months after the balance sheet date:

	<b>As at 31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Current assets		
Finance lease receivables – net	<b>363,624</b>	262,544
Prepayments and other receivables	<b>109,937</b>	19,199
Cash and cash equivalents	<b>1,425,570</b>	1,367,344
	<b>1,899,131</b>	1,649,087
Current liabilities		
Other payables and accruals	<b>382,656</b>	206,273
Income tax payables	<b>21,991</b>	8,613
Interest payable	<b>42,411</b>	34,547
Bank borrowings	<b>4,689,521</b>	2,820,997
Long-term borrowings	<b>611</b>	78
	<b>5,137,190</b>	3,070,508
Net current liabilities	<b>(3,238,059)</b>	(1,421,421)

The assets and liabilities of the Group not included in the above table are expected to be recovered or settled more than 12 months after the balance sheet date.

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.3 Liquidity risk *(continued)*

The following table shows the remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date of the Group's financial assets, finance lease receivables and operating lease receivables for the purpose of this analysis and financial liabilities as well as operating lease commitments, based on contractual undiscounted cash flows:

Group	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2014</b>					
<b>Financial assets</b>					
Finance lease receivables (Note (ii))	1,125,802	1,122,503	3,466,086	9,058,001	14,772,392
Other receivables excluding prepayments	109,937	–	–	–	109,937
Restricted cash	–	–	–	218,951	218,951
Cash and cash equivalents	1,425,570	–	–	–	1,425,570
Off-balance sheet – operating lease receivables (Note (ii))	217,713	217,713	555,748	634,655	1,625,829
Derivative financial instruments	–	–	–	14,979	14,979
	<b>2,879,022</b>	<b>1,340,216</b>	<b>4,021,834</b>	<b>9,926,586</b>	<b>18,167,658</b>
<b>Financial liabilities</b>					
Bank borrowings	5,292,131	1,492,676	3,672,525	8,736,234	19,193,566
Long-term borrowings	42,534	46,005	137,598	905,969	1,132,106
Other payables and accruals (Note (iii))	259,545	–	–	–	259,545
Off-balance sheet – operating lease commitments (Note (iv))	9,851	8,362	18,433	110	36,756
Derivative financial instruments	34,751	18,149	(15,603)	(5,191)	32,106
	<b>5,638,812</b>	<b>1,565,192</b>	<b>3,812,953</b>	<b>9,637,122</b>	<b>20,654,079</b>
Net	<b>(2,759,790)</b>	<b>(224,976)</b>	<b>208,881</b>	<b>289,464</b>	<b>(2,486,421)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### 3.1.3 Liquidity risk *(continued)*

<b>Group</b> <i>(continued)</i>	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2013</b>					
<b>Financial assets</b>					
Finance lease receivables (Note (ii))	797,122	797,732	2,351,582	6,440,770	10,387,206
Other receivables excluding prepayments	15,268	–	–	–	15,268
Restricted cash	–	–	–	102,411	102,411
Cash and cash equivalents	1,367,344	–	–	–	1,367,344
Off-balance sheet – operating lease receivables (Note (ii))	145,436	145,436	436,307	783,552	1,510,731
Derivative financial instruments	(2,628)	(4,472)	1,705	23,216	17,821
	2,322,542	938,696	2,789,594	7,349,949	13,400,781
<b>Financial liabilities</b>					
Bank borrowings	3,612,906	1,439,336	2,521,274	7,727,986	15,301,502
Long-term borrowing	9,074	9,319	24,588	113,450	156,431
Other payables and accruals (Note (iii))	159,311	–	–	–	159,311
Off-balance sheet – operating lease commitments (Note (iv))	5,592	2,363	–	–	7,955
Derivative financial instruments	4,105	13,386	(10,970)	270	6,791
	3,790,988	1,464,404	2,534,892	7,841,706	15,631,990
Net	(1,468,446)	(525,708)	254,702	(491,757)	(2,231,209)



### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.3 Liquidity risk *(continued)*

Company	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2014</b>					
<b>Financial assets</b>					
Amounts due from subsidiaries	398,433	–	–	–	398,433
Cash and cash equivalents	52,573	–	–	–	52,573
	<b>451,006</b>	–	–	–	<b>451,006</b>
<b>Financial liabilities</b>					
Other payables and accruals (Note (iii))	9,220	–	–	–	9,220
	<b>9,220</b>	–	–	–	<b>9,220</b>
Net	<b>441,786</b>	–	–	–	<b>441,786</b>

Company	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2013</b>					
<b>Financial liabilities</b>					
Amount due to the shareholder	428	–	–	–	428
Amounts due to subsidiaries	13,935	–	–	–	13,935
Other payables and accruals (Note (iii))	2,134	–	–	–	2,134
	16,497	–	–	–	16,497
Net	(16,497)	–	–	–	(16,497)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### 3.1.3 Liquidity risk *(continued)*

- (i) For the purpose of liquidity risk analysis, finance lease receivables do not include unguaranteed residual values as they are not contractual cash inflows.
- (ii) Off-balance sheet receivables represent operating lease rentals which will be received according to the schedules in the lease contracts.
- (iii) For the purpose of liquidity risk analysis, tax payables, operating lease rentals received in advance, bonuses and director fee payables are not included.
- (iv) Off-balance sheet operating lease commitments are the operating lease rentals which will be paid according to the schedules in the lease contracts.

The Group has arranged for financing for the PDP for the acquisition of aircraft. The Group may use short-term borrowings to support its financing needs for the PDPs when the long-term bank borrowings were not available. Such short-term borrowings will be replaced by long-term bank borrowings upon the delivery of the aircraft as scheduled. As at 31 December 2014, the Group has made PDPs amounting to HK\$3,241,157,000 (2013: HK\$2,078,019,000). PDPs are prepayments in nature which do not represent contractual cash inflows and thus are not included in the analysis of the remaining contractual maturities above. The balance of PDP financing amounted to HK\$2,304,913,000 as at 31 December 2014 (2013: HK\$1,820,074,000). The analysis above includes the remaining contractual maturities of PDP financing.

Please also refer to Note 2.1 for the analysis of liquidity risk in a greater detail.

#### 3.1.4 Unconsolidated structured entities and transferred finance lease receivables

Certain wholly-owned subsidiaries of the Group (collectively "the CALC SPCs") signed contracts with trust plans, pursuant to which, the CALC SPCs transferred their future aircraft finance lease receivables under their separate aircraft leasing agreements with airlines to the trust plans. The gross, undiscounted amount of the finance lease receivables due and payable up to the end of lease terms of the aircraft leasing agreements ("undiscounted amount"), the discounted carrying amount of these finance receivables at the date of the transfer ("discounted amount") and the consideration for the transfer ("consideration") are set out below.

	<b>Undiscounted amount</b> HK\$'000	<b>Discounted amount</b> HK\$'000	<b>Consideration</b> HK\$'000
<b>For the year ended 31 December 2014</b>	<b>1,913,495</b>	<b>1,301,386</b>	<b>1,452,455</b>
For the year ended 31 December 2013	944,839	615,010	687,213

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.4 Unconsolidated structured entities and transferred finance lease receivables *(continued)*

The trust plans also appointed the CALC SPCs as the service agent to collect the lease rentals from the airline. The services to be provided include maintaining relationship with the airline, collecting of rental on behalf the trust plan, following up assessments of the lease item, inquiring and reporting on lease rentals collection. CALC SPCs recognised service fee income over the lease servicing period. For the year ended 31 December 2014, service fee income of HK\$217,000 (2013: HK\$18,000) was included in Group's revenues.

No member of the Group has any option or obligation to reacquire the transferred lease receivables.

The trust plans were not established by the Group and the Group has no control over the trust plans. They are unconsolidated structured entities. The following table shows the total assets of the abovementioned unconsolidated structured entities and the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities:

	Unconsolidated structured entities			
	Size	Funding provided by the Group (Note (i)) HK\$'000	Group's maximum exposure (Note (ii)) HK\$'000	Interest held by Group
<b>As at 31 December 2014</b>	<b>1,913,561</b>	<b>6,361</b>	<b>121,674</b>	<b>Service fee</b>
As at 31 December 2013	615,010	6,360	122,338	Service fee

Note:

- (i) *The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of RMB5,017,000 (equivalent to HK\$6,361,000) (2013: HK\$6,360,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2014 (Note 9). The Group does not need to bear any credit risk on this currency swap arrangement as the contract was signed between the beneficiary of the trust plan and the bank.*
- (ii) *The Group will convert the USD lease rentals received on behalf of one of the trust plans during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement includes an embedded derivative – a currency swap contract. The notional principal of this currency swap contract amounted to USD15,684,296 (equivalent to HK\$121,674,000). As at 31 December 2014, the fair value of this currency swap contract amounted to HK\$14,979,000 (2013: liability of HK\$968,000) and for the year ended 31 December 2014, the fair value change of HK\$15,935,000 (2013: loss of HK\$968,000) was recognised in foreign exchange gains (Note 16).*

Apart from that disclosed above, the Group did not provide financial or other support to the trust plan as at 31 December 2014. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2014.

The Group monitors capital risk using an asset-liability ratio, which is calculated as total liabilities divided by total assets. The asset-liability ratios are as follows:

	As at 31 December	
	2014 HK\$'000	2013 HK\$'000
Total liabilities	<b>16,532,344</b>	11,874,754
Total assets	<b>18,313,040</b>	12,832,852
Asset-liability ratio	<b>90.3%</b>	92.5%

### 3.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group uses the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Company estimates the fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.3 Fair value estimation *(continued)*

The following table presents the Group's financial assets and financial liabilities that were measured at fair value at 31 December 2013 and 2014.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 31 December 2013</b>				
<b>Assets</b>				
Interest rate swaps for hedging	–	13,620	–	13,620
<b>Liabilities</b>				
Interest rate swaps for hedging	–	6,520	–	6,520
Currency swap	–	968	–	968
<b>Total liabilities</b>	–	7,488	–	7,488
<b>At 31 December 2014</b>				
<b>Assets</b>				
Currency swap	–	<b>14,979</b>	–	<b>14,979</b>
<b>Liabilities</b>				
Interest rate swaps for hedging	–	<b>33,361</b>	–	<b>33,361</b>

The fair values of the interest rate swaps for hedging and the currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, USD/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

Fair values of financial assets and financial liabilities carried at amortised cost.

The fair values of cash and cash equivalents, other receivables, interest payable and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.3 Fair value estimation *(continued)*

The carrying amounts and fair values of the finance lease receivables and bank and long-term borrowings are as follows:

	31 December 2014		31 December 2013	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Finance lease receivables	11,443,485	13,141,127	7,678,876	8,135,697
Bank borrowings	15,342,648	16,203,738	11,436,394	11,669,027
Long-term borrowings	642,116	658,559	155,172	155,172

The fair values of finance lease receivables and borrowings are estimated by discounting the future cash flows at the current market rates available to the Group for similar financial instruments. Their fair values are considered to be of level 2 within the fair value hierarchy.

## 4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

#### (a) *Estimation of unguaranteed residual value on leased assets*

Unguaranteed residual value is a portion of the residual value of a leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor. The unguaranteed residual value of the aircraft at the inception of the lease is based on management's estimates with reference to valuation reports issued by independent valuers. Please refer to Note 7 for the unguaranteed residual values recognised at the end of each reporting period. The estimation of unguaranteed residual value at the inception of the leases impacts the determination of unearned finance income. Subsequent to initial recognition, estimated unguaranteed residual values are reviewed regularly. If there is a reduction in the estimated unguaranteed residual value, the income allocation over the remaining lease term will be revised and the reduction in respect of net present value of unguaranteed residual value will be adjusted immediately in profit or loss. The directors of the Company are of the opinion that there had been no reduction in the carrying amount of the unguaranteed residual value as at 31 December 2014.

## 4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

*(continued)*

### 4.1 Critical accounting estimates and assumptions *(continued)*

#### **(a) Estimation of unguaranteed residual value on leased assets** *(continued)*

The residual value of each aircraft is estimated by management and reasonably supported by an aircraft industry publication providing aircraft valuation for general reference. The residual values of the 40 (2013: 23) finance lease aircraft as at 31 December 2014 were approximately HK\$4,459,299,000 (2013: HK\$2,880,398,000). A 5% decrease in the expected residual value from the management's estimation would result in a decrease in profit before income tax for the year ended 31 December 2014 by approximately HK\$10,663,000 (2013: HK\$9,521,000).

#### **(b) Income taxes and deferred tax**

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In accordance with the corporate income tax laws in the PRC, a 5% or 10% withholding tax will be levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. No deferred tax liability has been provided by the Group on the retained earnings of approximately HK\$283,531,000 as at 31 December 2014 (2013: HK\$117,219,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

#### **(c) Recognition of share-based compensation expenses**

As mentioned in Note 2.16, the Company has granted share options. The Group uses the Binomial valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as the risk free interest rate, dividend yield, expected volatility and staff annual retention rate, is required to be made by the directors in applying the Binomial valuation model (Note 12 a).

#### **(d) Impairment loss for finance lease receivables**

The Group reviews the finance lease receivables portfolio on a regular basis, evaluates any indications of impairment, and assesses impairment loss in the case of impairment under specific circumstances. The directors of the Company are of the views that there is no need to make any allowance for impairment loss for finance lease receivables based on their assessment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

*(continued)*

### 4.1 Critical accounting estimates and assumptions *(continued)*

#### **(e) Impairment of non-financial assets**

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

The Group obtains fair values of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in a similar condition. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate the present value.

#### **(f) Fair values of derivative financial instruments**

The fair values of derivative financial instruments that are not traded in an active market (for example, over-the-counter interest rate swaps used for hedging) is determined by using valuation techniques. The Group uses its judgement to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for the derivative financial instruments that are not traded in active markets.

### 4.2 Critical judgements in applying the Group's accounting policies

#### **(a) Determination of control over structured entities**

The Group considers that the trust plans as described in Note 3.1.4 are structured entities which are run according to predetermined criteria that are part of its initial design. The relevant activities are summarised in Note 3.1.4.

The Group has assessed that it does not control the trust plans as the Group (i) does not have the power to direct the relevant activities of the trust plans and (ii) does not significantly affect the variable returns of the trust plans. Accordingly, the trust plans are not consolidated by the Group. The determination of whether there are controls over the trust plans depends on an assessment of the relevant arrangements relating to the trusts and this has involved critical judgements by management. For further details about these unconsolidated structured entities, see Note 3.1.4.

#### **(b) Classification of leases**

The Group has entered into certain aircraft leases whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased aircraft to the lessees, as the present values of the minimum lease payments of the lease amounts to at least substantially all of the fair values of the leased assets at the inception of the leases. Accordingly, the Group has excluded the aircraft from its consolidated balance sheet and has instead, recognised finance lease receivables in their place (Note 7). Otherwise the Group includes the aircraft under operating lease in property, plant and equipment. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.



## 5 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Aircraft HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
<b>Year ended 31 December 2013</b>					
Opening net book amount	1,538,911	801	461	656	1,540,829
Additions	–	61	–	364	425
Depreciation	(53,365)	(332)	(173)	(277)	(54,147)
Currency translation difference	–	–	–	20	20
Closing net book amount	1,485,546	530	288	763	1,487,127
<b>At 31 December 2013</b>					
Cost	1,569,537	1,009	692	1,348	1,572,586
Accumulated depreciation	(83,991)	(479)	(404)	(585)	(85,459)
Net book amount	1,485,546	530	288	763	1,487,127
<b>Year ended 31 December 2014</b>					
Opening net book amount	<b>1,485,546</b>	<b>530</b>	<b>288</b>	<b>763</b>	<b>1,487,127</b>
Additions	<b>297,138</b>	<b>73</b>	–	<b>1,806</b>	<b>299,017</b>
Disposal	–	–	–	(133)	(133)
Depreciation	<b>(70,340)</b>	<b>(331)</b>	<b>(173)</b>	<b>(468)</b>	<b>(71,312)</b>
Currency translation difference	<b>(7,988)</b>	<b>(12)</b>	–	<b>(4)</b>	<b>(8,004)</b>
Closing net book amount	<b>1,704,356</b>	<b>260</b>	<b>115</b>	<b>1,964</b>	<b>1,706,695</b>
<b>At 31 December 2014</b>					
Cost	<b>1,858,257</b>	<b>1,078</b>	<b>692</b>	<b>2,686</b>	<b>1,862,713</b>
Accumulated depreciation	<b>(153,901)</b>	<b>(818)</b>	<b>(577)</b>	<b>(722)</b>	<b>(156,018)</b>
Net book amount	<b>1,704,356</b>	<b>260</b>	<b>115</b>	<b>1,964</b>	<b>1,706,695</b>

Lease rentals amounting to HK\$182,127,000 relating to the lease of aircraft for the year ended 31 December 2014 are included in “operating lease income” in the consolidated statement of comprehensive income (2013: HK\$145,359,000).

## 6 INVESTMENT IN SUBSIDIARIES AND DUE FROM SUBSIDIARIES – COMPANY

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

	31 December 2014 HK\$'000	2013 HK\$'000
Unlisted investment, at cost	<b>1,174,126</b>	785,587

Note:

During the year ended 31 December 2014, the Company injected total capital of USD49,813,000 (equivalent to HK\$388,539,000) into CALC (BVI).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 INVESTMENT IN SUBSIDIARIES AND DUE FROM SUBSIDIARIES – COMPANY *(continued)*

As at 31 December 2014, the Company had direct or indirect interests in the following principal subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
<i>Directly owned:</i>						
CALC (BVI)	BVI 24 March 2006	USD200,000,000	100%	-	Investment holding	Limited liability entity
Aircraft Recycling International Limited	Cayman Islands 22 August 2014	USD1	100%	-	Investment holding	Limited liability entity
<i>Indirectly owned:</i>						
CALC 1 Limited	Cayman Islands 13 August 2007	USD1,000	100%	-	Aircraft leasing	Limited liability entity
CALC 2 Limited	Cayman Islands 13 August 2007	USD1,000	100%	-	Aircraft leasing	Limited liability entity
CALC 3-Aircraft Limited	Ireland 14 April 2008	EUR1	100%	-	Aircraft leasing	Limited liability entity
CALC 4 Limited	Cayman Islands 27 June 2008	USD250	100%	-	Aircraft leasing	Limited liability entity
CALC 5 Limited	Cayman Islands 13 October 2008	USD250	100%	-	Aircraft leasing	Limited liability entity
CALC 6-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	-	Aircraft leasing	Limited liability entity
CALC 8-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	-	Aircraft leasing	Limited liability entity
CALC 9-Aircraft Limited	Ireland 20 May 2011	EUR100	100%	-	Aircraft leasing	Limited liability entity
中機租投資諮詢(深圳)有限公司 (CALC (Shenzhen) Limited)	People's Republic of China ("PRC") 6 September 2007	HK\$500,000	100%	-	Provision of management services	Limited liability entity
China Aircraft Leasing Limited	Hong Kong 21 October 2010	HK\$10,000	100%	-	Investment holding	Limited liability entity
China Aircraft Asset Limited	BVI 8 April 2013	USD1	100%	-	Aircraft trading	Limited liability entity
CALC Manta Limited	BVI 25 April 2013	USD1	100%	-	Provision of financing	Limited liability entity
China Aircraft Assets Ltd	Labuan 29 April 2013	USD100	100%	-	Aircraft trading	Limited liability entity
China Aircraft Assets Limited	Hong Kong 3 May 2013	HK\$1	100%	-	Provision of management services	Limited liability entity
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HK\$1	100%	-	Provision of management services	Limited liability entity
Sino Teamwork Limited	Hong Kong 9 January 2013	HK\$1	100%	-	Provision of financing	Limited liability entity
China Corporate Jet Investment Limited	Hong Kong 22 May 2013	HK\$1	75%	25%	Corporate jet business	Limited liability entity
China Aircraft Purchase Limited	BVI 28 August 2012	USD1	100%	-	Provision of financing	Limited liability entity
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR100	100%	-	Provision of financing	Partnership
China Corporate Jet Leasing Limited	BVI 6 July 2012	USD10,000,000	75%	25%	Corporate jet leasing	Limited liability entity
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	USD300,000,000	100%	-	Investment holding	Limited liability entity
中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited)	PRC 29 June 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited)	PRC 8 November 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity

## 6 INVESTMENT IN SUBSIDIARIES AND DUE FROM SUBSIDIARIES – COMPANY *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited)	PRC 8 November 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛建慶租賃(天津)有限公司 (CALC Jianqing Limited)	PRC 8 November 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited)	PRC 8 November 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛建德租賃(天津)有限公司 (CALC Jiande Limited)	PRC 4 November 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited)	PRC 1 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛調露租賃(天津)有限公司 (CALC Diaolu Limited)	PRC 3 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛通天租賃(天津)有限公司 (CALC Tongtian Limited)	PRC 3 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited)	PRC 3 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛干封租賃(天津)有限公司 (CALC Ganfeng Limited)	PRC 1 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛總章租賃(天津)有限公司 (CALC Zongzhang Limited)	PRC 1 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	PRC 8 November 2011	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛長安租賃(天津)有限公司 (CALC Chang'an Limited)	PRC 24 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛神龍租賃(天津)有限公司 (CALC Shenlong Limited)	PRC 24 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛永泰租賃(天津)有限公司 (CALC Yongtai Limited)	PRC 24 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛天寶租賃(天津)有限公司 (CALC Tianbao Limited)	PRC 25 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛至德租賃(天津)有限公司 (CALC Zhide Limited)	PRC 25 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛寶曆租賃(天津)有限公司 (CALC Baoli Limited)	PRC 25 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	PRC 25 June 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited)	PRC 10 October 2012	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
中飛弘道租賃(上海)有限公司 (CALC Hongdao Limited)	PRC 28 March 2013	RMB100,000	100%	-	Aircraft leasing	Limited liability entity
Airbusac Limited	Hong Kong 13 March 2012	HK\$1	100%	-	Provision of financing	Limited liability entity
Airbusac Limited	Cayman Islands 14 March 2012	USD1	100%	-	Investment holding	Limited liability entity
CALC AC Limited	Cayman Islands 14 August 2012	USD1	100%	-	Provision of financing	Limited liability entity
CALC Asset Limited	Cayman Islands 22 August 2012	USD1	100%	-	Provision of financing	Limited liability entity

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 INVESTMENT IN SUBSIDIARIES AND DUE FROM SUBSIDIARIES – COMPANY *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
Airbusz Limited	Hong Kong 25 January 2013	HK\$1	100%	–	Provision of financing	Limited liability entity
CALC Satu Limited	Labuan 21 June 2013	USD100	100%	–	Aircraft trading	Limited liability entity
CALC Dua Limited	Labuan 21 June 2013	USD100	100%	–	Aircraft trading	Limited liability entity
CALC Tiga Limited	Labuan 14 October 2014	USD100	100%	–	Aircraft trading	Limited liability entity
CALC Empat Limited	Labuan 13 October 2014	USD100	100%	–	Aircraft trading	Limited liability entity
CALC Lima Limited	Labuan 7 November 2014	USD100	100%	–	Aircraft trading	Limited liability entity
CALC Enam Limited	Labuan 7 November 2014	USD100	100%	–	Aircraft trading	Limited liability entity
CALC Tujuh Limited	Labuan 7 November 2014	USD100	100%	–	Aircraft trading	Limited liability entity
中飛廣明租賃(天津)有限公司 (CALC Guangming Limited)	PRC 15 August 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛文德租賃(天津)有限公司 (CALC Wende Limited)	PRC 15 August 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛龍紀租賃(天津)有限公司 (CALC Longji Limited)	PRC 15 August 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛大順租賃(天津)有限公司 (CALC Dashun Limited)	PRC 15 August 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中永順融資租賃(上海)有限公司 (CALC Limited)	PRC 27 November 2013	USD70,000,000	100%	–	Investment holding	Limited liability entity
中飛唐隆租賃(天津)有限公司 (CALC Tanglong Limited)	PRC 4 December 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛登封租賃(天津)有限公司 (CALC Dengfeng Limited)	PRC 4 December 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛興元租賃(天津)有限公司 (CALC Xingyuan Limited)	PRC 4 December 2013	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛建炎租賃(天津)有限公司 (CALC Jianyan Limited)	PRC 5 May 2014	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中飛隆興租賃(天津)有限公司 (CALC Longxing Limited)	PRC 5 May 2014	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中永崇寧融資租賃(上海) 有限公司(CALC Chongning Limited)	PRC 24 March 2014	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中永熙寧融資租賃(上海) 有限公司(CALC Xining Limited)	PRC 24 March 2014	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中永熙雍融資租賃(上海) 有限公司(CALC Xiyong Limited)	PRC 24 March 2014	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
中永紹熙融資租賃(上海) 有限公司(CALC Shaoxi Limited)	PRC 31 March 2014	RMB100,000	100%	–	Aircraft leasing	Limited liability entity
CALC PDP Limited	BVI 11 October 2013	USD1	100%	–	Provision of financing	Limited liability entity
CALC ENG Limited	Cayman Islands 15 October 2013	USD1	100%	–	Provision of financing	Limited liability entity

## 6 INVESTMENT IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
CALC Nemo Limited	BVI 12 August 2013	USD1	100%	–	Provision of financing	Limited liability entity
ARI Limited	BVI 22 August 2014	USD1	100%	–	Patent holding	Limited liability entity
China Aircraft Disassembly Centre Limited	BVI 22 August 2014	USD1	100%	–	Disassembly operation	Limited liability entity
China Aircraft Disassembly Centre (HK) Limited	Hong Kong 4 September 2014	HK\$1	100%	–	Disassembly operation	Limited liability entity
CALC Global Leasing Limited	Ireland 18 December 2014	EUR1	100%	–	Investment holding	Limited liability entity

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

As at 31 December 2014, China Corporate Jet Investment Limited's equity attributable to non-controlling interests amounted to HK\$19,416,000. It has not commenced any significant business activities since its incorporation. As this is not material to the Group, no summarised financial information on China Corporate Jet Investment Limited is provided in this report.

	31 December	
	2014 HK\$'000	2013 HK\$'000
Amounts due from subsidiaries	<b>398,433</b>	–

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 FINANCE LEASE RECEIVABLES – NET – GROUP

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Finance lease receivables	<b>11,410,919</b>	8,586,841
Guaranteed residual values	<b>3,361,473</b>	1,800,365
Unguaranteed residual values	<b>4,459,299</b>	2,880,398
Gross investment in leases	<b>19,231,691</b>	13,267,604
Less: unearned finance income	<b>(7,788,206)</b>	(5,588,728)
Net investment in leases	<b>11,443,485</b>	7,678,876
Less: accumulated allowance (Note (i))	–	–
Finance lease receivables – net	<b>11,443,485</b>	7,678,876

- (i) The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from airline companies is low. The Group has not encountered any delay or default in the collection of the scheduled payments of finance lease receivables. No impairment allowance was made for the finance lease receivables as at 31 December 2014. Please refer to Note 3.1.2 for credit risk analysis in greater detail.

Reconciliation between the gross investment in finance leases at the end of each reporting period and the present value of minimum lease payments receivable under such leases at the end of each reporting period is set out below:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Gross investment in finance leases	<b>19,231,691</b>	13,267,604
Less: Unguaranteed residual values	<b>(4,459,299)</b>	(2,880,398)
Minimum lease payments receivable	<b>14,772,392</b>	10,387,206
Less: Unearned finance income related to minimum lease payments receivable	<b>(5,336,229)</b>	(3,894,212)
Present value of minimum lease payments receivable	<b>9,436,163</b>	6,492,994

## 7 FINANCE LEASE RECEIVABLES – NET – GROUP *(continued)*

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of the reporting period:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
– Not later than 1 year	<b>1,125,802</b>	797,122
– Later than 1 year and not later than 5 years	<b>4,894,837</b>	3,149,314
– Later than 5 years	<b>13,211,052</b>	9,321,168
	<b>19,231,691</b>	13,267,604

The table below analyses the present value of minimum lease payments receivable under finance leases by relevant maturity groupings at the end of the reporting period:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
– Not later than 1 year	<b>506,936</b>	350,180
– Later than 1 year and not later than 5 years	<b>2,234,647</b>	1,433,253
– Later than 5 years	<b>6,694,580</b>	4,709,561
	<b>9,436,163</b>	6,492,994

The carrying amounts of the Group's finance lease receivables are principally denominated in USD.

The following table sets forth the finance lease receivables attributable to individual airlines:

	<b>2014</b>		<b>31 December</b>		2013	
	<b>HK\$'000</b>	<b>%</b>	HK\$'000	<b>%</b>	HK\$'000	<b>%</b>
Customer:						
Airline Company- A	<b>2,395,877</b>	<b>21%</b>	2,301,170	30%		
Airline Company- B	<b>2,721,504</b>	<b>24%</b>	1,648,771	21%		
Airline Company- C	<b>1,629,914</b>	<b>14%</b>	1,692,276	22%		
Airline Company- D	<b>400,184</b>	<b>3%</b>	970,851	13%		
Airline Company- E	<b>713,798</b>	<b>6%</b>	733,706	10%		
Airline Company- F	<b>556,167</b>	<b>5%</b>	332,102	4%		
Airline Company- G	<b>680,840</b>	<b>6%</b>	–	–		
Airline Company- H	<b>2,037,551</b>	<b>18%</b>	–	–		
Airline Company- I	<b>307,650</b>	<b>3%</b>	–	–		
Finance lease receivable – net	<b>11,443,485</b>	<b>100%</b>	7,678,876	100%		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 PREPAYMENTS AND OTHER RECEIVABLES

### Group

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
PDP (Note (i))	<b>3,241,157</b>	2,078,019
Interest capitalised	<b>63,158</b>	46,448
Deposits paid	<b>1,705</b>	7,914
Prepayments and receivables relating to aircraft acquisition	<b>190,762</b>	39,808
Prepayments for listing expenses	–	3,931
Others (Note (ii))	<b>6,578</b>	7,354
	<b>3,503,360</b>	2,183,474

(i) In 2012, the Group entered into aircraft purchase agreements with Airbus S.A.S for to the acquisition of 36 aircraft for future lease projects. In 2014, the Group entered into additional aircraft purchase agreements with Airbus S.A.S for to the acquisition of 100 aircraft. Such prepayments were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft are to be delivered during the period from 2015 to 2022.

(ii) The “Others” above were unsecured, interest-free and repayable on demand.

The carrying amounts of the Group’s prepayments and other receivables are denominated in the following currencies:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
USD	<b>3,485,736</b>	2,174,435
RMB	<b>5,816</b>	4,280
HK\$	<b>4,797</b>	592
Other currencies	<b>7,011</b>	4,167
	<b>3,503,360</b>	2,183,474



## 8 PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

### Company

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Prepayments for listing expenses	–	3,931
Other prepayments	<b>403</b>	–
	<b>403</b>	3,931

The carrying amounts of the Company's prepayments are denominated in HK\$.

## 9 RESTRICTED CASH – GROUP

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Pledged for bank borrowings (Note 14)	<b>158,285</b>	70,579
Pledged for letters of guarantee issued by a bank	<b>18,196</b>	19,362
Pledged for acquisition of aircraft (Note 14)	<b>10,344</b>	6,110
Pledged for interest rate swap contracts (Note 16)	<b>25,765</b>	–
Pledged for a currency swap contract	<b>6,361</b>	6,360
	<b>218,951</b>	102,411

The carrying amounts of the Group's restricted cash are denominated in the following currencies:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
USD	<b>154,320</b>	46,438
RMB	<b>64,631</b>	55,973
	<b>218,951</b>	102,411

The average effective interest rate as at 31 December 2014 was 0.57% (2013: 0.49%).

## 10 CASH AND CASH EQUIVALENTS

### Group

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Cash at bank and on hand	<b>1,425,570</b>	1,367,344

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 CASH AND CASH EQUIVALENTS *(continued)*

### Group *(continued)*

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	<b>31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
USD	<b>1,102,810</b>	452,317
RMB	<b>184,319</b>	909,222
HK\$	<b>138,005</b>	5,400
Other currencies	<b>436</b>	405
	<b>1,425,570</b>	1,367,344

The average effective interest rate as at 31 December 2014 was 0.62% (2013: 0.47%).

### Company

	<b>31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Cash at bank and on hand	<b>52,573</b>	–

The carrying amounts of the Company's cash and cash equivalents are denominated in the following currencies:

	<b>31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
USD	<b>392</b>	–
HK\$	<b>52,181</b>	–
	<b>52,573</b>	–

## 11 SHARE CAPITAL – GROUP AND COMPANY

Movements of the ordinary share capital of the Company are as follows:

	Number of shares of USD1 each		Number of shares of HK\$0.1 each (thousands)		Share capital in HK\$'000	
	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2013
Authorised						
Beginning of year	<b>50,000</b>	50,000	-	-	<b>390</b>	390
Share cancellation (b)(i)	<b>(50,000)</b>	-	-	-	<b>(390)</b>	-
New authorised shares (b)(i)	-	-	<b>10,000,000</b>	-	<b>1,000,000</b>	-
End of year	-	50,000	<b>10,000,000</b>	-	<b>1,000,000</b>	390

	Par value of each share	Number of issued shares	Share capital in HK\$
Issued			
At 1 January 2013	USD1	10	78
Issue of ordinary shares (a)	USD1	9,990	77,922
At 31 December 2013	USD1	10,000	78,000
At 1 January 2014	<b>USD1</b>	<b>10,000</b>	<b>78,000</b>
Share repurchase and cancellation (b)(i)	<b>USD1</b>	<b>(10,000)</b>	<b>(78,000)</b>
Issue of new ordinary shares (b)(i)	<b>HK\$0.1</b>	<b>10,000</b>	<b>1,000</b>
Capitalisation of shares (b)(ii) & (iii)	<b>HK\$0.1</b>	<b>468,971,000</b>	<b>46,897,100</b>
Issue of new ordinary shares – IPO (c)	<b>HK\$0.1</b>	<b>116,800,000</b>	<b>11,680,000</b>
At 31 December 2014	<b>HK\$0.1</b>	<b>585,781,000</b>	<b>58,578,100</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 SHARE CAPITAL – GROUP AND COMPANY *(continued)*

- (a) On 29 April 2013, the Company issued 10 ordinary shares of USD1 each to CALH in exchange for 50,000,000 shares of USD1 each in CALC (BVI), representing 62.5% equity interest in CALC (BVI) for the time being.

On 23 July 2013, the Company issued 9,980 ordinary shares of USD1 each to CALH for cash at a subscription price of HK\$89,610,300, recognised share capital of approximately HK\$78,000 and share premium of approximately HK\$89,132,000 after deducting related share issuance cost.

The total number of issued shares of the Company was 10,000 shares as at 31 December 2013.

- (b) On 23 June 2014, the following changes in the share capital of the Company took place:
- (i) The authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of 10,000,000,000 new shares of HK\$0.1 each. The Company repurchased from CALH all of the 10,000 shares of USD1 each then in issue in consideration of allotment and issue of 10,000 new shares of HK\$0.1 each to CALH, following which the Company cancelled 50,000 shares of USD1 each in the authorised capital of the Company. As a result, the Company no longer has USD denominated shares either authorised or issued.
  - (ii) The Company allotted and issued 468,941,929 new ordinary shares, credited as fully paid at par, by capitalising and applying in full up to an amount of HK\$46,894,192.90 standing to the credit of the share premium account of the Company.
  - (iii) Pursuant to a shareholders' resolution dated 23 June 2014, conditional on the share premium account of the Company being credited as a result of the global offering, the directors were authorised to capitalise the amount of HK\$2,907.10 standing to the credit of the share premium account of the Company to pay up in full at par value of 29,071 new ordinary shares for allotment and issue to the shareholders in proportion to their respective shareholdings.
- (c) On 11 July 2014, the Company issued 116,800,000 new ordinary shares of HK\$0.1 each in the Company at HK\$5.53 per share. After deducting the issuance cost, HK\$11,680,000 and HK\$608,996,000 were credit to share capital and share premium respectively. On the same date, the Company's shares were listed on The Stock Exchange of Hong Kong Limited.
- (d) As at 31 December 2014, the number of issued shares of the Company was 585,781,000 shares.

## 12 RESERVES

### Group

	Share premium HK\$'000	Merger reserve HK\$'000	Share-based payment HK\$'000	Cash flow hedges HK\$'000	Currency translation difference HK\$'000	Total HK\$'000
Balance at 1 January 2013	–	623,720	1,434	(6,438)	72	618,788
Issue of ordinary shares (Note 11(a))	89,132	–	–	–	–	89,132
Employee share option scheme: – Value of employee services (Note (a))	–	–	1,154	–	–	1,154
Net effect of cash flow hedges: Change in fair value of interest rate swaps – cash flow hedges (Note 16)	–	–	–	13,538	–	13,538
Effect of termination of interest rate swap – cash flow hedges (Note 16)	–	–	–	15,187	–	15,187
Currency translation differences	–	–	–	–	5,300	5,300
Balance at 31 December 2013	89,132	623,720	2,588	22,287	5,372	743,099
<b>Balance at 1 January 2014</b>	<b>89,132</b>	<b>623,720</b>	<b>2,588</b>	<b>22,287</b>	<b>5,372</b>	<b>743,099</b>
Issue of ordinary shares (Note 11(c))	<b>608,996</b>	–	–	–	–	<b>608,996</b>
Share repurchase and cancellation (Note 11(b))	<b>78</b>	–	–	–	–	<b>78</b>
Capitalisation of shares (Note 11(b))	<b>(46,897)</b>	–	–	–	–	<b>(46,897)</b>
Employee share option scheme: – Value of employee services (Note (a))	–	–	<b>12,006</b>	–	–	<b>12,006</b>
Net effect of cash flow hedges: Change in fair value of interest rate swaps – cash flow hedges (Note 16)	–	–	–	<b>(40,461)</b>	–	<b>(40,461)</b>
Reclassified from other comprehensive income to profit or loss – cash flow hedges (Note 16)	–	–	–	<b>(1,267)</b>	–	<b>(1,267)</b>
Currency translation differences	–	–	–	–	<b>(2,023)</b>	<b>(2,023)</b>
<b>Balance at 31 December 2014</b>	<b>651,309</b>	<b>623,720</b>	<b>14,594</b>	<b>(19,441)</b>	<b>3,349</b>	<b>1,273,531</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 RESERVES *(continued)*

### Group *(continued)*

#### (a) *Share-based payments*

##### (i) *Pre-IPO Share Option Scheme*

On 4 August 2011, CALH adopted a share option scheme ("Pre-IPO Share Option Scheme") for the purpose of recognising the contribution of participants including its directors, eligible employees, consultants and related parties to the growth of the Group. As a result of the Reorganisation stated in Note 1(b) and pursuant to the written resolution of the Board of Directors of the Company passed on 23 June 2014, the aforesaid Pre-IPO Share Scheme was taken over by the Company.

During the year ended 31 December 2011, options to subscribe for 45,000,000 shares were granted by CALH to its directors and employees, FPAM, CE Aerospace and the consultants of the Group and were allocated to Tranche A and Tranche B as follows:

	<b>Tranche A</b>	<b>Tranche B</b>
Directors and employees	16,700,000	10,000,000
Consultants	10,000,000	5,000,000
FPAM	1,300,000	–
CE Aerospace	2,000,000	–
	<b>30,000,000</b>	<b>15,000,000</b>

For Tranche A options, subject to the Group achieving the performance targets and the holders of options achieving individual performance targets, if any, and also remaining as full time employees or consultants of the Group, options to subscribe for a maximum of 9,900,000 shares, 9,900,000 shares and 10,200,000 shares will become exercisable on, respectively, the first financial year results publication date (the "First Publication Date") after the IPO of the Company, 12 months after, and 24 months after the First Publication Date.

For Tranche B options, subject to the Group achieving the performance targets and the holders of options achieving individual performance targets and also remaining as full time employees or consultants of the Group, options to subscribe for a maximum of 15,000,000 shares will become exercisable on the First Publication Date.

On 29 December 2014, an amendment to the term of exercise dates related to the share option granted to the external consultant – Wealth Amass Limited, company incorporated in the BVI was approved by resolution of the shareholders in the extraordinary general meeting, after the approval of the amendment, the exercise dates for the share options granted to Wealth Amass are changed (as compared to the exercise dates mentioned in the first paragraph above) to that a maximum of 6,000,000 shares and 4,000,000 shares will become exercisable on the First Publication Date after the IPO of the Company and 12 months after the First Publication Date, respectively.

The exercise price is USD0.161 per share for those options exercised before 1 July 2014 to 30 June 2015 with adjustment by a required time value cost of 10% per annum for those options exercised thereafter. All the options shall lapse or expire after three years from the first financial year results publication date after the IPO of the Company. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

## 12 RESERVES (continued)

### Group (continued)

#### (a) Share-based payments (continued)

##### (i) Pre-IPO Share Option Scheme (continued)

The following share options under the Pre-IPO Share Option Scheme were outstanding during the year and as at 31 December 2014:

Name of grantees	Date of grant	Tranche	Number of shares under options				Exercise price (USD) per share				Exercise period	
			At 1 January 2014	Granted during the year	Exercise during the year	Lapsed during the year	At 31 December 2014	26/3/2015 to 30/6/2015	1/7/2015 to 30/6/2016	1/7/2016 to 30/6/2017		1/7/2017 to 26/3/2018
<b>Substantial shareholders</b>												
CE Aerospace	10 October 2011	A	660,000	-	-	-	660,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
			660,000	-	-	-	660,000	N/A	0.177	0.195	0.215	26/3/2016 to 26/3/2018
			680,000	-	-	-	680,000	N/A	N/A	0.195	0.215	26/3/2017 to 26/3/2018
FPAM	10 October 2011	A	429,000	-	-	-	429,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
			429,000	-	-	-	429,000	N/A	0.177	0.195	0.215	26/3/2016 to 26/3/2018
			442,000	-	-	-	442,000	N/A	N/A	0.195	0.215	26/3/2017 to 26/3/2018
Sub-total			3,300,000	-	-	-	3,300,000					
<b>Connected persons</b>												
Equal Honour Holdings Limited (Note 1)	7 October 2011	A	4,950,000	-	-	-	4,950,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
			4,950,000	-	-	-	4,950,000	N/A	0.177	0.195	0.215	26/3/2016 to 26/3/2018
			5,100,000	-	-	-	5,100,000	N/A	N/A	0.195	0.215	26/3/2017 to 26/3/2018
Smart Vintage Investments Limited (Note 2)	7 October 2011	B	10,000,000	-	-	-	10,000,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
Sub-total			25,000,000	-	-	-	25,000,000					
<b>Consultants</b>												
Wealth Amess Limited (Note 3)	10 October 2011	A	6,000,000	-	-	-	6,000,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
			4,000,000	-	-	-	4,000,000	N/A	0.177	0.195	0.215	26/3/2016 to 26/3/2018
Loft Profit Limited	7 October 2011	B	2,500,000	-	-	-	2,500,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
Sub-total			12,500,000	-	-	-	12,500,000					

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 RESERVES *(continued)*

### Group *(continued)*

#### (a) *Share-based payments (continued)*

##### (i) *Pre-IPO Share Option Scheme (continued)*

Name of grantees	Date of grant	Tranche	Number of shares under options				Exercise price (USD) per share					Exercise period
			At 1 January 2014	Granted during the year	Exercise during the year	Lapsed during the year	At 31 December 2014	26/3/2015 to 30/6/2015	1/7/2015 to 30/6/2016	1/7/2016 to 30/6/2017	1/7/2017 to 26/3/2018	
Senior management and other employees	10 October 2011	A	339,900	-	-	-	339,900	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
			339,900	-	-	-	339,900	N/A	0.177	0.195	0.215	26/3/2016 to 26/3/2018
			350,200	-	-	-	350,200	N/A	N/A	0.195	0.215	26/3/2017 to 26/3/2018
	30 December 2011	A	66,000	-	-	-	66,000	0.161	0.177	0.195	0.215	26/3/2015 to 26/3/2018
			66,000	-	-	-	66,000	N/A	0.177	0.195	0.215	26/3/2016 to 26/3/2018
			68,000	-	-	-	68,000	N/A	N/A	0.195	0.215	26/3/2017 to 26/3/2018
Sub-total			1,230,000	-	-	-	1,230,000					
<b>Total</b>			<b>42,030,000</b>	-	-	-	<b>42,030,000</b>					

Note:

- (1) *Equal Honour Holdings Limited is wholly-owned by Mr. Poon Ho Man.*
- (2) *Smart Vintage Investments Limited is wholly-owned by Ms. Liu Wanting, a director of the Company.*
- (3) *Amendment to the terms of share options granted to Wealth Amass Limited was approved by shareholders at the extraordinary general meeting of the Company held on 29 December 2014.*

##### (ii) *Post-IPO Share Option Scheme*

On 2 September 2014, options to subscribe for 26,990,000 shares (the "Post-IPO Share Option") with an exercise price of HK\$6.38 per share were granted to certain directors of the Company and selected employees and consultants of the Group. The vesting of the Post-IPO Share Option is conditional, subject to the individual performance of respective grantees and the achievement of certain performance targets of the Group.

Among the 26,990,000 share options, 5,340,000 shares were to its directors and employees, and 21,650,000 shares were to the consultants of the Group under this scheme, respectively. Of the options to subscribe for 26,990,000 shares, options to subscribe for 21,650,000 shares were allocated to Tranche A and options to subscribe for 5,340,000 shares were allocated to Tranche B.

For Tranche A options, subject to the holders of options achieving individual performance targets, if any, and also remaining as full time consultants of the Group, options to subscribe for a maximum of 10,825,000 shares and 10,825,000 shares will become exercisable on and from, 1 February 2015 and 1 February 2016 respectively and both will expire on 1 September 2016.

For Tranche B options, subject to the holders of options achieving individual performance targets, if any, options to subscribe for a maximum of 1,762,200 shares, 1,762,200 shares and 1,815,600 shares will become exercisable on and from, 1 March 2015, 1 March 2016 and 1 March 2017 respectively, and all will expire on 1 September 2017.



## 12 RESERVES (continued)

### Group (continued)

#### (a) Share-based payments (continued)

##### (ii) Post-IPO Share Option Scheme (continued)

The following share options under the Post-IPO Share Option Scheme were outstanding during the year and as at 31 December 2014:

Name of grantees	Date of grant	Tranche	Number of shares under options				At 31 December 2014	Exercise price (HK\$) per share	Exercise period
			At 1 January 2014	Granted during the year	Exercise during the year	Lapsed during the year			
<b>Consultants (Note)</b>									
	2 September 2014	A	-	10,825,000	-	-	10,825,000	6.38	1/2/2015 to 1/9/2016
			-	10,825,000	-	-	10,825,000	6.38	1/2/2016 to 1/9/2016
Sub-total			-	21,650,000	-	-	21,650,000		
<b>Directors</b>									
Mr. Chen Shuang	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Mr. Tang Chi Chun	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Mr. Guo Zibin	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Mr. Fan Yan Hok, Philip	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Mr. Ng Ming Wah, Charles	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Mr. Zhang Chongqing	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Mr. Nien Van Jin, Robert	2 September 2014	B	-	66,000	-	-	66,000	6.38	1/3/2015 to 1/9/2017
			-	66,000	-	-	66,000	6.38	1/3/2016 to 1/9/2017
			-	68,000	-	-	68,000	6.38	1/3/2017 to 1/9/2017
Sub-total			-	1,400,000	-	-	1,400,000		
<b>Senior management and other employees</b>									
	2 September 2014	B	-	1,300,200	-	33,000	1,267,200	6.38	1/3/2015 to 1/9/2017
			-	1,300,200	-	33,000	1,267,200	6.38	1/3/2016 to 1/9/2017
			-	1,339,600	-	34,000	1,305,600	6.38	1/3/2017 to 1/9/2017
Sub-total			-	3,940,000	-	100,000	3,840,000		
<b>Total</b>			-	<b>26,990,000</b>	-	<b>100,000</b>	<b>26,890,000</b>		

Note: Tranche A options to subscribe for 5,850,000 shares were granted to an entity controlled by Mr. Sun Quan, a former independent non-executive director of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 RESERVES *(continued)*

### Group *(continued)*

#### (a) *Share-based payments (continued)*

As at 31 December 2014, options to subscribe for 100,000 shares (2013: 2,970,000 shares) granted to employees had lapsed.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the year are as follows:

	For the year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
Directors and employees	2,132	681
Consultants	9,874	387
FPAM	–	34
CE Aerospace	–	52
	<b>12,006</b>	1,154

Other than the exercise price mentioned above, significant judgement on parameters, such as spot price at the grant date, risk free interest rate, dividend yield, expected volatility and suboptimal exercise factor are required to be made by the directors in applying the Binomial valuation model. The parameters used are as follows:

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	
		Tranche A	Tranche B
Spot share price at the grant date	USD0.12	HK\$5.66	HK\$5.66
Risk free rate	0.943%	0.384%	0.709%
Dividend yield	17.5%	2.73%	2.73%
Expected volatility	45%	41.06%	42.09%
Suboptimal exercise factor	2.5	2.5	2.5

The total fair value of the Post-IPO Share Option on the grant date as determined using the Black-Scholes Model was HK\$26,000,193.

## 12 RESERVES *(continued)*

### Company

	Share premium HK\$'000	Capital surplus HK\$'000	Share-based payment HK\$'000	Total HK\$'000
Balance at 1 January 2013	–	695,977	–	695,977
Issue of ordinary shares (Note 11(a))	89,132	–	–	89,132
Balance at 31 December 2013	89,132	695,977	–	785,109
<b>Balance at 1 January 2014</b>	<b>89,132</b>	<b>695,977</b>	–	<b>785,109</b>
Issue of new ordinary shares (Note 11(c))	<b>608,996</b>	–	–	<b>608,996</b>
Share repurchase and cancellation (Note 11(b))	<b>78</b>	–	–	<b>78</b>
Capitalisation of share premium (Note 11(b))	<b>(46,897)</b>	–	–	<b>(46,897)</b>
Employee share option scheme: – Value of employee services (Note 12(a))	–	–	<b>12,006</b>	<b>12,006</b>
<b>Balance at 31 December 2014</b>	<b>651,309</b>	<b>695,977</b>	<b>12,006</b>	<b>1,359,292</b>

## 13 DEFERRED INCOME TAX LIABILITIES – GROUP

The analysis of deferred tax liabilities is as follows:

	31 December 2014 HK\$'000	2013 HK\$'000
Deferred tax liabilities:		
– To be settled after 12 months	<b>67,161</b>	26,267
	<b>67,161</b>	26,267

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 DEFERRED INCOME TAX LIABILITIES – GROUP *(continued)*

The movement of the deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	<b>Accelerated depreciation of leased assets</b> HK\$'000
<b>Deferred tax liabilities</b>	
At 1 January 2013	13,966
Charged to profit or loss	12,301
At 31 December 2013	26,267
At 1 January 2014	26,267
Charged to profit or loss	40,894
At 31 December 2014	67,161

The Group offsets its deferred tax assets and deferred tax liabilities to the extent that they relate to the same entity and the same taxation authority.

As at 31 December 2014, certain subsidiaries of the Group had unused tax losses of approximately HK\$207,448,000 (2013: HK\$90,295,000) available to offset against future profits, for which deferred tax asset of HK\$29,590,000 (2013: HK\$12,823,000) had not been recognised as their future realisation is uncertain.

The expiry dates of the unused tax losses are as follows:

<b>Year</b>	<b>31 December</b>	
	<b>2014</b> HK\$'000	2013 HK\$'000
2015	<b>1,650</b>	1,650
2016	<b>3,340</b>	3,340
2017	<b>4,291</b>	4,291
2018	<b>12,306</b>	12,306
2019	<b>12,750</b>	–
No expiry date	<b>173,111</b>	68,708
	<b>207,448</b>	90,295

## 14 BANK BORROWINGS – GROUP

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Secured bank borrowings for aircraft acquisition financing (Note (i))	<b>12,262,667</b>	9,195,670
PDP financing (Note (ii))	<b>2,304,913</b>	1,820,074
Working capital borrowings (Note (iii))	<b>775,068</b>	420,650
	<b>15,342,648</b>	11,436,394

(i) Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating USD LIBOR rates. As at 31 December 2014, the bank borrowings were secured by, in addition to other legal charges, all of the Group's aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain of the Group companies and CALC (BVI) and pledge of deposits amounting to HK\$158,285,000 (2013: HK\$70,579,000).

(ii) As at 31 December 2014, bank borrowings for PDPs for the acquisition of aircraft amounting to HK\$2,304,913,000 (2013: HK\$1,820,074,000) were secured by certain rights and benefits in respect of the acquisition of the aircraft, guarantees from the Company and CALC (BVI), pledge of the shares in CALC Asset Limited and China Aircraft Purchase Limited and pledge of deposits of HK\$10,344,000 (2013: HK\$6,110,000).

As at 31 December 2013, PDP financing of HK\$740,435,000 was granted by China Development Bank ("CDB") under a facility agreement ("CDB Facility Agreement"). The Group obtained a standby loan facility of USD40,000,000 from China Everbright Finance Limited ("CE Finance") in 2012 for the sole purpose of paying CDB in satisfaction of the indebtedness outstanding under the CDB Facility Agreement (Note 28). The revolving loan facility agreement was terminated on 25 April 2014.

(iii) As at 31 December 2014, the Group borrowed an aggregate amount of USD100,000,000 (equivalent to HK\$775,770,000) (2013: USD54,000,000, equivalent to HK\$421,200,000) from three banks (2013: two banks) which was guaranteed by the Company and CALC (BVI) (2013: guaranteed by CALC (BVI) and China Aircraft Assets Limited).

(a) The borrowings are repayable as follows:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Within 1 year	<b>4,689,521</b>	2,820,997
Between 1 and 2 years	<b>993,735</b>	1,406,198
Between 2 and 5 years	<b>2,448,475</b>	1,505,101
Over 5 years	<b>7,210,917</b>	5,704,098
	<b>15,342,648</b>	11,436,394

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 BANK BORROWINGS – GROUP *(continued)*

- (b) The exposure of bank borrowings to interest rate changes and the contractual interest rate repricing dates at the end of balance sheet date are as follows:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Fixed-interest rate	<b>5,256,250</b>	3,426,992
Floating-interest rate	<b>10,086,398</b>	8,009,402
	<b>15,342,648</b>	11,436,394

The average effective interest rate as at 31 December 2014 of bank borrowings was 4.62% (2013: 4.45%). The carrying amounts of borrowings are principally denominated in USD.

## 15 LONG-TERM BORROWINGS – GROUP

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Borrowings from trust plans	<b>642,116</b>	155,172

As at 31 December 2014, 5 borrowings (2013: 1 borrowing) were provided by trust plans to five subsidiaries (2013: 1 subsidiary) of the Group. The effective interest rates of long-term borrowings are from 6.43% to 7.80% (2013: 6.43%) per annum for terms of nine years to twelve years. These long-term borrowings were secured by aircraft held by each subsidiary and the shares in China Asset Leasing Company Limited ("CALCL"), and guaranteed by CALCL. The trust plans are also counterparties to the transfer of finance lease receivable transactions entered into with each subsidiary (Notes 3.1.4 and 19).

## 16 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Derivative financial assets		
– Interest rate swaps - cash flow hedges (Note (i))	–	13,620
– Currency swap (Note 3.1.4)	<b>14,979</b>	–
	<b>14,979</b>	13,620
Derivative financial liabilities		
– Interest rate swaps – cash flow hedges (Note (i))	<b>33,361</b>	6,520
– Currency swap (Note 3.1.4)	–	968
	<b>33,361</b>	7,488

- (i) As at 31 December 2013, the Group had 5 outstanding interest rate swap contracts which will expire on 21 September 2018, 21 September 2018, 21 September 2018, 19 September 2019, and 21 March 2024, respectively to exchange floating interest rates from LIBOR into fixed interest rates of 1.55%, 1.75%, 1.95%, 2.00% and 2.15%, respectively. During the year ended 31 December 2014, the Group entered into 4 new interest rate swap contracts which will expire on 21 December 2018, 21 March 2019, 21 June 2019 and 21 September 2019, respectively, to exchange floating interest rates from LIBOR into fixed interest rates of 1.98%, 2.00%, 1.86% and 1.89%, respectively.

The above interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective during the years ended 31 December 2014 and 2013.

As at 31 December 2014, the notional principal of the 9 (2013: 5) outstanding interest rate swap contracts amounted to USD346,885,000 (equivalent to HK\$2,691,030,000) (2013: USD187,276,000 (equivalent to HK\$1,460,753,000)). These interest rate swap contracts were secured by pledged deposits of HK\$25,765,000 as at 31 December 2014 (2013: nil). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

- (ii) In December 2013, the Group terminated one interest rate swap contract for a realised gain of USD1,947,000 (equivalent to HK\$15,187,000). This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to profit as the hedged bank borrowing is progressively repaid from 2014 to 2026. During the year ended 31 December 2014, the realised gain of HK\$1,267,000 (2013: nil) was reclassified from cash flow hedges reserve to profit or loss.

The fair value changes of interest rate swaps recognised in other comprehensive income are as follows:

	<b>Year ended 31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Recognised in other comprehensive income		
– Change in fair value of interest rate swaps	<b>(40,461)</b>	13,538
– Effect of termination of interest rate swap (ii)	–	15,187
– Reclassified from other comprehensive income to profit or loss (ii)	<b>(1,267)</b>	–
	<b>(41,728)</b>	28,725

- (iii) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the USD lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement included an embedded derivative – a currency swap contract. The notional principal of this embedded currency swap contract amounted to USD15,684,296 (equivalent to HK\$121,674,000). As at 31 December 2014, the fair value of this currency swap contract amounted to HK\$14,979,000 (2013: liability of HK\$968,000) and the fair value change of HK\$15,935,000 was recognised in foreign exchange gains for the year ended 31 December 2014 (2013: loss of HK\$968,000)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 OTHER PAYABLES AND ACCRUALS

### Group

	<b>31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Deposits received (Note (i))	<b>142,619</b>	90,326
Amounts due to related parties (Note 28(f))	–	845
Consultant and professional fees payable (Note (ii))	<b>99,006</b>	43,940
Business tax, value-added tax and withholding tax payables	<b>76,588</b>	40,552
Operating lease rentals received in advance	<b>22,523</b>	5,300
Director fee payable	–	1,110
Rentals received to be paid (Note (iii))	–	14,401
Others (include salary and bonus payable)	<b>41,920</b>	9,799
	<b>382,656</b>	206,273

(i) Deposits received from airline companies for lease projects.

(ii) Included insurance premium payable relating to aircraft residual value insurance purchased by the Group.

(iii) It represents the lease payment received by CALC Baoli which should be transferred to the trust plan according to the contract as mentioned in Note 3.1.4.

Except for the "Operating lease rental received in advance", the above amounts were unsecured, interest-free and repayable within one year.

### Company

	<b>31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Accrual	<b>9,220</b>	2,134

The above amounts were unsecured, interest-free and repayable on demand.

## 18 LEASE RENTAL INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2014, the Group is engaged in a single business segment, i.e. provision of aircraft leasing services to airline companies principally in China. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The Group leased aircraft to nine airline companies for the year ended 31 December 2014 (2013: six).



## 18 LEASE RENTAL INCOME AND SEGMENT INFORMATION *(continued)*

The following table sets forth the amounts of rentals attributable to individual airline companies:

	Year ended 31 December			
	2014		2013	
	HK\$'000	%	HK\$'000	%
Customer:				
Airline Company – A	<b>215,682</b>	<b>24%</b>	153,511	25%
Airline Company – B	<b>142,434</b>	<b>16%</b>	124,403	20%
Airline Company – C	<b>128,653</b>	<b>14%</b>	127,654	20%
Airline Company – D	<b>202,760</b>	<b>23%</b>	192,333	31%
Airline Company – E	<b>51,304</b>	<b>6%</b>	23,165	4%
Airline Company – F	<b>89,844</b>	<b>10%</b>	2,259	–
Airline Company – G	<b>31,938</b>	<b>3%</b>	–	–
Airline Company – H	<b>33,631</b>	<b>4%</b>	–	–
Airline Company – I	<b>605</b>	–	–	–
Total finance and operating lease income	<b>896,851</b>	<b>100%</b>	623,325	100%

## 19 OTHER INCOME

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Gain from disposal of finance lease receivables (Note (i))	<b>111,459</b>	57,075
Government subsidies (Note (ii))	<b>133,927</b>	5,507
Others	<b>2,728</b>	1,028
	<b>248,114</b>	63,610

(i) As described in Note 3.1.4, the CALC SPCs signed separate contracts with the trust plans, to transfer their future aircraft lease receivables under their separate aircraft lease agreements with certain airline companies to the trust plans. As the Group has transferred substantially all the risks and rewards related to the lease receipts to the trust plans, it de-recognised the corresponding finance lease receivable. For the year ended 31 December 2014, the Group recognised a gain of HK\$111,459,000 (2013: HK\$57,075,000), determined by comparing the net proceeds with the carrying amount of the finance lease receivable de-recognised, less transaction costs and business tax and surcharges accrued.

(ii) Government subsidies represent the grants and subsidies principally received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone as incentives provided by the government to support the development of aircraft leasing industry.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 INTEREST EXPENSE

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Interest expense on bank borrowings	600,948	374,399
Interest expense on borrowings from related parties	–	1,884
Less: Interest capitalised	(80,416)	(46,377)
	<b>520,532</b>	329,906

## 21 OPERATING EXPENSES

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Key management and employee expenses (Note 22)	55,607	18,574
Listing expenses	29,119	9,783
Business tax and surcharges	33,571	21,376
Professional service expenses	35,649	9,132
Auditors' remuneration	5,288	2,891
Rental and utilities expenses	8,775	7,149
Office and meeting expenses	8,411	7,071
Travelling and training expenses	9,383	5,948
Others	14,083	8,513
	<b>199,886</b>	90,437

## 22 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Wages, salaries and bonuses	51,163	16,393
Share-based compensation (Note 12(a))	2,132	1,068
Welfare, medical and other expenses	2,312	1,113
	<b>55,607</b>	18,574

## 23 INCOME TAX EXPENSE

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	<b>37,155</b>	25,159
Deferred income tax	<b>40,894</b>	12,301
	<b>78,049</b>	37,460

### Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25%. PRC CIT is calculated at 25% on the taxable income for the year ended 31 December 2014. The leasing income is subject to business tax ("BT") at 5% or value added tax ("VAT") at 17% depending on when the leasing contracts were entered into between the subsidiaries and the customers.

BT at 5% and CIT at 10% or 6% (tax treaty rate) are withheld on lease rental income payable by lessees in Mainland China to non-Mainland China tax resident subsidiaries of the Group for the year ended 31 December 2014. Interest payable to the group companies incorporated in Hong Kong is subject to BT at 5% and CIT at 7%.

### Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year ended 31 December 2014.

### Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

The subsidiaries incorporated in Ireland are subject to income tax at a rate of 25% under the S110 tax regime.

The subsidiary incorporated in the Netherlands is subject to income tax at a rate of 20% over the first Euro 200,000 of its taxable income and a rate of 25% over its taxable income in excess of Euro 200,000.

The subsidiaries incorporated in Labuan are subject to income tax at a rate of 3% on the net profits or at Malaysian Ringgit 20,000 as elected annually by the subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 INCOME TAX EXPENSE *(continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% during the year ended 31 December 2014, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	Year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
Profit before income tax	380,715	209,960
Tax calculated at a tax rate of 25%	95,179	52,490
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	(8,160)	(6,541)
– Income not subject to tax	(25,998)	(15,536)
– Non-deductible expenses	261	304
– Tax losses for which no deferred income tax assets were recognised	16,767	6,743
Tax charge	78,049	37,460

## 24 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of HK\$279,611,000 (2013: HK\$42,102,000).

The movement of the retained earnings/(accumulated losses) of the Company is as below:

### Company

	Year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
At 1 January	(12,166)	(1,268)
Profit for the year	279,611	42,102
Dividends paid	(69,000)	(53,000)
At 31 December	198,445	(12,166)

## 25 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2013 and 2014. In determining the weighted average number of ordinary shares:

- (i) the 20 ordinary shares of the Company issued to CALH during the Reorganisation (Note 1(b)) were treated as if they had been in issue since 1 January 2013; and
- (ii) of the 9,980 ordinary shares of the Company to issued to CALH on 23 July 2013 (Note 11(a)) for a consideration of HK\$89,610,300, 388 ordinary shares were treated as being issued on 23 July 2013 at fair value and 9,592 ordinary shares were treated as if they were bonus shares that had been in issue since 1 January 2013; and
- (iii) the additional 468,941,929 new ordinary shares of the Company issued on 23 June 2014 and the capitalisation issue of 29,071 new ordinary shares issued on 11 July 2014 have been adjusted retrospectively to the numbers of ordinary shares issued under (i) and (ii) above as if the proportionately higher number of shares had been in issue since the relevant dates indicated.
- (iv) the 116,800,000 new ordinary shares offered to the public (Note 11(c)) were issued on 11 July 2014.

	Year ended 31 December	
	2014	2013
Profit attributable to owners of the Company (HK\$'000)	<b>302,750</b>	172,500
Weighted average number of ordinary shares in issue (number of shares)	<b>524,661,000</b>	458,908,253
Basic earnings per share (HK\$ per share)	<b>0.577</b>	0.376

### (b) Diluted

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at the fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for diluted earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 EARNINGS PER SHARE *(continued)*

### (b) Diluted *(continued)*

	Year ended 31 December	
	2014	2013
Profit attributable to owners of the Company (HK\$'000)	<b>302,750</b>	172,500
Weighted average number of ordinary shares in issue (number of shares)	<b>524,661,000</b>	458,908,253
Adjustment for:		
– Share options (number of shares)	<b>30,526,027</b>	–
Weighted average number of ordinary shares for diluted earnings per share (number of shares)	<b>555,187,027</b>	458,908,253
Diluted earnings per share (HK\$ per share)	<b>0.545</b>	0.376

## 26 DIVIDENDS

Pursuant to the resolutions passed by the Board of Directors on 22 November 2013, an interim dividend amounting to HK\$53,000,000 in respect of the year ended 31 December 2013 was declared by the Company and paid in cash to its shareholder in 2013.

On 19 May 2014, the Company proposed to declare a final dividend of HK\$69,000,000 for the year ended 31 December 2013. Such dividend was paid in June 2014.

At a meeting held on 26 March 2015, the Board of Directors recommended a final dividend for the year ended 31 December 2014 of HK\$0.16 per ordinary share, amounting to a total dividend of HK\$93,725,000. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2014, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2015. The proposed final dividend amount is calculated based on the number of ordinary shares in issue as at 31 December 2014.

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Interim dividend paid of HK\$nil (2013: HK\$5,300) per ordinary share	–	53,000
Proposed final dividend of HK\$0.16 (2013: HK\$6,900) per ordinary share	<b>93,725</b>	69,000
Total	<b>93,725</b>	122,000

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

## 27 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

#### Year ended 31 December 2013

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonus HK\$'000	Retirement benefits and others HK\$'000	Total HK\$'000
<i>Chairman, non-executive director</i>					
Mr. Chen Shuang (i)	117	–	–	–	117
<i>Executive directors</i>					
Mr. Poon Ho Man	300	252	–	13	565
Ms. Liu Wanting	117	912	1,665	14	2,708
<i>Non-executive directors</i>					
Mr. Tang Chichun (i)	117	–	–	–	117
Ms. Chen Ying (iii)	92	–	–	–	92
<i>Independent non-executive directors</i>					
Mr. Fan Yan Hok, Philip (ii)	92	–	–	–	92
Mr. Ng Ming Wah, Charles (ii)	92	–	–	–	92
Mr. Zhang Chongqing (ii)	92	–	–	–	92
Mr. Sun Quan (iv)	92	–	–	–	92
	1,111	1,164	1,665	27	3,967

#### Year ended 31 December 2014

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonus HK\$'000	Retirement benefits and others HK\$'000	Total HK\$'000
<i>Chairman, non-executive director</i>					
Mr. Chen Shuang (i)	300	5	–	80	385
<i>Executive directors</i>					
Mr. Poon Ho Man	300	726	17,773	16	18,815
Ms. Liu Wanting	300	1,150	7,092	17	8,559
<i>Non-executive directors</i>					
Mr. Tang Chichun (i)	300	5	–	80	385
Mr. Guo Zibin (v)	243	10	–	80	333
Ms. Chen Ying (iii)	53	–	–	–	53
<i>Independent non-executive directors</i>					
Mr. Fan Yan Hok, Philip (ii)	300	10	–	80	390
Mr. Ng Ming Wah, Charles (ii)	300	15	–	80	395
Mr. Zhang Chongqing (ii)	300	10	–	80	390
Mr. Sun Quan (iv)	196	–	–	–	196
Mr. Nien Van Jin, Robert (vi)	104	15	–	80	199
	2,696	1,946	24,865	593	30,100

(i) Appointed on 12 August 2013

(ii) Appointed on 11 September 2013

(iii) Appointed on 11 September 2013 and resigned on 7 March 2014

(iv) Appointed on 11 September 2013 and resigned on 27 August 2014

(v) Appointed on 10 March 2014

(vi) Appointed on 27 August 2014

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

### (a) Directors' emoluments *(continued)*

Certain directors also received emoluments from FPAM, China Everbright Limited and certain related parties of the Group for the year ended 31 December 2014, part of which were in relation to their services to the Company. No apportionment has been made as the directors consider it is impractical to apportion the amount between their services to the Company and their services to FPAM, China Everbright Limited and certain related parties of the Group.

### (b) Five highest paid individuals:

During the year ended 31 December 2014, the five individuals whose emoluments were the highest in the Group include two directors and three individuals (2013: one director and four individuals), whose director's emoluments are reflected in the analysis presented above. For the year ended 31 December 2014, the emoluments paid to three (2013: four) remaining individuals are as follows:

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Basic salaries and allowances	4,272	4,162
Discretionary bonus	6,191	1,648
Share-based payment	479	28
Other benefits including pension	64	32
	<b>11,006</b>	5,870

The emoluments fell within the following bands:

	Year ended 31 December	
	2014	2013
Nil – HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$4,000,000	3	–

During the years ended 31 December 2014 and 2013, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.



## 28 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 12(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

### (a) Management fee and consultancy fee charged by related parties

	Year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
Management fee and consultancy fee charged by:		
– China Everbright Global Investment Advisors Company Limited (“CEGIA”)	–	1,170
– Friedmann Pacific Financial Services Limited (“FPFS”)	–	480
– Beijing Fujing Investment Limited Company (“Beijing Fujing”)	–	856
	–	2,506

*CEGIA is a subsidiary of China Everbright Limited.*

*FPFS and Beijing Fujing are subsidiaries of FPAM.*

### (b) Operating lease expenses on office premises

	Year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
CEL Venture Capital (Shenzhen) Limited	1,240	577

CEL Venture Capital (Shenzhen) Limited is a subsidiary of China Everbright Limited.

### (c) Borrowings from related parties

#### (i) Borrowings from CE Finance

	Year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
At 1 January	–	–
Proceeds from borrowings during the year	–	73,320
Repayments of borrowings during the year	–	(73,320)
At 31 December	–	–

The borrowings were obtained from CE Finance, which is a fellow subsidiary of CE Aerospace. These borrowings were guaranteed by Mr. Poon Ho Man and bore an interest rate ranging from 10% to 12% in 2013. During the year ended 31 December 2014, interest expense charged by CE Finance amounted to nil (2013: HK\$1,156,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 RELATED PARTY TRANSACTIONS *(continued)*

### (c) Borrowings from related parties *(continued)*

#### (ii) Borrowings from FPAM

	Year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
At 1 January	–	–
Proceeds from borrowings during year	–	46,800
Repayments of borrowings during year	–	(46,800)
At 31 December	–	–

The borrowing of USD6,000,000 from FPAM were guaranteed by Mr. Poon Ho Man and bore a fixed interest rate ranging from 10% to 12% in 2013. During the year ended 31 December 2014, interest expense charged by FPAM amounted to nil (2013: HK\$728,000).

### (d) Standby facilities provided by CE Finance and FPAM

On 28 November 2012, CALC AC Limited, a subsidiary of the Company, entered into an agreement with CE Finance, pursuant to which CE Finance provided a loan facility to CALC AC Limited for an amount up to USD40,000,000 (equivalent to HK\$312,000,000) for the period from 28 November 2012 to 28 December 2015, for the sole purpose of paying CDB in satisfaction of the indebtedness outstanding under the CDB Facility Agreement (Note 14(ii)). CE Finance charges an upfront fee of USD600,000 and an annual fee of 0.25% of the amount of commitment per annum. The standby facilities will be released prior to the listing of the Company's shares on the Stock Exchange of Hong Kong Limited.

During the year ended 31 December 2014, the facility fee charged by CE Finance amounted to HK\$414,000 (2013: HK\$1,180,000).

Pursuant to a revolving loan facility agreement entered into between FPAM and CE Finance as lenders, Sino Teamwork Limited as borrower and CALC (BVI) as guarantor on 25 September 2013, FPAM and CE Finance agreed to provide a standby revolving loan facility of up to USD50 million of which up to USD25 million is extended by FPAM and up to USD25 million by CE Finance, at an interest rate of 12% per annum from the date of drawdown for a term of one year from the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. As security for the facility, a corporate guarantee was provided by CALC(BVI) in favour of each of FPAM and CE Finance. An arrangement fee of USD25,000 was payable on the acceptance date of the revolving loan agreement and a standby fee of USD62,500 was payable quarterly to each of FPAM and CE Finance during the availability period. The revolving loan facility agreement was terminated on 25 April 2014.

- (e) On 27 September 2013, CALC (BVI) and Ever Alpha Investment Limited ("Ever Alpha"), a subsidiary of China Everbright Limited, entered into a consultancy agreement pursuant to which Ever Alpha agreed to support the Group by providing onsite supporting services to facilitate Qingdao Airlines Co., Ltd. ("Qingdao Airlines") to lease current generation of A320 aircraft from the Group. The onsite supporting services to be provided by Ever Alpha under the consultancy agreement included liaising and participating in preliminary discussion with Qingdao Airlines, providing relevant information to CALC (BVI) in respect of Qingdao Airlines and the leasing, providing strategic advice to CALC (BVI) to facilitate the leasing, assisting CALC (BVI) in negotiation, and contacting relevant government department and arranging for consultation when necessary. During the year ended 31 December 2014, the supporting service fee charged by Ever Alpha amounted to USD2,000,000, equivalent to HK\$15,600,000 (2013: nil).

## 28 RELATED PARTY TRANSACTIONS *(continued)*

### (f) Amounts due to related parties:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
FPAM	–	317
CE Finance	–	512
Beijing Fujing	–	16
	–	845

The above amounts due to related parties were unsecured, interest-free and repayable on demand.

### (g) Key management compensation

Key management includes directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	<b>Year ended 31 December</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Salaries, discretionary bonus and other short-term employee benefits	<b>26,774</b>	10,205
Share-based compensation expenses	<b>1,290</b>	673
	<b>28,064</b>	10,878

## 29 CONTINGENT LIABILITIES AND COMMITMENTS – GROUP

### (a) Contingencies

The Group had no material contingent liabilities outstanding at the end of each of the year ended 31 December 2014.

### (b) Capital commitments

Capital expenditures contracted for at the end of the reporting period but not yet incurred is as follows:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Acquisition of aircraft	<b>45,901,694</b>	10,162,469

On 3 December 2014, the Company entered into a memorandum of understanding (“MOU”) with the Harbin Government in relation to the establishment of China’s Aircraft Disassembly Operation in Harbin, the PRC. Pursuant to the MOU, the Group intends to set up a new business line in phases to disassemble aircraft in China, with a total investment of approximately USD2 billion (equivalent to approximately HK\$15.6 billion), including the cost of old aircrafts to be purchased. As of the approval date of the consolidated financial statements, the Group has no contractual commitment and obligation under the MOU.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 CONTINGENT LIABILITIES AND COMMITMENTS – GROUP *(continued)*

### (c) Operating lease commitments – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premise are as follows:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>9,851</b>	5,592
Later than one year and not later than five years	<b>26,795</b>	2,363
Later than five years	<b>110</b>	–
	<b>36,756</b>	7,955

### (d) Operating lease arrangement – where the Group is the lessor

The Group had future minimum lease receipts under non-cancellable operating leases in respect of aircraft as follows:

	<b>31 December 2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>217,713</b>	145,436
Later than one year and not later than five years	<b>773,461</b>	581,743
Later than five years	<b>634,655</b>	783,552
	<b>1,625,829</b>	1,510,731

### **30 EVENTS AFTER THE END OF THE REPORTING PERIOD**

Save as disclosed elsewhere in the report, the following significant events took place after 31 December 2014:

- (a) On 26 March 2015, the Company as the issuer and China Everbright Financial Investments Limited, Huarong (HK) International Holdings Limited and Great Wall Pan Asia International Investment Co., Limited as the investors entered into subscription agreements in respect of the issuance and subscription of the convertible bonds in the aggregate principal amount of HK\$892 million. The bonds will bear coupon interest of 3% per annum and mature in 3 years from the issue date. The Company will pay the respective investors a commitment arrangement fee at the rate of 3.5% per annum. The convertible bonds are convertible into shares of the Company at a conversion price of HK\$11.28 per share (subject to adjustments). The completion of the issuance of the convertible bonds is subject to the satisfaction of the conditions precedent under the subscription agreements and the approval by independent shareholders, where applicable.
- (b) On 17 March 2015, the Company and the Bank of Communications Company Limited entered into the Strategic Cooperation Framework Agreement (the "Agreement") in connection with their strategic cooperation on asset securitization and debenture issuances, including sales of aircraft lease receivables for not more than 20 aircraft. Further definitive agreements for specific projects will be signed when the detailed terms for such projects are agreed. The Agreement has a term of 3 years unless otherwise extended by both parties.
- (c) On 26 March 2015, the Board of Directors of the Company proposed to declare a final cash dividend for the year ended 31 December 2014 in the amount of HK\$0.16 per ordinary share, totalling HK\$93,725,000 (calculated based on the number of ordinary shares in issue as at 31 December 2014).

### **31 COMPARATIVE FIGURES**

Certain comparative figures have been reclassified or restated to conform to the current year's presentation.

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

## To the shareholders of China Aircraft Leasing Group Holdings Limited

*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries set out on pages 81 to 162, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## INDEPENDENT AUDITOR'S REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 22 March 2016

## CONSOLIDATED BALANCE SHEET

		<b>As at 31 December</b>	
		<b>2015</b>	2014
		<b>HK\$'000</b>	HK\$'000
	Note		
<b>ASSETS</b>			
Property, plant and equipment	5	<b>2,412,544</b>	1,706,695
Finance lease receivables – net	6	<b>16,473,038</b>	11,443,485
Derivative financial assets	17	<b>19,439</b>	14,979
Prepayments and other receivables	7	<b>3,444,332</b>	3,503,360
Restricted cash	8	<b>208,387</b>	218,951
Cash and cash equivalents	9	<b>1,389,289</b>	1,425,570
<b>Total assets</b>		<b>23,947,029</b>	18,313,040
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	10	<b>60,592</b>	58,578
Reserves	11	<b>1,437,497</b>	1,273,531
Retained earnings		<b>690,452</b>	429,171
		<b>2,188,541</b>	1,761,280
<b>Non-controlling interests</b>	32	<b>19,461</b>	19,416
<b>Total equity</b>		<b>2,208,002</b>	1,780,696
<b>LIABILITIES</b>			
Deferred income tax liabilities	12	<b>122,132</b>	67,161
Bank borrowings	13	<b>18,775,249</b>	15,342,648
Long-term borrowings	14	<b>794,221</b>	642,116
Medium-term notes	15	<b>400,547</b>	—
Convertible bonds	16	<b>796,506</b>	—
Derivative financial liabilities	17	<b>32,103</b>	33,361
Income tax payables		<b>37,654</b>	21,991
Interest payables		<b>73,303</b>	42,411
Other payables and accruals	18	<b>707,312</b>	382,656
<b>Total liabilities</b>		<b>21,739,027</b>	16,532,344
<b>Total equity and liabilities</b>		<b>23,947,029</b>	18,313,040

The notes on pages 89 to 162 are an integral part of these consolidated financial statements.

The financial statements on pages 83 to 162 were approved by the Board of Directors on 22 March 2016 and were signed on its behalf.

\_\_\_\_\_  
**CHEN Shuang**  
*Director*

\_\_\_\_\_  
**LIU Wanting**  
*Director*



## CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>Revenue</b>			
Finance lease income	19	1,015,395	714,724
Operating lease income	19	223,881	182,127
		<b>1,239,276</b>	896,851
Other income	20	310,026	248,114
Revenue and other income		<b>1,549,302</b>	1,144,965
<b>Expenses</b>			
Interest expense	21	(753,691)	(520,532)
Depreciation	5	(91,298)	(71,312)
Other operating expenses	22	(223,258)	(199,886)
		<b>(1,068,247)</b>	(791,730)
<b>Operating profit</b>		<b>481,055</b>	353,235
Other (losses)/gains	24	(814)	27,480
<b>Profit before income tax</b>		<b>480,241</b>	380,715
Income tax expense	25	(100,031)	(78,049)
<b>Profit for the year</b>		<b>380,210</b>	302,666
<b>Profit attributable to:</b>			
Owners of the Company		380,165	302,750
Non-controlling interests		45	(84)
		<b>380,210</b>	302,666
<b>Earnings per share for profit attributable to owners of the Company (expressed in HK\$ per share)</b>			
— Basic earnings per share	26(a)	<b>0.636</b>	0.577
— Diluted earnings per share	26(b)	<b>0.624</b>	0.545

The notes on pages 89 to 162 are an integral part of these consolidated financial statements.

Details of the dividends proposed and paid for the year are disclosed in Note 27.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>Profit for the year</b>		<b>380,210</b>	302,666
<b>Other comprehensive income for the year:</b>			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of interest rate swaps — cash flow hedges	17	<b>4,734</b>	(40,461)
Reclassified from other comprehensive income to profit or loss			
— cash flow hedges	17	<b>1,844</b>	(1,267)
Currency translation differences		<b>(795)</b>	(2,023)
<b>Total other comprehensive income for the year, net of tax</b>		<b>5,783</b>	(43,751)
<b>Total comprehensive income for the year</b>		<b>385,993</b>	258,915
<b>Attributable to:</b>			
Owners of the Company		<b>385,948</b>	258,999
Non-controlling interests		<b>45</b>	(84)
		<b>385,993</b>	258,915

The notes on pages 89 to 162 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
<b>Balance as at 1 January 2014</b>	78	743,099	195,421	938,598	19,500	958,098
<b>Comprehensive income</b>						
Profit for the year	—	—	302,750	302,750	(84)	302,666
<b>Other comprehensive income</b>						
Change in fair value of interest rate swaps — cash flow hedges (Note 17)	—	(40,461)	—	(40,461)	—	(40,461)
Reclassified from other comprehensive income to profit or loss — cash flow hedges (Note 17)	—	(1,267)	—	(1,267)	—	(1,267)
Currency translation differences	—	(2,023)	—	(2,023)	—	(2,023)
<b>Total comprehensive income</b>	—	(43,751)	302,750	258,999	(84)	258,915
<b>Transactions with owners</b>						
Issue of new shares	11,681	608,996	—	620,677	—	620,677
Share repurchase and cancellation	(78)	78	—	—	—	—
Capitalisation of shares	46,897	(46,897)	—	—	—	—
Employee share option scheme: — Value of employee services (Note 11(a))	—	12,006	—	12,006	—	12,006
Dividends (Note 27)	—	—	(69,000)	(69,000)	—	(69,000)
<b>Total transactions with owners</b>	58,500	574,183	(69,000)	563,683	—	563,683
<b>Balance as at 31 December 2014</b>	58,578	1,273,531	429,171	1,761,280	19,416	1,780,696

The notes on pages 89 to 162 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company				Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
<b>Balance as at 1 January 2015</b>	<b>58,578</b>	<b>1,273,531</b>	<b>429,171</b>	<b>1,761,280</b>	<b>19,416</b>	<b>1,780,696</b>
<b>Comprehensive income</b>						
Profit for the year	—	—	380,165	380,165	45	380,210
<b>Other comprehensive income</b>						
Change in fair value of interest rate swaps — cash flow hedges (Note 17)	—	4,734	—	4,734	—	4,734
Reclassified from other comprehensive income to profit or loss — cash flow hedges (Note 17)	—	1,844	—	1,844	—	1,844
Currency translation differences	—	(795)	—	(795)	—	(795)
<b>Total comprehensive income</b>	<b>—</b>	<b>5,783</b>	<b>380,165</b>	<b>385,948</b>	<b>45</b>	<b>385,993</b>
<b>Transactions with owners</b>						
Employee share option scheme:						
— Value of employee services (Note 11(a))	—	12,182	—	12,182	—	12,182
— Issue of new shares from exercise of share options (Note 10(c))	2,014	29,460	—	31,474	—	31,474
Convertible bonds — equity component (Note 16)	—	116,541	—	116,541	—	116,541
Dividends (Note 27)	—	—	(118,884)	(118,884)	—	(118,884)
<b>Total transactions with owners</b>	<b>2,014</b>	<b>158,183</b>	<b>(118,884)</b>	<b>41,313</b>	<b>—</b>	<b>41,313</b>
<b>Balance as at 31 December 2015</b>	<b>60,592</b>	<b>1,437,497</b>	<b>690,452</b>	<b>2,188,541</b>	<b>19,461</b>	<b>2,208,002</b>

The notes on pages 89 to 162 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>			
Profit after income tax		380,210	302,666
Adjustments for:			
— Depreciation of property, plant and equipment		91,298	71,312
— Interest expense		753,691	520,532
— Share-based payments		12,182	12,006
— Unrealised currency exchange loss		7,426	4,260
— Fair value gain on currency swap		(1,183)	(15,935)
— Fair value loss on interest rate swap		3,225	—
— Interest income		(1,728)	(1,376)
		<b>1,245,121</b>	893,465
<b>Changes in working capital:</b>			
— Finance lease receivables – net		(4,906,045)	(3,806,252)
— Prepayments and other receivables		8,622	(156,748)
— Other payables and accruals		272,570	176,383
— Income tax payables		15,663	13,378
— Deferred income tax liabilities		56,120	40,894
Net cash flows used in operating activities		<b>(3,307,949)</b>	(2,838,880)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(800,333)	(299,017)
Deposit for purchase of land use rights		(195,231)	—
Deposits refund/(paid) for acquisition of aircraft		296,017	(1,173,953)
Interest received		1,728	1,376
Net cash flows used in investing activities		<b>(697,819)</b>	(1,471,594)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of new shares		31,474	620,677
Proceeds from bank borrowings		9,114,823	7,832,293
Proceeds from long-term borrowings		152,631	492,423
Repayments of bank borrowings		(5,681,754)	(3,867,049)
Repayments of long-term borrowings		(426)	(116)
Interest paid on bank borrowings		(745,321)	(501,077)
Interest paid on long-term borrowings		(42,190)	(12,953)
Interest paid on convertible bonds		(29,696)	—
Decrease/(increase) in deposits pledged in respect of bank borrowings		32,491	(91,419)
Increase in deposits pledged in respect of derivative financial instruments		(26,519)	(25,764)
Issue of convertible bonds, net of transaction costs		876,676	—
Issue of medium-term notes, net of transaction costs		422,674	—
Dividend paid to shareholders	27	(118,884)	(69,000)
Net cash flows generated from financing activities		<b>3,985,979</b>	4,378,015
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		1,425,570	1,367,344
Currency exchange difference on cash and cash equivalents		(16,492)	(9,315)
<b>Cash and cash equivalents at end of the year</b>		<b>1,389,289</b>	1,425,570

The notes on pages 89 to 162 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands using the name "China Aircraft Leasing Company Limited". On 19 September 2013, the Company changed its name to "China Aircraft Leasing Group Holdings Limited". The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Company and its subsidiaries (together, "the Group") has operations mainly in the People's Republic of China ("PRC").

The consolidated financial statements for the year ended 31 December 2015 are presented in Hong Kong Dollar ("HK\$"), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.1 Basis of preparation *(continued)*

##### (a) *Going concern*

As at 31 December 2015, the Group's current liabilities exceeded its current assets by HK\$1,873.2 million (Note 3.1.3). Together with the acquisition of two additional aircraft subsequent to year-end (Note 33), the Group had capital commitments amounting to HK\$41,091.2 million, mainly relating to acquisition of aircraft (Note 30), of which HK\$5,558.2 million is payable within one year. In view of such circumstance, the directors of the Company have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The directors of the Company adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

- The net current liabilities position of the Group is mainly because the Group uses short-term borrowings to finance the pre-delivery payments ("PDP") to the aircraft manufacturer when the new aircraft ordered by the Group are being built. PDP represents approximately 30% to 40% of the purchase consideration of the aircraft. The Group normally uses PDP financing for settlement of PDP and PDP financing is repayable after the aircraft is delivered. As at 31 December 2015, PDP amounting to HK\$2,942.2 million had been paid (Note 7) and the balance of the corresponding PDP financing amounted to HK\$2,063.6 million (Note 13), of which HK\$1,247.7 million is repayable within one year and is related to aircraft to be delivered in 2016. The Group uses long-term aircraft borrowings for the repayment of PDP financing and the settlement of the balance payments of aircraft acquisition costs. However, the long-term aircraft borrowings can only be confirmed shortly before delivery of the relevant aircraft. Based on the industry practice and prior experience, long-term aircraft borrowings would be granted by the banks if the aircraft can be leased out to airline companies. Lease agreements or letters of intent have already been signed for the aircraft scheduled for delivery in 2016 and thus the directors of the Company believe that long-term aircraft borrowings can be obtained to settle PDP financing and the balance payments of the aircraft acquisition costs due in 2016.
- According to the relevant aircraft purchase agreements (including the acquisition of 2 additional aircraft subsequent to year-end), PDP scheduled to be paid in the next twelve months from 31 December 2015 amounted to HK\$1,626.4 million. As at the approval date of the consolidated financial statements, the Group had signed PDP financing agreements with various commercial banks which agree to provide financing of US\$66.3 million (equivalent to HK\$513.7 million) to the Group during 2016. The Group also obtained term sheets from two banks which agree, in principle, to provide total PDP financing facility of US\$142.0 million (equivalent to HK\$1,100.6 million) to the Group. Such PDP financing facility is available till 31 December 2018, of which US\$118.2 million (equivalent to HK\$916.1 million) will be drawn down in the next twelve months from 31 December 2015 subject to the signing and execution of the loan agreements. The remaining balance of PDP amounting to HK\$196.6 million is to be funded by internally generated financial resources of the Group and additional financing expected to be obtained. As at the approval date of the consolidated financial statements, two commercial banks have granted the Group certain working capital facilities amounting to US\$40.0 million (equivalent to HK\$310.0 million), which are available in the coming twelve months from 31 December 2015.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### (a) **Going concern** *(continued)*

- The Group entered into cooperative agreements with certain banks pursuant to which these banks agreed to provide to the Group conditional loan facilities for aircraft acquisition. The granting of each specific loan will be subject to the banks' credit assessments and approvals and the agreement of terms and conditions of the respective loan agreements, which will only be confirmed shortly before the delivery of the relevant aircraft.
- For the existing long-term aircraft borrowings, under the business model of the Group, the expected cash inflows from lease receivables generally match with the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft.

The directors of the Company have reviewed the Group's cash flow projections prepared by management, covering a period of not less than twelve months from the balance sheet date. Based on these projections, the sufficiency of cash flows for the Group's present requirements for the next twelve months from 31 December 2015 is heavily dependent on the Group's ability to obtain the necessary funding from the long-term aircraft borrowings and the availability of banking and other sources of financing. Based on the industry practice and prior experience, the directors are of the view that long-term aircraft borrowings can be obtained as the related lease agreements or letters of intent have already been signed for the aircraft scheduled for delivery in 2016.

On this basis, the directors of the Company are of the opinion that, taking into account the Group's operating performance and business prospects, internal resources, available banking facilities that have been granted or will be granted as detailed above, the Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 31 December 2015. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

#### (b) **Changes in accounting policy and disclosure**

##### (i) *New and amended standards adopted by the Group*

The following amendments to Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.1 Basis of preparation *(continued)*

##### **(b) Changes in accounting policy and disclosure** *(continued)*

###### *(i) New and amended standards adopted by the Group (continued)*

Amendments from annual improvements to HKFRSs — 2010–2012 Cycle, on HKFRS 8, “Operating segments”, HKAS 16, “Property, plant and equipment” and HKAS 38, “Intangible assets” and HKAS 24, “Related party disclosures”.

Amendments from annual improvements to HKFRSs — 2011–2013 Cycle, on HKFRS 3, “Business combinations”, HKFRS 13, “Fair value measurement” and HKAS 40, “Investment property”.

The adoption of these amendments does not have a material impact on the Group.

###### *(ii) New Hong Kong Companies Ordinance (Chapter 622)*

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Chapter 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

###### *(iii) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is assessing the impact of HKAS 9 adoption.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### **(b) Changes in accounting policy and disclosure *(continued)***

##### *(iii) New standards and interpretations not yet adopted (continued)*

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKAS 15 adoption.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

### 2.2 Subsidiaries

#### *(a) Consolidation*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.2 Subsidiaries *(continued)*

(a) *Consolidation (continued)*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised as "other gains" in the consolidated statement of comprehensive income.

(b) *Separate financial statement*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) *Structured entities*

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, the Group has determined that the trust plans set up to acquire certain finance lease receivables from the Group are structured entities over which the Group has no control and are therefore not consolidated. They are referred to as unconsolidated structured entities (Note 3.1.4).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

### 2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollar ("HK\$"), which is the Company's functional and the Group's presentation currency. Functional currencies of the subsidiaries of the Company include Renminbi ("RMB"), US dollar ("US\$") and HK\$.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) *Group companies*

The results and financial position of all the entities of the Group (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- (iii) all resulting foreign exchange differences are recognised in other comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The estimated useful lives and estimated residual value rate of aircraft, leasehold improvements, motor vehicles and office equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft	25 years from the date of manufacture	15%
Leasehold improvements	Shorter of lease term or 3 years	0%
Motor vehicles	4 years	0%
Office equipment	2 to 5 years	5%

The assets' residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating income/expenses' in the consolidated statement of income.

#### 2.6 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Financial assets

The Group classifies its financial assets into the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

During the year ended 31 December 2015, other than loans and receivables and derivatives at fair value through profit or loss, the Group did not hold any financial assets in other categories.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (ii) those that the Group upon initial recognition designates as available-for-sale; or (iii) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration. The Group's loans and receivables comprise "other receivables", "restricted cash" and "cash and cash equivalents" on the consolidated balance sheet.

Loans and receivables are initially recognised at fair value which the cash is paid to originate the assets including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

Interest on loans and receivables is recognised using the effective interest method and is included in the consolidated statement of comprehensive income as interest income.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Finance lease receivables are regarded as loans and receivables for the purpose of derecognition and impairment.

### 2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The financial assets and financial liabilities of the Group that are subject to such enforceable master netting arrangements or similar agreements are not offset in accordance with HKFRSs.

As at 31 December 2015, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements were not material to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.9 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a receivable is uncollectible, it is written off against the related allowances for its impairment. Such receivable is written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

For finance lease receivables, the amount of loss impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, discounted at the implicit effective interest rate used on initial recognition.

#### 2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of exposures to variability in cash flows (cash flow hedges) that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Derivative financial instruments and hedging activities *(continued)*

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in notes to the consolidated financial statements. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

#### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in other gains and losses in the consolidated statement of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the forecast transaction being hedged affects profit or loss (for example, when the interest payment that is hedged occurs). They are recorded in the revenue or expense lines in the consolidated statement of comprehensive income in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any gain or loss on the hedging instrument that has been accumulated in equity from the period when the hedge was effective remains in equity. When the forecast transaction is ultimately recognised in profit or loss, the related accumulated hedge gain or loss in equity is reclassified to profit or loss. When a forecast transaction is no longer expected to occur, any accumulated hedge gain or loss in equity is immediately reclassified and included in other gains and losses in the consolidated statement of comprehensive income.

### 2.11 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in liabilities, if any.

### 2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are recognised in equity as a deduction, net of tax, from the proceeds.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.13 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value, and less any repaid principal is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and is included in the computation of the loan's effective interest rate. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Interests related to progress payments made in respect of aircraft in the process of construction on forward order are capitalised and such amounts are added to prepayments on aircraft. The amount of interest capitalised is the actual interest costs incurred on funding specific to the progress payments or the amount of interest costs which could have been avoided in the absence of such progress payments.

Other borrowing costs are expensed as incurred.

#### 2.14 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bond that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted before the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

#### (c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.16 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities or trustees. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities or trustees and are separate from those of the Group.

(c) *Profit-sharing and bonus plan*

The Group recognises a liability and an expense for bonuses and profit sharing, based on formulae that take into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 2.17 Share-based payments

(a) *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares over which the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.17 Share-based payments *(continued)*

(a) *Equity-settled share-based payment transactions (continued)*

In addition, in some circumstances employees or consultants may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(c) *Social security contributions on share options gains*

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

### 2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.19 Leases

##### **(a) Where the Group is the lessor**

###### *Finance lease*

A finance lease is a lease that the Group as the lessor uses to transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. At the commencement of the lease term, the Group recognises the minimum lease amounts receivable by the Group as a finance lease receivable and records the unguaranteed residual value as an asset within the same category. The difference between (a) the aggregate of the minimum lease amounts and the unguaranteed residual value and (b) their present value (presented in the balance sheet as finance lease receivables - net) is recognised as unearned finance income. Minimum lease amounts are the payments over the lease term that the lessee is or can be required to make plus any residual value guaranteed to the lessor by the lessee, or a party unrelated to the lessor.

Unearned finance income is allocated to each period during the lease term using the effective interest method that allocates each rental between finance income and repayment of capital in each accounting period in such a way that finance income is recognised as a constant periodic rate of return (implicit effective interest rate) on the lessor's net investment in the lease. Lease agreements for which the base rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate existing at the commencement of the lease; any increase or decrease in lease payments that result from subsequent changes on floating interest rate is recorded as an increase or a decrease in finance lease income in the period of the interest rate change.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

See Notes 2.7 and 2.9 for accounting policies for derecognition and impairment of finance lease receivables.

###### *Operating lease*

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts received from lessees under operating leases (net of any incentives granted to the lessee) are recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

Initial direct costs incurred by the Group as the lessor in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

##### **(b) Where the Group is the lessee**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) *Finance lease income*

The income under finance lease is recognised in the consolidated statement of income using the effective interest rate implicit in the lease over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

(b) *Operating lease income*

The income under operating lease is recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

(c) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(d) *Service income*

Service income is recognised in the accounting period in which the service is rendered.

### 2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the consolidated statement of income over the period necessary to match them with the costs that they are intend to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of income on a straight-line basis over the expected lives of the related assets.

### 2.22 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 2.22 Financial guarantee contracts *(continued)*

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of income within other operating expenses.

Where guarantees in relation to borrowings or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

#### 2.23 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

#### 2.24 Segment information

The Group is engaged in the provision of aircraft leasing services to airline companies mainly in China. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

##### 3.1.1 Market risk

###### (a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other receivables, financial liabilities including borrowings, other payables and accruals held by the Group are denominated in currencies other than HK\$. The aircraft leasing income and the corresponding borrowings used to finance the leases are mainly denominated in US\$ and RMB. Currency exchange risk may arise when the lease receivables and corresponding borrowings are denominated in different currencies. The management minimises the currency exchange risk by matching the lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.1 Market risk *(continued)*

###### *(b) Cash flow and fair value interest rate risk*

The Group's interest rate risk mainly arises from finance lease receivables and bank borrowings. Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables and bank borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages the interest rate risk by matching the interest rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the leases and the corresponding bank borrowings do not match. As at 31 December 2015, there are 30 aircraft where the effective interest rates implicit in leases and the associated bank borrowings do not match (2014: 21 aircraft). Given the above scenario, the Group has managed its cash flow interest rate risk by entering into 13 floating-to-fixed interest rate swaps for the associated bank borrowings for as at 31 December 2015 (2014: 9 swaps). Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining cases of interest rate mismatch, the Group monitors the interest rate exposure closely and will consider hedging the exposure where necessary and appropriate.

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2014 and 2015. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax by approximately HK\$17,093,000 (2014: HK\$26,367,000); and would also have increased/decreased the Group's reserves by approximately HK\$48,854,000 (2014: HK\$51,203,000), because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the annualised impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheet date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service.

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as shareholders support. The Group also obtained deposits from the lessees as disclosed in the notes to the consolidated financial statements. All these strengthen the control and management of credit risk.

The Group is also exposed to credit risk associated with its interest rate swaps arrangement with three investment banks, which has a high credit quality. The interest rate swaps were secured by pledged deposits placed by the Group.

(a) *Probability of default*

Default risk — in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

Late payment risk — in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which the Group may apply towards the payment or discharge of any obligation owed by the lessee.

(b) *Risk limit control and mitigation policies*

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

(c) *Impairment allowance policies*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group's policy requires a review of the financial statements of the lessee or its parent company and a valuation of the residual value of the aircraft (effectively the collateral held) under the lease at least annually or more regularly when circumstances require.

Finance lease receivables and financial assets of the Group are neither past due nor impaired. The Group has not encountered any delay or default in the collection of lease receivable balances. No impairment allowance was made for finance lease receivables and financial assets of the Group as at 31 December 2015 (31 December 2014: Nil).

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.2 Credit risk *(continued)*

###### (d) Concentration of credit risk

During the year ended 31 December 2015, all the lessees of the Group are airline companies located in Mainland China and other countries or regions in Asia. Please see Notes 6 and 19 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

To manage this risk, the Group assesses the business performance of the airline companies on a regular basis. In view of the fact that the airline companies are operating smoothly and the sound collection history of the receivable due from them, the Group believes that the credit risk inherent in the Group's outstanding finance lease receivable balances from these airline companies is low.

##### 3.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or settled within twelve months from the balance sheet date:

	<b>As at 31 December</b>	
	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Current assets		
Finance lease receivables – net	<b>515,273</b>	363,624
Prepayments and other receivables	<b>114,563</b>	109,937
Cash and cash equivalents	<b>1,389,289</b>	1,425,570
	<b>2,019,125</b>	1,899,131
Current liabilities		
Bank borrowings	<b>3,411,695</b>	4,689,521
Long-term borrowings	<b>784</b>	611
Convertible bonds	<b>10,092</b>	—
Income tax payables	<b>37,654</b>	21,991
Interest payables	<b>73,303</b>	42,411
Other payables and accruals	<b>358,818</b>	382,656
	<b>3,892,346</b>	5,137,190
Net current liabilities	<b>(1,873,221)</b>	(3,238,059)

The assets and liabilities of the Group not included in the above table are expected to be recovered or settled more than twelve months from the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**3 FINANCIAL RISK MANAGEMENT** *(continued)***3.1 Financial risk factors** *(continued)***3.1.3 Liquidity risk** *(continued)*

The following table shows the remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date of the Group's financial assets, finance lease receivables and operating lease receivables for the purpose of this analysis and financial liabilities as well as operating lease commitments, based on contractual undiscounted cash flows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>As at 31 December 2015</b>					
<b>Financial assets</b>					
Finance lease receivables (i)	1,604,293	1,592,091	4,916,784	12,980,389	21,093,557
Other receivables excluding prepayments	103,718	—	—	—	103,718
Restricted cash	—	—	—	208,387	208,387
Cash and cash equivalents	1,389,289	—	—	—	1,389,289
Off-balance sheet — operating lease receivables (ii)	288,178	288,178	697,523	982,521	2,256,400
Derivative financial instruments	(928)	(1,962)	6,480	16,148	19,738
	<b>3,384,550</b>	<b>1,878,307</b>	<b>5,620,787</b>	<b>14,187,445</b>	<b>25,071,089</b>
<b>Financial liabilities</b>					
Bank borrowings	4,140,853	2,321,671	4,816,092	12,011,037	23,289,653
Long-term borrowings	55,262	56,105	168,371	1,127,491	1,407,229
Medium-term notes	26,392	26,392	485,203	—	537,987
Convertible bonds	57,991	57,991	921,166	—	1,037,148
Other payables and accruals (iii)	179,976	24,059	50,972	119,123	374,130
Off-balance sheet — operating lease commitments (iv)	18,153	16,848	16,481	—	51,482
Derivative financial instruments	25,424	11,026	(1,909)	(2,584)	31,957
	<b>4,504,051</b>	<b>2,514,092</b>	<b>6,456,376</b>	<b>13,255,067</b>	<b>26,729,586</b>
Net	<b>(1,119,501)</b>	<b>(635,785)</b>	<b>(835,589)</b>	<b>932,378</b>	<b>(1,658,497)</b>

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.3 Liquidity risk *(continued)*

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>As at 31 December 2014</b>					
<b>Financial assets</b>					
Finance lease receivables (i)	1,125,802	1,122,503	3,466,086	9,058,001	14,772,392
Other receivables excluding prepayments	109,937	—	—	—	109,937
Restricted cash	—	—	—	218,951	218,951
Cash and cash equivalents	1,425,570	—	—	—	1,425,570
Off-balance sheet — operating lease receivables (ii)	217,713	217,713	555,748	634,655	1,625,829
Derivative financial instruments	—	—	—	14,979	14,979
	2,879,022	1,340,216	4,021,834	9,926,586	18,167,658
<b>Financial liabilities</b>					
Bank borrowings	5,292,131	1,492,676	3,672,525	8,736,234	19,193,566
Long-term borrowings	42,534	46,005	137,598	905,969	1,132,106
Other payables and accruals (iii)	259,545	—	—	—	259,545
Off-balance sheet — operating lease commitments (iv)	9,851	8,362	18,433	110	36,756
Derivative financial instruments	34,751	18,149	(15,603)	(5,191)	32,106
	5,638,812	1,565,192	3,812,953	9,637,122	20,654,079
Net	(2,759,790)	(224,976)	208,881	289,464	(2,486,421)

- (i) For the purpose of liquidity risk analysis, finance lease receivables do not include unguaranteed residual values as they are not contractual cash inflows.
- (ii) Off-balance sheet receivables represent operating lease rentals which will be received according to the schedules in the lease contracts.
- (iii) For the purpose of liquidity risk analysis, tax payables, operating lease rentals received in advance, bonuses and director fee payables are not included.
- (iv) Off-balance sheet operating lease commitments are the operating lease rentals which will be paid according to the schedules in the lease contracts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.3 Liquidity risk *(continued)*

The Group has arranged for financing for the PDP for the acquisition of aircraft. The Group may use short-term borrowings to support its financing needs for the PDPs when the long-term bank borrowings were not available. Such short-term borrowings will be replaced by long-term bank borrowings upon the delivery of the aircraft as scheduled. As at 31 December 2015, the Group has made PDP amounting to HK\$2,942,155,000 (2014: HK\$3,241,157,000). PDP is prepayments in nature which do not represent contractual cash inflows and thus are not included in the analysis of the remaining contractual maturities above. The balance of PDP financing amounted to HK\$2,063,645,000 as at 31 December 2015 (2014: HK\$2,304,913,000). The analysis above includes the remaining contractual maturities of PDP financing.

Please also refer to Note 2.1 for the analysis of liquidity risk in greater detail.

##### 3.1.4 Unconsolidated structured entities and transferred finance lease receivables

Certain wholly-owned subsidiaries of the Group (collectively "the CALC SPCs") signed contracts with trust plans, pursuant to which, the CALC SPCs transferred to the trust plans their future aircraft finance lease receivables under their separate aircraft leasing agreements with airline companies. The gross, undiscounted amount of the finance lease receivables due and payable up to the end of lease terms of the aircraft leasing agreements ("undiscounted amount"), the discounted carrying amount of these finance receivables at the date of the transfer ("discounted amount") and the consideration for the transfer ("consideration") for the year ended 31 December 2015 are set out below.

	Undiscounted amount HK\$'000	Discounted amount HK\$'000	Consideration HK\$'000
For the year ended 31 December 2015	<b>586,133</b>	<b>402,666</b>	<b>463,986</b>
For the year ended 31 December 2014	1,913,495	1,301,386	1,452,455

The trust plans also appointed the CALC SPCs as the service agent to collect the lease rentals from the airline companies. The services to be provided include maintaining relationship with the airline companies, collecting of rental on behalf the trust plan, following up assessments of the lease item, inquiring and reporting on lease rentals collection. CALC SPCs recognised service fee income over the lease servicing period. For the year ended 31 December 2015, service fee income of HK\$218,000 (2014: HK\$217,000) was included in Group's other income.

No member of the Group has any option or obligation to reacquire the transferred lease receivables.

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### 3.1.4 Unconsolidated structured entities and transferred finance lease receivables *(continued)*

The trust plans were not established by the Group and the Group has no control over the trust plans. They are unconsolidated structured entities. The following table shows the total assets size of the above mentioned unconsolidated structured entities and the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities:

	Unconsolidated structured entities			
	Size	Funding provided by the Group (Note (i))	Group's maximum exposure (Note (ii))	Interest held by Group
	HK\$'000	HK\$'000	HK\$'000	
As at 31 December 2015	<b>2,314,345</b>	<b>6,008</b>	<b>121,560</b>	Service fee
As at 31 December 2014	1,913,561	6,361	121,674	Service fee

Note:

- (i) The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of HK\$6,008,000 (2014: HK\$6,361,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2015 (Note 8). The Group does not need to bear any credit risk on this currency swap arrangement as the contract was signed between the beneficiary of the trust plan and the bank.
- (ii) The Group converted the US\$ lease rentals received on behalf of one of the trust plans during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement includes an embedded derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US\$15,684,296 (equivalent to HK\$121,560,000). As at 31 December 2015, the fair value of this currency swap contract amounted to HK\$16,148,000 (2014: HK\$14,979,000) and the fair value gain of HK\$1,183,000 was recognised in other gains and losses for the year ended 31 December 2015 (2014: gain of HK\$15,935,000) (Note 17(a)).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plan as at 31 December 2015. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2015.

The Group monitors capital risk using an asset-liability ratio, which is calculated as total liabilities divided by total assets. The asset-liability ratios are as follows:

	As at 31 December	
	2015 HK\$'000	2014 HK\$'000
Total liabilities	<b>21,739,027</b>	16,532,344
Total assets	<b>23,947,029</b>	18,313,040
Asset-liability ratio	<b>90.8%</b>	90.3%

#### 3.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group uses the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Company estimates the fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.3 Fair value estimation *(continued)*

The following table presents the Group's financial assets and financial liabilities that were measured at fair value at 31 December 2014 and 2015.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2015				
Assets				
Currency swap	—	16,148	—	16,148
Interest rate swaps for hedging	—	3,291	—	3,291
	—	19,439	—	19,439
Liabilities				
Interest rate swaps for hedging	—	32,103	—	32,103
At 31 December 2014				
Assets				
Currency swap	—	14,979	—	14,979
Liabilities				
Interest rate swaps for hedging	—	33,361	—	33,361

The fair values of the interest rate swaps for hedging and the currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, US\$/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

Fair values of financial assets and financial liabilities carried at amortised cost.

The fair values of cash and cash equivalents, other receivables, interest payable and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature and mature within one year, are not sensitive to changes in inputs to valuation techniques.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**3 FINANCIAL RISK MANAGEMENT** *(continued)***3.3 Fair value estimation** *(continued)*

The carrying amounts and fair values of the finance lease receivables, bank and long-term borrowings, medium-term notes and convertible bonds are as follows:

	31 December 2015		31 December 2014	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Finance lease receivables – net	<b>16,473,038</b>	<b>18,516,108</b>	11,443,485	13,141,127
Bank borrowings	<b>18,775,249</b>	<b>19,617,484</b>	15,342,648	16,203,738
Long-term borrowings	<b>794,221</b>	<b>887,854</b>	642,116	658,559
Medium-term notes	<b>400,547</b>	<b>400,547</b>	—	—
Convertible bonds	<b>796,506</b>	<b>796,506</b>	—	—

The fair values of finance lease receivables and borrowings are estimated by discounting the future cash flows at the current market rates available to the Group for similar financial instruments. The fair values of medium-term notes and convertible bonds approximated to their carrying amounts. The fair values are considered to be of level 2 within the fair value hierarchy.

**4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**4.1 Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

*(a) Estimation of unguaranteed residual value on leased assets*

Unguaranteed residual value is a portion of the residual value of a leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor. The unguaranteed residual value of the aircraft at the inception of the lease is based on management's estimates with reference to valuation reports issued by independent valuers. Please refer to Note 6 for the unguaranteed residual values recognised at the end of each reporting period. The estimation of unguaranteed residual value at the inception of the leases impacts the determination of unearned finance income. Subsequent to initial recognition, estimated unguaranteed residual values are reviewed regularly. If there is a reduction in the estimated unguaranteed residual value, the income allocation over the remaining lease term will be revised and the reduction in respect of net present value of unguaranteed residual value will be adjusted immediately in profit or loss. The directors of the Company are of the opinion that there had been no reduction in the carrying amount of the unguaranteed residual value as at 31 December 2015.

#### 4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

##### 4.1 Critical accounting estimates and assumptions *(continued)*

(a) *Estimation of unguaranteed residual value on leased assets (continued)*

The residual value of each aircraft is estimated by management and reasonably supported by an aircraft industry publication providing aircraft valuation for general reference. The residual values of the aircraft under the 57 (2014: 40) finance leases as at 31 December 2015 were approximately HK\$6,142,055,000 (2014: HK\$4,459,299,000). A 5% decrease in the expected residual value from the management's current estimates would result in a decrease in profit before income tax for the year ended 31 December 2015 by approximately HK\$15,827,000 (2014: HK\$10,663,000).

(b) *Income taxes and deferred tax*

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In accordance with the corporate income tax laws in the PRC, a 5% or 10% withholding tax is levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. No deferred tax liability has been provided by the Group on the retained earnings of approximately HK\$590,270,000 as at 31 December 2015 (2014: HK\$283,531,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

(c) *Recognition of share-based compensation expenses*

The Company has granted share options. Binomial valuation model was used to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as the risk free interest rate, dividend yield, expected volatility and staff annual retention rate, is required to be made by the directors in applying the Binomial valuation model (Note 11 (a)).

(d) *Impairment loss for finance lease receivables*

The Group reviews the finance lease receivables portfolio on a regular basis, evaluates any indications of impairment, and assesses impairment loss in the case of impairment under specific circumstances. The directors of the Company are of the views that there is no need to make any allowance for impairment loss for finance lease receivables based on their assessment.

(e) *Impairment of non-financial assets*

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

#### 4.1 Critical accounting estimates and assumptions *(continued)*

(e) *Impairment of non-financial assets (continued)*

The Group obtains fair values of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in a similar condition. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate the present value.

(f) *Fair values of derivative financial instruments*

The fair values of derivative financial instruments that are not traded in an active market (for example, over-the-counter interest rate swaps used for hedging) is determined by using valuation techniques. The Group uses its judgement to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for the derivative financial instruments that are not traded in active markets.

#### 4.2 Critical judgements in applying the Group's accounting policies

(a) *Determination of control over structured entities*

The Group considers that the trust plans as described in Note 3.1.4 are structured entities which are run according to predetermined criteria that are part of its initial design. The relevant activities are summarised in Note 3.1.4.

The Group has assessed that it does not control the trust plans as the Group (i) does not have the power to direct the relevant activities of the trust plans and (ii) does not significantly affect the variable returns of the trust plans. Accordingly, the trust plans are not consolidated by the Group. The determination of whether there are controls over the trust plans depends on an assessment of the relevant arrangements relating to the trust plans and this has involved critical judgements by management. For further details about these unconsolidated structured entities, see Note 3.1.4.

(b) *Classification of leases*

The Group has entered into certain aircraft leases whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased aircraft to the lessees, as the present values of the minimum lease payments of the lease amounts to at least substantially all of the fair values of the leased assets at the inception of the leases. Accordingly, the Group has excluded the aircraft from its consolidated balance sheet and has instead, recognised finance lease receivables in their place (Note 6). Otherwise the Group includes the aircraft under operating lease in property, plant and equipment. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

## 5 PROPERTY, PLANT AND EQUIPMENT

	Aircraft HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>As at 1 January 2014</b>						
Cost	1,569,537	1,009	692	1,348	—	1,572,586
Accumulated depreciation	(83,991)	(479)	(404)	(585)	—	(85,459)
Net book amount	1,485,546	530	288	763	—	1,487,127
<b>Year ended 31 December 2014</b>						
Opening net book amount	1,485,546	530	288	763	—	1,487,127
Additions	297,138	73	—	1,806	—	299,017
Disposal	—	—	—	(133)	—	(133)
Depreciation	(70,340)	(331)	(173)	(468)	—	(71,312)
Currency translation difference	(7,988)	(12)	—	(4)	—	(8,004)
Closing net book amount	1,704,356	260	115	1,964	—	1,706,695
<b>As at 31 December 2014</b>						
Cost	1,858,257	1,078	692	2,686	—	1,862,713
Accumulated depreciation	(153,901)	(818)	(577)	(722)	—	(156,018)
Net book amount	1,704,356	260	115	1,964	—	1,706,695
<b>Year ended 31 December 2015</b>						
Opening net book amount	<b>1,704,356</b>	<b>260</b>	<b>115</b>	<b>1,964</b>	<b>—</b>	<b>1,706,695</b>
Additions	<b>791,229</b>	<b>3,462</b>	<b>—</b>	<b>2,231</b>	<b>15,397</b>	<b>812,319</b>
Depreciation	<b>(88,904)</b>	<b>(1,374)</b>	<b>(115)</b>	<b>(905)</b>	<b>—</b>	<b>(91,298)</b>
Currency translation difference	<b>(15,178)</b>	<b>21</b>	<b>—</b>	<b>(15)</b>	<b>—</b>	<b>(15,172)</b>
Closing net book amount	<b>2,391,503</b>	<b>2,369</b>	<b>—</b>	<b>3,275</b>	<b>15,397</b>	<b>2,412,544</b>
<b>As at 31 December 2015</b>						
Cost	<b>2,631,830</b>	<b>4,522</b>	<b>692</b>	<b>4,890</b>	<b>15,397</b>	<b>2,657,331</b>
Accumulated depreciation	<b>(240,327)</b>	<b>(2,153)</b>	<b>(692)</b>	<b>(1,615)</b>	<b>—</b>	<b>(244,787)</b>
Net book amount	<b>2,391,503</b>	<b>2,369</b>	<b>—</b>	<b>3,275</b>	<b>15,397</b>	<b>2,412,544</b>

Lease rentals amounting to HK\$223,881,000 relating to the lease of aircraft for the year ended 31 December 2015 are included in "operating lease income" in the consolidated statement of income (2014: HK\$182,127,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCE LEASE RECEIVABLES – NET

	31 December	
	2015 HK\$'000	2014 HK\$'000
Finance lease receivables	15,970,062	11,410,919
Guaranteed residual values	5,123,495	3,361,473
Unguaranteed residual values	6,142,055	4,459,299
Gross investment in leases	27,235,612	19,231,691
Less: unearned finance income	(10,762,574)	(7,788,206)
Net investment in leases	16,473,038	11,443,485
Less: accumulated allowance for impairment (a)	—	—
Finance lease receivables – net	16,473,038	11,443,485

- (a) The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from airline companies is low. The Group has not encountered any delay or default in the collection of the scheduled payments of finance lease receivables. No impairment allowance was made for the finance lease receivables as at 31 December 2015. Please refer to Note 3.1.2 for credit risk analysis in greater detail.

Reconciliation between the gross investment in finance leases at the end of each reporting period and the present value of minimum lease amounts receivable under such leases at the end of each reporting period is set out below.

	31 December	
	2015 HK\$'000	2014 HK\$'000
Gross investment in finance leases	27,235,612	19,231,691
Less: Unguaranteed residual values	(6,142,055)	(4,459,299)
Minimum lease amounts receivable	21,093,557	14,772,392
Less: Unearned finance income related to minimum lease amounts receivable	(7,506,573)	(5,336,229)
Present value of minimum lease amounts receivable	13,586,984	9,436,163

**6 FINANCE LEASE RECEIVABLES – NET** (continued)

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of the reporting period:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
— Not later than 1 year	<b>1,604,293</b>	1,125,802
— Later than 1 year and not later than 5 years	<b>6,879,054</b>	4,894,837
— Later than 5 years	<b>18,752,265</b>	13,211,052
	<b>27,235,612</b>	19,231,691

The table below analyses the present value of minimum lease amounts receivable under finance leases by relevant maturity groupings at the end of the reporting period:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
— Not later than 1 year	<b>720,090</b>	506,936
— Later than 1 year and not later than 5 years	<b>3,146,287</b>	2,234,647
— Later than 5 years	<b>9,720,607</b>	6,694,580
	<b>13,586,984</b>	9,436,163

The carrying amounts of the Group's finance lease receivables are principally denominated in US\$.

The following table sets forth the finance lease receivables attributable to airline companies:

	<b>31 December</b>			
	<b>2015</b>		2014	
	HK\$'000	%	HK\$'000	%
Categorised by customer in term of lease receivables:				
Five largest airline companies	<b>11,288,283</b>	<b>69%</b>	9,498,644	83%
Other airline companies	<b>5,184,755</b>	<b>31%</b>	1,944,841	17%
Finance lease receivables – net	<b>16,473,038</b>	<b>100%</b>	11,443,485	100%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 PREPAYMENTS AND OTHER RECEIVABLES

	31 December	
	2015 HK\$'000	2014 HK\$'000
PDP (a)	2,942,155	3,241,157
Interest capitalised	94,198	63,158
Prepayments and receivables relating to aircraft acquisition	98,184	190,762
Deposit for land use rights (b)	195,231	—
Deposits paid	5,142	1,705
Others (c)	109,422	6,578
	<b>3,444,332</b>	3,503,360

(a) In 2012, the Group entered into aircraft purchase agreements with Airbus S.A.S for the acquisition of 36 aircraft for future lease projects. In 2014, the Group entered into additional aircraft purchase agreements with Airbus S.A.S for the acquisition of 100 aircraft. In December 2015, the Group entered into an agreement with Airbus S.A.S. for acquisition of additional 2 aircraft which was executed in a form of amendment agreement to the aircraft purchase agreement signed in 2014. Such prepayments were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft are to be delivered during the period from 2016 to 2022.

(b) In July 2015, the Company signed a land use right transfer agreement for purchase a plot of land of approximately 300,000 square metre in the Harbin Airport Economic Zone in the PRC for construction of an aircraft disassembly centre.

(c) The "Others" above were unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	31 December	
	2015 HK\$'000	2014 HK\$'000
US\$	3,225,503	3,485,736
RMB	211,531	5,816
HK\$	3,626	4,797
Other currencies	3,672	7,011
	<b>3,444,332</b>	3,503,360

**8 RESTRICTED CASH**

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Pledged for secured bank borrowings for aircraft acquisition financing (Note 13)	<b>119,214</b>	158,285
Pledged for PDP financing (Note 13)	<b>6,356</b>	10,344
Pledged for letters of guarantee issued by a bank	<b>24,555</b>	18,196
Pledged for interest rate swap contracts (Note 17)	<b>52,254</b>	25,765
Pledged for a currency swap contract	<b>6,008</b>	6,361
	<b>208,387</b>	218,951

The carrying amounts of the Group's restricted cash are denominated in the following currencies:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
US\$	<b>123,665</b>	154,320
RMB	<b>84,722</b>	64,631
	<b>208,387</b>	218,951

The average effective interest rate as at 31 December 2015 was 0.32% (2014: 0.57%).

**9 CASH AND CASH EQUIVALENTS**

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Cash at bank and on hand	<b>1,389,289</b>	1,425,570



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**9 CASH AND CASH EQUIVALENTS** *(continued)*

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	<b>31 December</b>	
	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
US\$	<b>1,044,947</b>	1,102,810
RMB	<b>299,880</b>	184,319
HK\$	<b>43,912</b>	138,005
Other currencies	<b>550</b>	436
	<b>1,389,289</b>	1,425,570

The average effective interest rate as at 31 December 2015 was 0.31% (2014: 0.62%).

**10 SHARE CAPITAL**

Ordinary shares, issued and fully paid:

	<b>Par value of each share</b>	<b>Number of issued shares</b>	<b>Share capital in HK\$</b>
Issued			
As at 1 January 2014	US\$1	10,000	78,000
Share repurchase and cancellation (a)(i)	US\$1	(10,000)	(78,000)
Issue of new ordinary shares (a)(i)	HK\$0.1	10,000	1,000
Capitalisation of shares (a)(ii)&(iii)	HK\$0.1	468,971,000	46,897,100
Issue of new ordinary shares — IPO (b)	HK\$0.1	116,800,000	11,680,000
As at 31 December 2014	HK\$0.1	585,781,000	58,578,100
As at 1 January 2015	<b>HK\$0.1</b>	<b>585,781,000</b>	<b>58,578,100</b>
Issue of new shares from exercise of share options (c)	<b>HK\$0.1</b>	<b>20,142,800</b>	<b>2,014,280</b>
As at 31 December 2015	<b>HK\$0.1</b>	<b>605,923,800</b>	<b>60,592,380</b>

**10 SHARE CAPITAL** *(continued)*

- (a) On 23 June 2014, the following changes in the share capital of the Company took place:
- (i) The authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of 10,000,000,000 new shares of HK\$0.1 each. The Company repurchased from China Aircraft Leasing Holdings Limited ("CALH") all of the 10,000 shares of US\$1 each then in issue in the consideration of allotment and issue of 10,000 new shares of HK\$0.1 each to CALH. Immediately thereafter, the Company cancelled 50,000 shares of US\$1 each in the authorised capital of the Company.
  - (ii) The Company allotted and issued 468,941,929 new shares, credited as fully paid at par, by capitalising and applying in full up to an amount of HK\$46,894,192.90 standing to the credit of the share premium account of the Company.
  - (iii) Pursuant to a shareholders' resolution dated 23 June 2014, conditional on the share premium account of the Company being credited as a result of the global offering, the directors were authorised to capitalise the amount of HK\$2,907.10 standing to the credit of the share premium account of the Company to pay up in full at par value of 29,071 shares for allotment and issue to the shareholders in proportion to their respective shareholdings.
- (b) On 11 July 2014, the Company issued 116,800,000 new ordinary shares of HK\$0.1 each in the Company at HK\$5.53 per share. After deducting the issuance cost, HK\$11,680,000 and HK\$608,996,000 were credited to share capital and share premium respectively. On the same date, the Company's shares were listed on the Stock Exchange.
- (c) During the year ended 31 December 2015, certain employees and consultants exercised share options granted under share option schemes, resulting in 20,142,800 new shares being issued, with total proceeds of HK\$31,474,000. The related weighted average share price at the time of exercise was HK\$10.75 per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	Share- based payment HK\$'000	Cash flow hedges HK\$'000	Convertible bonds HK\$'000	Currency translation difference HK\$'000	Total HK\$'000
Balance as at 1 January 2014	89,132	623,720	2,588	22,287	—	5,372	743,099
Change in fair value of interest rate swaps							
— cash flow hedges (Note 17)	—	—	—	(40,461)	—	—	(40,461)
Reclassified from other comprehensive income to profit or loss — cash flow hedges (Note 17)	—	—	—	(1,267)	—	—	(1,267)
Currency translation differences	—	—	—	—	—	(2,023)	(2,023)
Issue of ordinary shares (Note 10(b))	608,996	—	—	—	—	—	608,996
Share repurchase and cancellation (Note 10(a))	78	—	—	—	—	—	78
Capitalisation of shares (Note 10(a))	(46,897)	—	—	—	—	—	(46,897)
Employee share option scheme:							
— Value of employee services (a)	—	—	12,006	—	—	—	12,006
Balance as at 31 December 2014	651,309	623,720	14,594	(19,441)	—	3,349	1,273,531
Balance as at 1 January 2015	<b>651,309</b>	<b>623,720</b>	<b>14,594</b>	<b>(19,441)</b>	<b>—</b>	<b>3,349</b>	<b>1,273,531</b>
Change in fair value of interest rate swaps							
— cash flow hedges (Note 17)	—	—	—	4,734	—	—	4,734
Reclassified from other comprehensive income to profit or loss — cash flow hedges (Note 17)	—	—	—	1,844	—	—	1,844
Currency translation differences	—	—	—	—	—	(795)	(795)
Employee share option scheme:							
— Value of employee services (a)	—	—	12,182	—	—	—	12,182
— Issue of new shares from exercise of share options (Note 10(c))	32,063	—	(2,603)	—	—	—	29,460
Convertible bonds — equity component (Note 16)	—	—	—	—	116,541	—	116,541
Balance as at 31 December 2015	<b>683,372</b>	<b>623,720</b>	<b>24,173</b>	<b>(12,863)</b>	<b>116,541</b>	<b>2,554</b>	<b>1,437,497</b>

## (a) Share-based payments

## (i) Pre-IPO Share Option Scheme

On 4 August 2011, CALH adopted a share option scheme ("Pre-IPO Share Option Scheme") for the purpose of recognising the contribution of participants including its directors, eligible employees, consultants and related parties to the growth of the Group. As a result of the reorganisation of the Group before IPO and pursuant to the written resolution of the Board of Directors of the Company passed on 23 June 2014, the aforesaid Pre-IPO Share Scheme was taken over by the Company.

**11 RESERVES** *(continued)***(a) Share-based payments** *(continued)**(i) Pre-IPO Share Option Scheme (continued)*

During the year ended 31 December 2011, options to subscribe for 45,000,000 shares were granted by CALH to its directors and employees, Friedmann Pacific Asset Management Limited ("FPAM"), China Everbright Aerospace Holdings Limited ("CE Aerospace") and the consultants of the Group and were allocated to Tranche A and Tranche B as follows:

	<b>Tranche A</b>	<b>Tranche B</b>
Directors and employees	16,700,000	10,000,000
Consultants	10,000,000	5,000,000
FPAM	1,300,000	—
CE Aerospace	2,000,000	—
	<hr/> 30,000,000	<hr/> 15,000,000

For Tranche A options, subject to the Group achieving the performance targets and the holders of options achieving individual performance targets, if any, and also remaining as full time employees or consultants of the Group, options to subscribe for a maximum of 9,900,000 shares, 9,900,000 shares and 10,200,000 shares will become exercisable on, respectively, the first financial year results publication date (the "First Publication Date") after the IPO of the Company, 12 months after, and 24 months after the First Publication Date.

For Tranche B options, subject to the Group achieving the performance targets and the holders of options achieving individual performance targets and also remaining as full time employees or consultants of the Group, options to subscribe for a maximum of 15,000,000 shares will become exercisable on the First Publication Date.

On 29 December 2014, an amendment to the term of exercise dates related to the share option granted to the external consultant - Wealth Amass Limited, a company incorporated in the British Virgin Islands ("BVI"), was approved by resolution of the shareholders at an extraordinary general meeting. After the approval of the amendment, the exercise dates for the share options granted to Wealth Amass Limited are changed (as compared to the exercise dates mentioned in the first paragraph above) to that a maximum of 6,000,000 shares and 4,000,000 shares will become exercisable on the First Publication Date after the IPO of the Company and 12 months after the First Publication Date, respectively.

The exercise price is US\$0.161 per share for those options exercised during the period from 1 July 2014 to 30 June 2015 with adjustment by a required time value cost of 10% per annum for those options exercised thereafter. All the options shall lapse or expire after three years from the first financial year results publication date after the IPO of the Company. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 RESERVES (continued)

## (a) Share-based payments (continued)

## (i) Pre-IPO Share Option Scheme (continued)

The following share options under the Pre-IPO Share Option Scheme were outstanding during the year and as at 31 December 2015:

Name of grantees	Date of grant	Tranche	Number of shares under options					Price of the Company's shares				Immediately before the exercise date (Note d) (HK\$) per share	Exercise period
			At 1 January 2015	Granted during the year	Exercise during the year	Lapsed during the year	At 31 December 2015	Exercise price (US\$) per share					
								26/3/2015 to 30/6/2015	1/7/2015 to 30/6/2016	1/7/2016 to 30/6/2017	1/7/2017 to 26/3/2018		
<b>Substantial shareholders</b>													
CE Aerospace	10 October 2011	A	660,000	—	(660,000)	—	—	0.161	0.177	0.195	0.215	11.08	26/3/2015 to 26/3/2018
			660,000	—	—	—	660,000	N/A	0.177	0.195	0.215		26/3/2016 to 26/3/2018
			680,000	—	—	—	680,000	N/A	N/A	0.195	0.215		26/3/2017 to 26/3/2018
FPAM	10 October 2011	A	429,000	—	(429,000)	—	—	0.161	0.177	0.195	0.215	11.94	26/3/2015 to 26/3/2018
			429,000	—	—	—	429,000	N/A	0.177	0.195	0.215		26/3/2016 to 26/3/2018
			442,000	—	—	—	442,000	N/A	N/A	0.195	0.215		26/3/2017 to 26/3/2018
Sub-total			3,300,000	—	(1,089,000)	—	2,211,000						
<b>Connected persons</b>													
Equal Honour Holdings Limited (Note a)	7 October 2011	A	4,950,000	—	(4,950,000)	—	—	0.161	0.177	0.195	0.215	11.94	26/3/2015 to 26/3/2018
			4,950,000	—	—	—	4,950,000	N/A	0.177	0.195	0.215		26/3/2016 to 26/3/2018
			5,100,000	—	—	—	5,100,000	N/A	N/A	0.195	0.215		26/3/2017 to 26/3/2018
Smart Vintage Investments Limited (Note b)	7 October 2011	B	10,000,000	—	(10,000,000)	—	—	0.161	0.177	0.195	0.215	11.26	26/3/2015 to 26/3/2018
Sub-total			25,000,000	—	(14,950,000)	—	10,050,000						

**11 RESERVES** (continued)**(a) Share-based payments** (continued)

(i) Pre-IPO Share Option Scheme (continued)

Name of grantees	Date of grant	Tranche	Number of shares under options				Price of the Company's shares				Immediately before the exercise date (Note d) (HK\$) per share	Exercise period	
			At 1 January 2015	Granted during the year	Exercise during the year	Lapsed during the year	At 31 December 2015	Exercise price (US\$) per share					
								26/3/2015 to 30/6/2015	1/7/2015 to 30/6/2016	1/7/2016 to 30/6/2017			1/7/2017 to 26/3/2018
<b>Consultants</b>													
Wealth Amass Limited (Note c)	10 October 2011	A	6,000,000	—	—	—	6,000,000	0.161	0.177	0.195	0.215		26/3/2015 to 26/3/2018
			4,000,000	—	—	—	4,000,000	N/A	0.177	0.195	0.215		26/3/2016 to 26/3/2018
Loft Profit Limited	7 October 2011	B	2,500,000	—	(2,500,000)	—	—	0.161	0.177	0.195	0.215	11.48	26/3/2015 to 26/3/2018
Sub-total			12,500,000	—	(2,500,000)	—	10,000,000						
<b>Senior management and other employees</b>													
	10 October 2011	A	339,900	—	(330,000)	—	9,900	0.161	0.177	0.195	0.215	11.19	26/3/2015 to 26/3/2018
			339,900	—	—	(33,000)	306,900	N/A	0.177	0.195	0.215		26/3/2016 to 26/3/2018
			350,200	—	—	(34,000)	316,200	N/A	N/A	0.195	0.215		26/3/2017 to 26/3/2018
	30 December 2011	A	66,000	—	(66,000)	—	—	0.161	0.177	0.195	0.215	10.72	26/3/2015 to 26/3/2018
			66,000	—	—	—	66,000	N/A	0.177	0.195	0.215		26/3/2016 to 26/3/2018
			68,000	—	—	—	68,000	N/A	N/A	0.195	0.215		26/3/2017 to 26/3/2018
Sub-total			1,230,000	—	(396,000)	(67,000)	767,000						
<b>Total</b>			<b>42,030,000</b>	<b>—</b>	<b>(18,935,000)</b>	<b>(67,000)</b>	<b>23,028,000</b>						

Note:

- (a) Equal Honour Holdings Limited is wholly-owned by Mr. Poon Ho Man, a substantial shareholder of the Company.
- (b) Smart Vintage Investments Limited is wholly-owned by Ms. Liu Wanting, a director of the Company.
- (c) Amendment to the terms of share options granted to Wealth Amass Limited was approved by shareholders at the extraordinary general meeting of the Company held on 29 December 2014.
- (d) The price of the Company's shares disclosed is the weighted average closing price of the shares immediately before the dates on which the share options were exercised during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 RESERVES (continued)

#### (a) Share-based payments (continued)

##### (ii) Post-IPO Share Option Scheme

On 2 September 2014, options to subscribe for 26,990,000 shares (the "Post-IPO Share Option") with an exercise price of HK\$6.38 per share were granted to certain directors of the Company and selected employees and consultants of the Group. The vesting of the Post-IPO Share Option is conditional upon the individual performance of respective grantees and the achievement of certain performance targets of the Group.

Among the 26,990,000 shares under the options, 5,340,000 shares were to its directors and employees, and 21,650,000 shares were to the consultants of the Group under this scheme, respectively. Of the options to subscribe for 26,990,000 shares, options to subscribe for 21,650,000 shares were allocated to Tranche A and options to subscribe for 5,340,000 shares were allocated to Tranche B.

For Tranche A options, subject to the holders of options achieving individual performance targets, if any, and also remaining as full time consultants of the Group, options to subscribe for a maximum of 10,825,000 shares and 10,825,000 shares will become exercisable on and from, 1 February 2015 and 1 February 2016 respectively and both will expire on 1 September 2016.

For Tranche B options, subject to the holders of options achieving individual performance targets, if any, options to subscribe for a maximum of 1,762,200 shares, 1,762,200 shares and 1,815,600 shares will become exercisable on and from, 1 March 2015, 1 March 2016 and 1 March 2017 respectively, and all will expire on 1 September 2017.

The weighted average fair value of Post-IPO Share Options on the grant date determined using the Binominal valuation model was approximately HK\$1.0, (directors and employees) and HK\$0.9 (consultants) per option respectively, with a total value of HK\$26,000,193.

**11 RESERVES** (continued)**(a) Share-based payments** (continued)(ii) *Post-IPO Share Option Scheme* (continued)

The following share options under the Post-IPO Share Option Scheme were outstanding during the year and as at 31 December 2015:

Name of grantees	Date of grant	Tranche	Number of shares under options				At 31 December 2015	Price of the Company's shares		Exercise period
			At 1 January 2015	Granted during the year	Exercise during the year	Lapsed during the year		Exercise price (HK\$) per share	Immediately before the exercise date (Note c) (HK\$) per share	
<b>Consultants</b> (Note a)	2 September 2014	A	10,825,000	—	—	—	10,825,000	6.38		1/2/2015 to 1/9/2016
			10,825,000	—	—	—	10,825,000	6.38		1/2/2016 to 1/9/2016
Sub-total			21,650,000	—	—	—	21,650,000			
<b>Directors</b>										
Mr. Chen Shuang	2 September 2014	B	66,000	—	—	—	66,000	6.38		1/3/2015 to 1/9/2017
			66,000	—	—	—	66,000	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	—	68,000	6.38		1/3/2017 to 1/9/2017
Mr. Tang Chi Chun	2 September 2014	B	66,000	—	—	—	66,000	6.38		1/3/2015 to 1/9/2017
			66,000	—	—	—	66,000	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	—	68,000	6.38		1/3/2017 to 1/9/2017
Mr. Guo Zibin	2 September 2014	B	66,000	—	—	—	66,000	6.38		1/3/2015 to 1/9/2017
			66,000	—	—	—	66,000	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	—	68,000	6.38		1/3/2017 to 1/9/2017
Mr. Fan Yan Hok, Philip	2 September 2014	B	66,000	—	(66,000)	—	—	6.38	11.52	1/3/2015 to 1/9/2017
			66,000	—	—	—	66,000	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	—	68,000	6.38		1/3/2017 to 1/9/2017



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 RESERVES (continued)

## (a) Share-based payments (continued)

## (ii) Post-IPO Share Option Scheme (continued)

Name of grantees	Date of grant	Tranche	Number of shares under options				At 31 December 2015	Price of the Company's shares		Exercise period
			At 1 January 2015	Granted during the year	Exercise during the year	Lapsed during the year		Exercise price (HK\$) per share	Immediately before the exercise date (Note c) (HK\$) per share	
<b>Directors</b> (continued)										
Mr. Ng Ming Wah, Charles	2 September 2014	B	66,000	—	—	—	66,000	6.38		1/3/2015 to 1/9/2017
			66,000	—	—	—	66,000	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	—	68,000	6.38		1/3/2017 to 1/9/2017
Mr. Zhang Chongqing (Note b)	2 September 2014	B	66,000	—	(66,000)	—	—	6.38	14.78	1/3/2015 to 1/9/2017
			66,000	—	—	(66,000)	—	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	(68,000)	—	6.38		1/3/2017 to 1/9/2017
Mr. Nien Van Jin, Robert	2 September 2014	B	66,000	—	(66,000)	—	—	6.38	12.92	1/3/2015 to 1/9/2017
			66,000	—	—	—	66,000	6.38		1/3/2016 to 1/9/2017
			68,000	—	—	—	68,000	6.38		1/3/2017 to 1/9/2017
Sub-total			1,400,000	—	(198,000)	(134,000)	1,068,000			
<b>Senior management and other employees</b>	2 September 2014	B	1,267,200	—	(1,009,800)	(29,700)	227,700	6.38	10.50	1/3/2015 to 1/9/2017
			1,267,200	—	—	(379,500)	887,700	6.38		1/3/2016 to 1/9/2017
			1,305,600	—	—	(391,000)	914,600	6.38		1/3/2017 to 1/9/2017
Sub-total			3,840,000	—	(1,009,800)	(800,200)	2,030,000			
<b>Total</b>			<b>26,890,000</b>	<b>—</b>	<b>(1,207,800)</b>	<b>(934,200)</b>	<b>24,748,000</b>			

Note:

- (a) Tranche A options to subscribe for 5,850,000 shares were granted to an entity controlled by Mr. Sun Quan, a former independent non-executive director of the Company.
- (b) Mr. Zhang Chongqing retired as a director of the Company with effect from the conclusion of the annual general meeting of the Company held on 8 May 2015.
- (c) The price of the Company's shares disclosed is the weighted average closing price of the shares immediately before the dates on which the share options were exercised during the year.

**11 RESERVES** (continued)**(a) Share-based payments** (continued)*(ii) Post-IPO Share Option Scheme (continued)*

Other than the exercise price mentioned above, significant judgement on parameters, such as spot price at the grant date, risk free interest rate, dividend yield, expected volatility and suboptimal exercise factor are required to be made by the directors in applying the Binomial valuation model. The parameters used are as follows:

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	
		Tranche A	Tranche B
Spot share price at the grant date	US\$0.12	HK\$5.66	HK\$5.66
Risk free rate	0.943%	0.384%	0.709%
Dividend yield	17.5%	2.73%	2.73%
Expected volatility	45%	41.06%	42.09%
Suboptimal exercise factor	2.5	2.5	2.5

The amounts of share-based compensation recognised as expense with a corresponding credit to reserves of the Group during the year are as follows:

	For the year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Directors and employees	2,962	2,132
Consultants	9,220	9,874
	<b>12,182</b>	12,006

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**12 DEFERRED INCOME TAX LIABILITIES**

The analysis of deferred tax liabilities is as follows:

	<b>31 December</b>	
	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Deferred tax liabilities:		
— To be settled after 12 months	<b>122,132</b>	67,161

The movement of the deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	<b>Accelerated depreciation of leased assets HK\$'000</b>
<b>Deferred tax liabilities</b>	
As at 1 January 2014	26,267
Charged to profit or loss (Note 25)	40,894
As at 31 December 2014	67,161
As at 1 January 2015	<b>67,161</b>
Charged to profit or loss (Note 25)	<b>56,120</b>
Currency translation difference	<b>(1,149)</b>
As at 31 December 2015	<b>122,132</b>

The Group offsets its deferred tax assets and deferred tax liabilities to the extent that they relate to the same entity and the same taxation authority.

As at 31 December 2015, certain subsidiaries of the Group had unused tax losses of approximately HK\$344,861,000 (2014: HK\$207,448,000) available to offset against future profits, for which deferred tax asset of HK\$50,582,000 (2014: HK\$29,590,000) had not been recognised as their future realisation is uncertain.

**12 DEFERRED INCOME TAX LIABILITIES** *(continued)*

The expiry dates of the unused tax losses are as follows:

Year	31 December	
	2015 HK\$'000	2014 HK\$'000
2015	—	1,650
2016	3,340	3,340
2017	4,291	4,291
2018	12,306	12,306
2019	12,750	12,750
2020	14,953	—
No expiry date	297,221	173,111
	<b>344,861</b>	207,448

**13 BANK BORROWINGS**

	31 December	
	2015 HK\$'000	2014 HK\$'000
Secured bank borrowings for aircraft acquisition financing (a)	15,908,923	12,262,667
PDP financing (b)	2,063,645	2,304,913
Working capital borrowings (c)	802,681	775,068
	<b>18,775,249</b>	15,342,648

- (a) Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating US\$ LIBOR rates. As at 31 December 2015, the bank borrowings were secured by, in addition to other legal charges, all of the Group's aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain of the Group companies and pledge of deposits amounting to HK\$119,214,000 (2014: HK\$158,285,000).
- (b) As at 31 December 2015, PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, guarantees from the Company and China Aircraft Leasing Company Limited ("CALC (BVI)"), and pledge of deposits of HK\$6,356,000 (2014: HK\$10,344,000).
- (c) As at 31 December 2015, the Group borrowed an aggregate amount of working capital borrowings of HK\$802,681,000 (2014: HK\$775,068,000) from four banks (2014: three banks) which was guaranteed by the Company and CALC (BVI) (2014: Same).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**13 BANK BORROWINGS** (continued)

The borrowings are repayable as follows:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Within 1 year	<b>3,411,695</b>	4,689,521
Between 1 and 2 years	<b>1,702,979</b>	993,735
Between 2 and 5 years	<b>3,481,454</b>	2,448,475
Over 5 years	<b>10,179,121</b>	7,210,917
	<b>18,775,249</b>	15,342,648

The exposure of bank borrowings to interest rate changes and the contractual interest rate repricing dates at the end of balance sheet date are as follows:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Fixed-interest rate	<b>6,669,105</b>	5,256,250
Floating-interest rate	<b>12,106,144</b>	10,086,398
	<b>18,775,249</b>	15,342,648

The average effective interest rate as at 31 December 2015 of bank borrowings was 4.67% (2014: 4.62%). The carrying amounts of borrowings are principally denominated in US\$.

The Group has the following undrawn borrowing facilities:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Floating rate:		
— Expiring within one year	<b>85,003</b>	77,577
— Expiring beyond one year	<b>865,365</b>	318,458
	<b>950,368</b>	396,035

**14 LONG-TERM BORROWINGS**

	<b>31 December</b>	
	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Borrowings from trust plans	<b>794,221</b>	642,116

As at 31 December 2015, seven borrowings (2014: five borrowings) were provided by trust plans to seven subsidiaries (2014: five subsidiaries) of the Group. The effective interest rates of long-term borrowings are from 6.2% to 7.8% (2014: from 6.4% to 7.8%) per annum for terms of 8 years to 11 years. These long-term borrowings were secured by shares of and aircraft held by each subsidiary and guaranteed by China Asset Leasing Company Limited. The trust plans are also counterparties to the transfer of finance lease receivable transactions entered into with each subsidiary (Notes 3.1.4 and 20).

**15 MEDIUM-TERM NOTES**

On 15 July 2015, a subsidiary of the Company issued 5-year medium-term notes in the aggregate principal amount of RMB340.0 million (equivalent to HK\$406.0 million) in the PRC, net of transaction cost of HK\$5.5 million. The notes bear coupon interest at 6.5% per annum.

**16 CONVERTIBLE BONDS**

	<b>31 December 2015</b>		
	<b>Liability</b> <b>HK\$'000</b>	<b>Equity</b> <b>HK\$'000</b>	<b>Total</b> <b>HK\$'000</b>
Par value of convertible bonds issued during 2015	<b>773,456</b>	<b>118,714</b>	<b>892,170</b>
Transaction costs	<b>(13,321)</b>	<b>(2,173)</b>	<b>(15,494)</b>
Carrying amount on initial recognition	<b>760,135</b>	<b>116,541</b>	<b>876,676</b>
Accumulated interest expense accrued at effective interest rate	<b>66,067</b>	—	<b>66,067</b>
Accumulated interest paid (inclusive of arrangement fee)	<b>(29,696)</b>	—	<b>(29,696)</b>
Carrying amount as at 31 December 2015	<b>796,506</b>	<b>116,541</b>	<b>913,047</b>

In April and May 2015, the Company completed the issue of convertible bonds at a par value of HK\$387.9 million, HK\$116.4 million and HK\$387.9 million to China Huarong International Holdings Limited (formerly known as Huarong (HK) International Holdings Limited), Great Wall Pan Asia International Investment Co., Limited and China Everbright Financial Investments Limited, respectively. The bonds bear interest rate of 3.0% per annum and arrangement fee of 3.5% per annum with maturity of three years from the issue date and can be converted into shares at the holder's option at any time on or after the 41st day from the bonds issue date to the 10th day prior to the maturity date. The conversion price is HK\$11.28 per share, subject to adjustments in accordance with the terms and conditions of the bonds.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**16 CONVERTIBLE BONDS** *(continued)*

The fair value of the liability component was estimated at the respective date of issue using an interest rate (inclusive of arrangement fee) that would be available at that date to the Company for a non-convertible bond with equivalent terms ("effective interest rate"). The residual amount, being the par value of the bonds less the fair value of the liability component, represents the value of the equity conversion option. The transaction costs of HK\$15,494,000, consisting mainly of the underwriting commission, are netted off against the liability component and the equity conversion option component proportionately to arrive at the carrying amounts of the respective components on initial recognition.

Interest expense on the carrying amount of the liability component is accrued at the effective interest rate of 11.8% to 14.1% (inclusive of arrangement fee) to adjust the carrying amount of the liability component to its amortised cost, being the present value of the expected future cash flows relating to periodic interest payments and principal repayment at par value at the maturity date.

**17 DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>31 December</b>	
	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Derivative financial assets		
— Currency swap (a) (Note 3.1.4)	<b>16,148</b>	14,979
— Interest rate swaps (b)	<b>3,291</b>	—
	<b>19,439</b>	14,979
Derivative financial liabilities		
— Interest rate swaps (b)	<b>32,103</b>	33,361

**17 DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)*

- (a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US\$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement included an embedded derivative — a currency swap contract. The notional principal of this embedded currency swap contract amounted to US\$15,684,296 (equivalent to HK\$121,560,000). As at 31 December 2015, the fair value of this currency swap contract amounted to HK\$16,148,000 (2014: HK\$14,979,000) and the fair value gain of HK\$1,183,000 was recognised in other gains and losses for the year ended 31 December 2015 (2014: gain of HK\$15,935,000).
- (b) As at 31 December 2015, the Group had 13 outstanding interest rate swap contracts which will expire at various dates from 21 September 2018 to 21 March 2024, to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.5% to 2.1%. As at 31 December 2015, these interest rate swap contracts were secured by pledged deposits of HK\$52,254,000 (2014: HK\$25,765,000). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.
- (i) 12 outstanding interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective during the year ended 31 December 2015 (2014: 9 contracts).
- (ii) In December 2013, the Group terminated one interest rate swap contract for a realised gain of US\$1,947,000 (equivalent to HK\$15,187,000). This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to interest expense as the hedged bank borrowing is progressively repaid from 2014 to 2026. During the year ended 31 December 2015, the realised gain of HK\$1,184,000 (2014: HK\$1,267,000) was reclassified from cash flow hedges reserve to interest expense.
- (iii) In January 2015, CALC Jianqing Limited, a wholly-owned subsidiary of the Company, repaid the bank borrowing which was hedged by an interest rate swap. As a result, the hedge no longer met the criteria for hedge accounting and the cumulative fair value loss of HK\$3,028,000 (2014: Nil) was reclassified from cash flow hedges reserve to other gains and losses upon the repayment of bank borrowing on 4 January 2015. Subsequently, the fair value loss of HK\$197,000 for the period from 5 January 2015 to 31 December 2015 was directly recognised in profit or loss. During the year ended 31 December 2015, total fair value loss of HK\$3,225,000 was charged to other gains and losses.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**17 DERIVATIVE FINANCIAL INSTRUMENTS** (continued)

The fair value changes of financial instruments recognised in other comprehensive income and profit or loss are as follows:

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Recognised in other comprehensive income		
— Change in fair value of interest rate swaps (b)(i)	<b>4,734</b>	(40,461)
— Reclassified from other comprehensive income to profit or loss (b)(ii) and (iii)	<b>1,844</b>	(1,267)
	<b>6,578</b>	(41,728)
Recognised in profit or loss		
— Unrealised gain on currency swap (a)	<b>1,183</b>	15,935
— Fair value loss on interest rate swap (b)(iii)	<b>(3,225)</b>	—
	<b>(2,042)</b>	15,935

**18 OTHER PAYABLES AND ACCRUALS**

	31 December	
	2015 HK\$'000	2014 HK\$'000
Deposits and fund received for lease and aircraft projects	<b>424,386</b>	142,619
Consultant and insurance premium payable	<b>118,864</b>	99,006
Business tax, value-added tax and withholding tax payables	<b>90,293</b>	76,588
Operating lease rentals received in advance	<b>26,434</b>	22,523
Amounts due to related parties (Note 29)	<b>2,845</b>	—
Others (including salary and bonus payable)	<b>44,490</b>	41,920
	<b>707,312</b>	382,656

## 19 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2015, the Group is engaged in a single business segment, provision of aircraft leasing services to airline companies in Mainland China and other countries or regions in Asia. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The Group leased aircraft to eleven airline companies for the year ended 31 December 2015 (2014: nine).

The following table sets forth the amounts of rentals attributable to individual airline companies:

	Year ended 31 December			
	2015		2014	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Five largest airline companies	<b>866,458</b>	<b>70%</b>	779,373	87%
Other airline companies	<b>372,818</b>	<b>30%</b>	117,478	13%
Total finance and operating lease income	<b>1,239,276</b>	<b>100%</b>	896,851	100%

## 20 OTHER INCOME

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Gain from disposal of finance lease receivables (a)	<b>54,076</b>	111,459
Government subsidies (b)	<b>242,644</b>	133,927
Operating lease income on office premise from a related party (Note 29)	<b>1,093</b>	—
Others	<b>12,213</b>	2,728
	<b>310,026</b>	248,114

(a) As described in Note 3.1.4, the CALC SPCs signed separate contracts with the trust plans, to transfer their future aircraft lease receivables under their separate aircraft lease agreements with certain airline companies to the trust plans. As the Group has transferred substantially all the risks and rewards related to the lease receivables to the trust plans, it de-recognised the corresponding finance lease receivable. For the year ended 31 December 2015, the Group recognised a gain of HK\$54,076,000 (2014: HK\$111,459,000), determined by comparing the net proceeds with the carrying amount of the finance lease receivable de-recognised, less transaction costs and business tax and surcharges accrued.

(b) Government subsidies represent the grants and subsidies principally received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone as incentives provided by the government to support the development of aircraft leasing industry.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 INTEREST EXPENSE

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Interest expense on bank borrowings	771,832	584,839
Interest expense on borrowings from trust plans	46,922	16,109
Interest expense on convertible bonds (a)	66,067	—
Interest expense on medium-term notes	13,250	—
Less: Interest capitalised on qualifying assets (b)	(144,380)	(80,416)
	<b>753,691</b>	520,532

(a) Interest expense on convertible bonds consists of interest paid or payable of HK\$18,338,000 which is calculated based on interest rate of 3.0% per annum. The remaining amount represents arrangement fee based on a rate of 3.5% per annum and the notional adjustment to accrete the carrying amount of liability component of convertible bonds to the present value of estimated future cash flows expected to be required for settlement up to maturity date.

(b) Interest capitalised on qualifying assets represents the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

## 22 OPERATING EXPENSES

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Employee benefit expenses (Note 23)	61,341	55,607
Business tax and surcharges	41,858	33,571
Professional service expenses	48,522	35,649
Rental and utilities expenses	19,724	8,775
Office and meeting expenses	13,184	8,411
Travelling and training expenses	15,352	9,383
Auditor's remuneration		
— Audit service	3,800	3,250
— Non-audit service	1,947	2,038
Listing expenses	—	29,119
Others	17,530	14,083
	<b>223,258</b>	199,886

**23 EMPLOYEE BENEFIT EXPENSES**

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Wages, salaries and bonuses	54,772	51,163
Share-based compensation (Note 11(a))	2,962	2,132
Welfare, medical and other expenses	3,607	2,312
	<b>61,341</b>	55,607

**24 OTHER (LOSSES)/GAINS**

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Unrealised gain on currency swap (Note 17)	1,183	15,935
Fair value loss on interest rate swap (Note 17)	(3,225)	—
Currency exchange gain	1,228	11,545
	<b>(814)</b>	27,480

**25 INCOME TAX EXPENSE**

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	43,911	37,155
Deferred income tax	56,120	40,894
	<b>100,031</b>	78,049

**Mainland China**

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at 25%. PRC CIT is calculated at 25% on the taxable income for the year ended 31 December 2015. The leasing income is subject to business tax ("BT") at 5% or value added tax ("VAT") at 17% depending on when the leasing contracts were entered into between the subsidiaries and the customers.

BT at 5% or VAT at 17% and CIT at 10% are withheld on lease rental income payable by lessees in Mainland China to non-Mainland China tax resident subsidiaries of the Group for the year ended 31 December 2015. Interest payable to the group companies incorporated in Hong Kong is subject to BT at 5% and CIT at 7% (if tax treaty rate is applicable).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**25 INCOME TAX EXPENSE** *(continued)***Hong Kong**

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5%. Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year ended 31 December 2015.

**Others**

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first Euro 200,000 of its taxable income and at 25% over its taxable income in excess of Euro 200,000.

The subsidiaries incorporated in Labuan are subject to income tax at 3% on the net profits or at Malaysian Ringgit 20,000 as elected annually by the subsidiaries.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% during the year ended 31 December 2015, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Profit before income tax	<b>480,241</b>	380,715
Tax calculated at a tax rate of 25%	<b>120,060</b>	95,179
Effects of:		
— Different tax rates applicable to different subsidiaries of the Group	<b>(8,850)</b>	(8,160)
— Income not subject to tax	<b>(32,380)</b>	(25,998)
— Non-deductible expenses	<b>208</b>	261
— Tax losses for which no deferred income tax assets were recognised	<b>20,993</b>	16,767
Tax charge	<b>100,031</b>	78,049

## 26 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2014 and 2015.

	Year ended 31 December	
	2015	2014
Profit attributable to owners of the Company (HK\$'000)	<b>380,165</b>	302,750
Weighted average number of ordinary shares in issue (number of shares)	<b>597,454,864</b>	524,661,000
Basic earnings per share (HK\$ per share)	<b>0.636</b>	0.577

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, the weighted average number of ordinary shares is adjusted to include the additional shares issued upon conversion and the net profit is adjusted to eliminate the post-tax interest expense charged to profit or loss during the financial period. For share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2015	2014
Profit attributable to owners of the Company (HK\$'000)	<b>380,165</b>	302,750
Adjustments for:		
— Interest expense net of tax on convertible bonds, excluding capitalised amount (HK\$'000)	<b>35,522</b>	—
	<b>415,687</b>	302,750
Weighted average number of ordinary shares in issue (number of shares)	<b>597,454,864</b>	524,661,000
Adjustment for:		
— Share options	<b>15,137,044</b>	30,526,027
— Assumed conversion of convertible bonds	<b>53,551,529</b>	—
Weighted average number of ordinary shares for diluted earnings per share	<b>666,143,437</b>	555,187,027
Diluted earnings per share (HK\$ per share)	<b>0.624</b>	0.545

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**27 DIVIDENDS**

On 26 March 2015, the Board declared a final dividend of HK\$0.16 per ordinary share totalling HK\$94.6 million for the year ended 31 December 2014 which was paid in May 2015 (2014: HK\$69.0 million for the year ended 31 December 2013 which was paid in June 2014).

On 25 August 2015, the Board declared an interim dividend of HK\$0.04 (2014: Nil) per ordinary share totalling HK\$24.2 million which was paid in October 2015.

On 22 March 2016, the Board declared a final dividend of HK\$0.18 per ordinary share totally HK\$110.1 million for the year ended 31 December 2015 which is calculated based on 611,923,800 issued shares as at 22 March 2016. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2015, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Interim dividend paid of HK\$0.04 (2014: Nil) per ordinary share	<b>24,236</b>	—
Proposed final dividend of HK\$0.18 (2014: HK\$0.16) per ordinary share	<b>110,146</b>	94,648
Total	<b>134,382</b>	94,648

**28 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS****(a) Directors' emoluments**

Year ended 31 December 2014

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonuses HK\$'000	Housing allowance HK\$'000	Share- based payment HK\$'000	Employer's contribution to retirement benefit scheme HK\$'000	Total HK\$'000
<i>Chairman, non-executive director</i>							
Mr. Chen Shuang	300	5	—	—	80	—	385
<i>Executive directors</i>							
Mr. Poon Ho Man	300	726	17,773	—	—	16	18,815
Ms. Liu Wanting	300	1,150	7,092	—	—	17	8,559
<i>Non-executive directors</i>							
Mr. Tang Chichun	300	5	—	—	80	—	385
Mr. Guo Zibin	243	10	—	—	80	—	333
Ms. Chen Ying	53	—	—	—	—	—	53
<i>Independent non-executive directors</i>							
Mr. Fan Yan Hok, Philip	300	10	—	—	80	—	390
Mr. Ng Ming Wah, Charles	300	15	—	—	80	—	395
Mr. Zhang Chongqing	300	10	—	—	80	—	390
Mr. Sun Quan	196	—	—	—	—	—	196
Mr. Nien Van Jin, Robert	104	15	—	—	80	—	199
	2,696	1,946	24,865	—	560	33	30,100



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**28 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS** (continued)**(a) Directors' emoluments** (continued)

Year ended 31 December 2015

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonuses HK\$'000	Housing allowance HK\$'000	Share- based payment HK\$'000	Employer's contribution to retirement benefit scheme HK\$'000	Total HK\$'000
<i>Chairman, executive director</i>							
Mr. Chen Shuang (ii)	300	10	—	—	111	—	421
<i>Executive directors</i>							
Mr. Poon Ho Man (i)	139	566	780	—	—	9	1,494
Ms. Liu Wanting	300	1,380	6,564	—	—	18	8,262
<i>Non-executive directors</i>							
Mr. Tang Chichun	300	25	—	—	111	—	436
Mr. Guo Zibin	300	35	—	—	111	—	446
<i>Independent non-executive directors</i>							
Mr. Fan Yan Hok, Philip	300	40	—	—	111	—	451
Mr. Ng Ming Wah, Charles	300	65	—	—	111	—	476
Mr. Zhang Chongqing (iii)	106	15	—	—	111	—	232
Mr. Nien Van Jin, Robert	300	65	—	—	111	—	476
Mr. Cheok Albert Saychuan (iv)	195	40	—	—	—	—	235
	<b>2,540</b>	<b>2,241</b>	<b>7,344</b>	<b>—</b>	<b>777</b>	<b>27</b>	<b>12,929</b>

- (i) Resigned as chief executive officer and executive director with effect from 18 June 2015
- (ii) Non-executive director until 17 June 2015. Appointed as chief executive officer and re-designated as an executive director with effect from 18 June 2015
- (iii) Retired on 8 May 2015
- (iv) Appointed on 8 May 2015

Certain directors also received emoluments from FPAM, China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2015 in relation to their services to these companies.

No emoluments were paid to any directors in respect of accepting office as director and in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking for the year ended 31 December 2015 (2014: Nil).

**28 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS** *(continued)***(b) Five highest paid individuals**

During the year ended 31 December 2015, the five individuals whose emoluments were the highest in the Group include one director and four individuals (2014: two directors and three individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2015, the emoluments paid to four (2014: three) remaining individuals are as follows:

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Basic salaries and allowances	5,806	4,272
Discretionary bonuses	5,077	6,191
Share-based payment	405	479
Other benefits	65	64
	<b>11,353</b>	11,006

The emoluments fell within the following bands:

	Year ended 31 December	
	2015	2014
HK\$2,000,001 to HK\$3,000,000	1	—
HK\$3,000,001 to HK\$4,000,000	3	3

During the years ended 31 December 2015 and 2014, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**29 RELATED PARTY TRANSACTIONS**

Apart from the share option arrangement with key management and related parties as disclosed in Note 11(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

**(a) Transactions with FPAM and its subsidiaries (collectively as “FPAM Group”)**

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Operating lease income on office premise receivable from: Friedmann Pacific Financial Service Limited	<b>1,093</b>	—
Operating lease expenses on office premise charged by: Friedmann Pacific Advisory Service Limited	<b>1,635</b>	—
Information technology support service fee charged by: 富泰科信技術開發(深圳)有限公司	<b>2,912</b>	—

**(b) Transactions with CEL and its subsidiaries**

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Operating lease expenses on office premise charged by: CEL Venture Capital (Shenzhen) Limited	<b>521</b>	1,240

On 27 September 2013, CALC (BVI) and Ever Alpha Investment Limited (“Ever Alpha”), a subsidiary of CEL, entered into a consultancy agreement pursuant to which Ever Alpha agreed to support the Group by providing onsite supporting services to facilitate Qingdao Airlines Co., Ltd. (“Qingdao Airlines”) to lease current generation of A320 aircraft from the Group. The onsite supporting services to be provided by Ever Alpha under the consultancy agreement included liaising and participating in preliminary discussion with Qingdao Airlines, providing relevant information to CALC (BVI) in respect of Qingdao Airlines and the leasing, providing strategic advice to CALC (BVI) to facilitate the leasing, assisting CALC (BVI) in negotiation, and contacting relevant government department and arranging for consultation when necessary. During the year ended 31 December 2015, the supporting service fee charged by Ever Alpha amounted to HK\$23,400,000 (2014: HK\$15,600,000).

**29 RELATED PARTY TRANSACTIONS** *(continued)***(c) Transactions with China Everbright Group Ltd. (“CE Group”)**

Following the completion of the restructuring of CE Group on 14 May 2015, CE Group became the sole shareholder of China Everbright Holdings Company Limited (“CE Hong Kong”). CE Hong Kong is the indirect controlling shareholder of CEL. CEL indirectly holds approximately 35.6% equity interest in the Company as at 31 December 2015. Accordingly, CE Group is now a controlling shareholder of the Company, and thus CE Group and its associates, including China Everbright Bank Company Limited (“CE Bank”) and Sun Life Everbright Asset Management Co. Ltd. (“Sun Life”), have become related parties of the Company upon completion of the restructuring of CE Group.

*(i) Deposit, loan and facilities services provided by CE Bank and Sun Life*

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group will provide deposit services to the Group through its associate, CE Bank. Pursuant to the loan services framework agreement, CE Group will provide secured loan services to the Group through CE Bank and through the trustee of a trust plan of which Sun Life is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group will assign the finance lease receivables to the trustee.

As at 31 December 2015, the balances of bank deposits placed with CE Group, borrowings and undrawn facilities provided by CE Group amounted to HK\$238.6 million, HK\$2,096.2 million and HK\$363.2 million, respectively. Accrual for interest payable on such borrowings amounted to HK\$7.8 million as at 31 December 2015. For the period from 14 May 2015 (completion date of CE Group’s restructuring) to 31 December 2015, interest income generated from, interest expense, loan upfront fee and transactions handling charges charged by CE Group amounted to HK\$319,000, HK\$51,587,000, HK\$1,696,000 and HK\$1,668,000 respectively. The Group did not enter into any assignment of finance lease receivables with CE Group during the period from 14 May 2015 to 31 December 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 RELATED PARTY TRANSACTIONS *(continued)*

#### (c) Transactions with China Everbright Group Ltd. ("CE Group") *(continued)*

##### (ii) *Guarantee services provided by CE Bank*

On 22 June 2012, CALC Xianqing Limited ("CALC Xianqing") as buyer and Airbusac Limited ("Airbusac") as seller entered into the sale and purchase agreement in respect of the sale and purchase of an aircraft. In order to guarantee the payment obligations of CALC Xianqing under the sale and purchase agreement, on 10 July 2012, CE Bank Tianjin Branch issued a guarantee in favour of Airbusac with several renewals in the previous years. On 26 June 2015, CE Bank Tianjin Branch renewed the guarantee for one year term to 24 June 2016. For the period from 14 May 2015 to 31 December 2015, total handling fee charged by CE Bank Tianjin Branch amounted to HK\$472,000.

As at 31 December 2015, total guarantees provided by CE Bank in favour of the Group companies in respect of the sale and purchase of aircraft amounted to HK\$174.4 million.

##### (iii) *Compliance advisory service provided by CE Group*

During the period from 14 May 2015 to 31 December 2015, professional fee amounted to HK\$447,000 was charged by China Everbright Capital Limited for the compliance advisory service rendered to the Group.

#### (d) Issue of convertible bonds to China Everbright Financial Investments Limited

On 26 May 2015, the Company completed the issue of convertible bonds at a par value of HK\$387.9 million to China Everbright Financial Investments Limited maturing in 3 years with interest rate of 3.0% per annum and arrangement fee of 3.5% per annum (Note 16). As at 31 December 2015, the liability amount of such convertible bonds was HK\$350,490,000 and the interest expense incurred at an effective interest rate of 11.8% amounted to HK\$23,450,000 for the year ended 31 December 2015.

**29 RELATED PARTY TRANSACTIONS** (continued)**(e) Standby facilities provided by China Everbright Finance Limited ("CE Finance")**

On 28 November 2012, CALC AC Limited, a subsidiary of the Company, entered into an agreement with CE Finance, pursuant to which CE Finance provided a loan facility to CALC AC Limited for an amount up to US\$40,000,000 (equivalent to HK\$312,000,000) for the period from 28 November 2012 to 28 December 2015, for the sole purpose of paying China Development Bank ("CDB") in satisfaction of the indebtedness outstanding under the CDB Facility Agreement. CE Finance charges an upfront fee of US\$600,000 (equivalent to HK\$4,680,000) and an annual fee of 0.25% of the amount of commitment per annum.

During the year ended 31 December 2014, the facility fee charged by CE Finance amounted to HK\$414,000. During the year ended 31 December 2015, CALC AC Limited repaid the loan and the corresponding standby facility with CE Finance was released. No facility fee was charged by CE Finance for the year ended 31 December 2015.

**(f) Amounts due to related parties**

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
FPAM Group	<b>2,845</b>	—

The above amounts due to related parties were unsecured, interest-free and repayable on demand.

**(g) Key management compensation**

Key management includes directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	<b>Year ended 31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Salaries, discretionary bonus and other short-term employee benefits	<b>23,100</b>	26,774
Share-based payment	<b>1,182</b>	1,290
	<b>24,282</b>	28,064

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**30 CONTINGENT LIABILITIES AND COMMITMENTS****(a) Contingencies**

The Group had no material contingent liabilities outstanding at the end of each of the year ended 31 December 2015 (2014: nil).

**(b) Capital commitments**

Capital expenditures contracted but not provided for at the end of the reporting period, together with the acquisition of 2 additional aircraft subsequent to year-end (Note 33), are as follows:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Contracted but not provided for:		
Acquisition of aircraft	<b>41,080,879</b>	45,901,694
Acquisition of property, plant and equipment excluding aircraft	<b>10,398</b>	—
	<b>41,091,277</b>	45,901,694

**(c) Operating lease commitments — where the Group is the lessee**

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premise are as follows:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Not later than one year	<b>18,153</b>	9,851
Later than one year and not later than five years	<b>33,329</b>	26,795
Later than five years	—	110
	<b>51,482</b>	36,756

**30 CONTINGENT LIABILITIES AND COMMITMENTS** *(continued)***(d) Operating lease arrangement — where the Group is the lessor**

The Group had future minimum lease receipts under non-cancellable operating sub-leases in respect of office premise from a related party as follows:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Not later than one year	<b>2,398</b>	—
Later than one year and not later than five years	<b>3,855</b>	—
	<b>6,253</b>	—

The Group had future minimum lease receipts under non-cancellable operating leases in respect of aircraft as follows:

	<b>31 December</b>	
	<b>2015</b> HK\$'000	2014 HK\$'000
Not later than one year	<b>285,780</b>	217,713
Later than one year and not later than five years	<b>981,846</b>	773,461
Later than five years	<b>982,521</b>	634,655
	<b>2,250,147</b>	1,625,829



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>ASSETS</b>			
Investment in subsidiaries	32	<b>1,632,252</b>	1,174,126
Amounts due from subsidiaries		<b>749,818</b>	398,433
Prepayments and other receivables		<b>195,514</b>	403
Cash and cash equivalents		<b>99,121</b>	52,573
<b>Total assets</b>		<b>2,676,705</b>	1,625,535
<b>EQUITY</b>			
Share capital	10	<b>60,592</b>	58,578
Reserves	31(a)	<b>1,520,063</b>	1,359,292
Retained earnings	31(a)	<b>254,782</b>	198,445
<b>Total equity</b>		<b>1,835,437</b>	1,616,315
<b>LIABILITIES</b>			
Convertible bonds	16	<b>796,506</b>	—
Amounts due to subsidiaries		<b>38,141</b>	—
Other payables and accruals		<b>6,621</b>	9,220
<b>Total liabilities</b>		<b>841,268</b>	9,220
<b>Total equity and liabilities</b>		<b>2,676,705</b>	1,625,535

The balance sheet of the Company was approved by the Board of Directors on 22 March 2016 and was signed on its behalf.

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**CHEN Shuang**  
*Director*

\_\_\_\_\_  
**LIU Wanting**  
*Director*

**31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY** (continued)**(a) Reserve movement of the Company**

	Reserves HK\$'000	Retained earnings HK\$'000
<b>Balance as at 1 January 2014</b>	785,109	(12,166)
<b>Comprehensive income</b>		
Profit for the year	—	279,611
<b>Total comprehensive income</b>	—	279,611
<b>Transactions with owners</b>		
Issue of new ordinary shares	608,996	—
Share repurchase and cancellation	78	—
Capitalisation of shares	(46,897)	—
Employee share option scheme: — Value of employee services	12,006	—
Dividends	—	(69,000)
<b>Total transactions with owners</b>	574,183	(69,000)
<b>Balance as at 31 December 2014</b>	1,359,292	198,445
<b>Balance as at 1 January 2015</b>	<b>1,359,292</b>	<b>198,445</b>
<b>Comprehensive income</b>		
Profit for the year	—	<b>175,221</b>
<b>Total comprehensive income</b>	—	<b>175,221</b>
<b>Transactions with owners</b>		
Employee share option scheme: — Value of employee services	<b>14,770</b>	—
— Issue of new shares from exercise of share options	<b>29,460</b>	—
Convertible bonds-equity component	<b>116,541</b>	—
Dividends	—	<b>(118,884)</b>
<b>Total transactions with owners</b>	<b>160,771</b>	<b>(118,884)</b>
<b>Balance as at 31 December 2015</b>	<b>1,520,063</b>	<b>254,782</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 SUBSIDIARIES

As at 31 December 2015, the Company had direct or indirect interests in the following principal subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
<i>Directly owned:</i>						
CALC (BVI)	BVI 24 March 2006	US\$200,000,000	100%	—	Investment holding	Limited liability entity
Aircraft Recycling International Limited	Cayman Islands 22 August 2014	US\$1	100%	—	Investment holding	Limited liability entity
<i>Indirectly owned:</i>						
CALC 6-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	—	Aircraft leasing	Limited liability entity
CALC 8-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	—	Aircraft leasing	Limited liability entity
CALC 10-Aircraft Limited	Ireland 20 June 2012	EUR100	100%	—	Aircraft leasing	Limited liability entity
CALC 11-Aircraft Limited	Ireland 10 December 2014	EUR1	100%	—	Aircraft leasing	Limited liability entity
CALC 12-Aircraft Limited	Ireland 6 February 2015	EUR1	100%	—	Aircraft leasing	Limited liability entity
CALC 15-Aircraft Limited	Ireland 4 February 2015	EUR1	100%	—	Aircraft leasing	Limited liability entity
CALC 19-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	—	Aircraft leasing	Limited liability entity
CALC 20-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	—	Aircraft leasing	Limited liability entity
CALC ENG Limited	Cayman Islands 15 October 2013	US\$1	100%	—	Provision of financing	Limited liability entity
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR100	100%	—	Provision of financing	Partnership
CALC Global Leasing Limited	Ireland 18 December 2014	EUR1	100%	—	Investment holding	Limited liability entity
CALC Manta Limited	BVI 25 April 2013	US\$1	100%	—	Provision of financing	Limited liability entity
CALC PDP Limited	BVI 11 October 2013	US\$1	100%	—	Provision of financing	Limited liability entity
CALC PDP1 Limited	BVI 14 May 2014	US\$1	100%	—	Provision of financing	Limited liability entity
CALC Trout Limited	BVI 29 April 2015	US\$1	100%	—	Provision of financing	Limited liability entity
China Aircraft Assets Limited	Hong Kong 3 May 2013	HK\$1	100%	—	Provision of financing	Limited liability entity

## 32 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
<i>Indirectly owned: (continued)</i>						
China Aircraft Assets Ltd	Labuan 29 April 2013	US\$100	100%	—	Aircraft trading	Limited liability entity
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HK\$1	100%	—	Provision of management services	Limited liability entity
China Aircraft Disassembly Centre (HK) Limited	Hong Kong 4 September 2014	HK\$1	100%	—	Disassembly operation	Limited liability entity
China Corporate Jet Investment Limited	Hong Kong 22 May 2013	HK\$1	75%	25%	Corporate jet business	Limited liability entity
China Corporate Jet Leasing Limited	BVI 6 July 2012	US\$10,000,000	75%	25%	Corporate jet leasing	Limited liability entity
Sino Teamwork Limited	Hong Kong 9 January 2013	HK\$1	100%	—	Provision of financing	Limited liability entity
中永平威融資租賃(上海)有限公司 (CALC Pingxian Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永永新融資租賃(天津)有限公司 (CALC Yongxin Leasing Limited)	PRC 14 May 2015	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永甘露融資租賃(天津)有限公司 (CALC Ganglu Leasing Limited)	PRC 14 May 2015	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永崇寧融資租賃(上海)有限公司 (CALC Chongning Financial Leasing Limited)	PRC 24 March 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永紹熙融資租賃(上海)有限公司 (CALC Shaoxi Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永順融資租賃(上海)有限公司	PRC 27 November 2013	US\$108,000,000	100%	—	Investment holding	Limited liability entity
中永義熙融資租賃(天津)有限公司 (CALC Yixi Leasing Limited)	PRC 14 May 2015	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永聖紹融資租賃(上海)有限公司 (CALC Shengshao Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永熙雍融資租賃(上海)有限公司 (CALC Xiyong Financial Leasing Limited)	PRC 24 March 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永熙寧融資租賃(上海)有限公司 (CALC Xining Financial Leasing Limited)	PRC 24 March 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中永緣禾融資租賃(天津)有限公司 (CALC Yuanhe Leasing Limited)	PRC 14 May 2015	RMB100,000	100%	—	Aircraft leasing	Limited liability entity

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
<i>Indirectly owned: (continued)</i>						
中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited)	PRC 1 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛元和租賃(天津)有限公司 (CALC Yuanhe Limited)	PRC 25 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛天佑租賃(天津)有限公司 (CALC Tianyou Limited)	PRC 4 December 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛天寶租賃(天津)有限公司 (CALC Tianbao Limited)	PRC 25 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛文德租賃(天津)有限公司 (CALC Wende Limited)	PRC 15 August 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛弘道租賃(上海)有限公司 (CALC Hongdao Limited)	PRC 28 March 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited)	PRC 10 October 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited)	PRC 3 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛至德租賃(天津)有限公司 (CALC Zhide Limited)	PRC 25 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛長安租賃(天津)有限公司 (CALC Changan Limited)	PRC 24 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	PRC 25 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛咸通租賃(天津)有限公司 (CALC Xiantong Limited)	PRC 25 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	PRC 8 November 2011	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited)	PRC 8 November 2011	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛建炎租賃(天津)有限公司 (CALC Jianyan Limited)	PRC 5 May 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited)	PRC 29 June 2011	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited)	PRC 8 November 2011	RMB100,000	100%	—	Aircraft leasing	Limited liability entity

## 32 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Equity interest held by the non-controlling interests	Principal activities	Type of legal entity
<i>Indirectly owned: (continued)</i>						
中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited)	PRC 8 November 2011	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛建德租賃(天津)有限公司 (CALC Jiande Limited)	PRC 4 November 2011	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛神龍租賃(天津)有限公司 (CALC Shenlong Limited)	PRC 24 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛租融租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US\$300,000,000	100%	—	Investment holding	Limited liability entity
中飛通天租賃(天津)有限公司 (CALC Tongtian Limited)	PRC 3 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛景福租賃(天津)有限公司 (CALC Jingfu Limited)	PRC 15 August 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛登封租賃(天津)有限公司 (CALC Dengfeng Limited)	PRC 4 December 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛開耀租賃(天津)有限公司 (CALC Kaiyao Limited)	PRC 1 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛隆興租賃(天津)有限公司 (CALC Longxing Limited)	PRC 5 May 2014	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛廣明租賃(天津)有限公司 (CALC Guangming Limited)	PRC 15 August 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛廣德租賃(天津)有限公司 (CALC Guangde Limited)	PRC 25 June 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛調露租賃(天津)有限公司 (CALC Diaolu Limited)	PRC 3 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛總章租賃(天津)有限公司 (CALC Zongzhang Limited)	PRC 1 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛興元租賃(天津)有限公司 (CALC Xingyuan Limited)	PRC 4 December 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛龍紀租賃(天津)有限公司 (CALC Longji Limited)	PRC 15 August 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	100%	—	Aircraft leasing	Limited liability entity
中飛如意租賃(天津)有限公司 (CALC Ruyi Limited)	PRC 4 December 2013	RMB100,000	100%	—	Aircraft leasing	Limited liability entity

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **32 SUBSIDIARIES** *(continued)*

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

As at 31 December 2015, China Corporate Jet Investment Limited's equity attributable to non-controlling interests amounted to HK\$19,461,000. It has not commenced any significant business activities since its incorporation. As this is not material to the Group, no summarised financial information on China Corporate Jet Investment Limited is provided in this report.

### **33 EVENTS AFTER THE END OF THE REPORTING PERIOD**

Save as disclosed elsewhere in the report, the following significant events took place after 31 December 2015:

On 12 January 2016, the Group entered into an agreement with Airbus S.A.S to purchase two additional aircraft which such agreement was executed in a form of amendment agreement to the aircraft purchase agreement signed in 2014.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

To The Board of Directors of China Aircraft Leasing Group Holdings Limited  
(incorporated in Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the interim financial information set out on pages 34 to 74, which comprises the interim consolidated balance sheet of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 25 August 2016

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*  
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*



## INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
<b>ASSETS</b>			
Property, plant and equipment	6	3,716,351	2,412,544
Finance lease receivables – net	7	16,423,366	16,473,038
Derivative financial assets	17	20,244	19,439
Prepayments and other receivables	8	3,859,878	3,444,332
Restricted cash		492,097	208,387
Cash and cash equivalents		4,352,649	1,389,289
<b>Total assets</b>		<b>28,864,585</b>	<b>23,947,029</b>
<b>EQUITY</b>			
Equity attributable to owners of the Company			
Share capital	9	62,278	60,592
Reserves	10	1,390,183	1,437,497
Retained earnings		819,269	690,452
		<b>2,271,730</b>	<b>2,188,541</b>
Non-controlling interests		–	19,461
<b>Total equity</b>		<b>2,271,730</b>	<b>2,208,002</b>
<b>LIABILITIES</b>			
Deferred income tax liabilities	11	199,669	122,132
Bank borrowings	12	20,206,440	18,775,249
Long-term borrowings	13	1,277,682	794,221
Medium-term notes	14	392,355	400,547
Convertible bonds	15	816,667	796,506
Guaranteed bonds	16	2,300,129	–
Derivative financial liabilities	17	110,147	32,103
Income tax payables		33,757	37,654
Interest payables		112,042	73,303
Other payables and accruals	18	1,143,967	707,312
<b>Total liabilities</b>		<b>26,592,855</b>	<b>21,739,027</b>
<b>Total equity and liabilities</b>		<b>28,864,585</b>	<b>23,947,029</b>

The notes on page 39 and 74 form an integral part of this interim condensed consolidated financial information.

**CHEN Shuang**  
Director

**LIU Wanting**  
Director

## INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>			
Finance lease income	19	617,135	461,158
Operating lease income	19	176,741	109,114
		793,876	570,272
Other income	20	232,761	65,462
<b>Revenue and other income</b>		<b>1,026,637</b>	<b>635,734</b>
<b>Expenses</b>			
Interest expenses	21	(475,421)	(337,230)
Depreciation		(69,834)	(44,588)
Other operating expenses	22	(137,832)	(95,640)
		(683,087)	(477,458)
<b>Operating profit</b>		<b>343,550</b>	<b>158,276</b>
Other losses	23	(8,394)	(466)
<b>Profit before income tax</b>		<b>335,156</b>	<b>157,810</b>
Income tax expenses	24	(95,138)	(41,083)
<b>Profit for the period</b>		<b>240,018</b>	<b>116,727</b>
<b>Profit attributable to:</b>			
Owners of the Company		240,018	116,678
Non-controlling interests		-	49
		240,018	116,727
<b>Earnings per share for profit attributable to owners of the Company (expressed in HK\$ per share)</b>			
- Basic earnings per share	26	0.392	0.198
- Diluted earnings per share	26	0.379	0.194

The notes on page 39 and 74 form an integral part of this interim condensed consolidated financial information.

Details of the dividends declared and paid for the period are disclosed in Note 25 to the interim condensed consolidated financial information.

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		HK\$'000	HK\$'000
<b>Profit for the period</b>		<b>240,018</b>	<b>116,727</b>
<b>Other comprehensive income for the period:</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of interest rate swaps – cash flow hedges	17	(70,791)	(10,489)
Reclassified from other comprehensive income to profit or loss – cash flow hedges	17	(592)	2,436
Currency translation differences		(938)	323
<b>Total other comprehensive income for the period, net of tax</b>		<b>(72,321)</b>	<b>(7,730)</b>
<b>Total comprehensive income for the period</b>		<b>167,697</b>	<b>108,997</b>
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the Company		167,697	108,948
Non-controlling interests		–	49
		<b>167,697</b>	<b>108,997</b>

The notes on page 39 and 74 form an integral part of this interim condensed consolidated financial information.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company				Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Balance as at 1 January 2015	58,578	1,273,531	429,171	1,761,280	19,416	1,780,696
Comprehensive income:						
Profit for the period	-	-	116,678	116,678	49	116,727
Other comprehensive income						
Change in fair value of interest rate swaps – cash flow hedges (Note 17)	-	(10,489)	-	(10,489)	-	(10,489)
Reclassified from other comprehensive income to profit or loss – cash flow hedges (Note 17)	-	2,436	-	2,436	-	2,436
Currency translation differences	-	323	-	323	-	323
<b>Total comprehensive income</b>	<b>-</b>	<b>(7,730)</b>	<b>116,678</b>	<b>108,948</b>	<b>49</b>	<b>108,997</b>
Transaction with owners:						
Dividends (Note 25)	-	-	(94,648)	(94,648)	-	(94,648)
Share option scheme:						
– Value of services	-	7,253	-	7,253	-	7,253
– Issue of new shares from exercise of share options	2,006	29,058	-	31,064	-	31,064
Convertible bonds – equity component (Note 15)	-	116,541	-	116,541	-	116,541
<b>Total transactions with owners</b>	<b>2,006</b>	<b>152,852</b>	<b>(94,648)</b>	<b>60,210</b>	<b>-</b>	<b>60,210</b>
Balance as at 30 June 2015	60,584	1,418,653	451,201	1,930,438	19,465	1,949,903
Balance as at 1 January 2016	60,592	1,437,497	690,452	2,188,541	19,461	2,208,002
Comprehensive income:						
Profit for the period	-	-	240,018	240,018	-	240,018
Other comprehensive income						
Change in fair value of interest rate swaps – cash flow hedges (Note 17)	-	(70,791)	-	(70,791)	-	(70,791)
Reclassified from other comprehensive income to profit or loss – cash flow hedges (Note 17)	-	(592)	-	(592)	-	(592)
Currency translation differences	-	(938)	-	(938)	-	(938)
<b>Total comprehensive income</b>	<b>-</b>	<b>(72,321)</b>	<b>240,018</b>	<b>167,697</b>	<b>-</b>	<b>167,697</b>
Transaction with owners:						
Dividends (Note 25)	-	-	(111,201)	(111,201)	-	(111,201)
Share option scheme:						
– Value of services	-	1,244	-	1,244	-	1,244
– Issue of new shares from exercise of share options (Note 9(a))	1,686	23,802	-	25,488	-	25,488
Purchase of non-controlling interests (Note 10(a))	-	(39)	-	(39)	(19,461)	(19,500)
<b>Total transactions with owners</b>	<b>1,686</b>	<b>25,007</b>	<b>(111,201)</b>	<b>(84,508)</b>	<b>(19,461)</b>	<b>(103,969)</b>
Balance as at 30 June 2016	62,278	1,390,183	819,269	2,271,730	-	2,271,730

The notes on page 39 and 74 form an integral part of this interim condensed consolidated financial information.

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
<b>Cash flows from operating activities</b>			
Profit after income tax		240,018	116,727
Adjustments for:			
– Depreciation		69,834	44,588
– Interest expenses		475,421	337,230
– Share-based payments		1,244	7,253
– Unrealised currency exchange gain		(1,264)	(1,811)
– Fair value (gain)/loss on currency swap		(4,083)	864
– Fair value loss on interest rate swap		10,540	1,271
– Interest income		(2,693)	(664)
		789,017	505,458
Changes in working capital:			
– Finance lease receivables – net		(201,436)	(1,864,155)
– Prepayments and other receivables		(71,916)	(38,877)
– Other payables and accruals		426,274	(17,778)
– Income tax payables		(3,897)	(2,368)
– Deferred income tax liabilities		78,146	30,767
<b>Net cash flows generated from/(used in) operating activities</b>		<b>1,016,188</b>	<b>(1,386,953)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,066,659)	(2,880)
Deposits paid for acquisition of aircraft		(285,919)	(139,787)
Purchase of non-controlling interests	10(a)	(19,500)	–
Interest received		2,693	664
<b>Net cash flow used in investing activities</b>		<b>(1,369,385)</b>	<b>(142,003)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of share options	9(a)	25,488	31,064
Proceeds from bank borrowings		4,468,238	3,063,311
Repayments of bank borrowings		(3,064,588)	(2,319,589)
Proceeds from long-term borrowings		483,133	–
Repayments of long-term borrowings		(272)	(194)
Interest paid on bank borrowings		(434,584)	(357,592)
Interest paid on long-term borrowings		(26,730)	(19,144)
Interest paid on convertible bonds		(28,996)	–
(Increase)/decrease in deposits pledged in respect of borrowings		(252,820)	60,146
Increase in deposits pledged in respect of derivative financial instruments		(33,300)	(25,780)
Dividends paid to shareholders		(110,455)	(94,648)
Issue of convertible bonds, net of transaction costs	15	–	876,676
Issue of guaranteed bonds, net of transaction costs	16	2,301,168	–
<b>Net cash flows generated from financing activities</b>		<b>3,326,282</b>	<b>1,214,250</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,973,085</b>	<b>(314,706)</b>
Cash and cash equivalents at beginning of the period		1,389,289	1,425,570
Currency exchange difference on cash and cash equivalents		(9,725)	833
<b>Cash and cash equivalents at end of the period</b>		<b>4,352,649</b>	<b>1,111,697</b>

The notes on page 39 and 74 form an integral part of this interim condensed consolidated financial information.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1 GENERAL INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands using the name "China Aircraft Leasing Company Limited". On 19 September 2013, the Company changed its name to "China Aircraft Leasing Group Holdings Limited". The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Group has operations mainly in the People's Republic of China ("PRC").

The interim condensed consolidated financial information for the six months ended 30 June 2016 ("Interim Financial Information") is presented in Hong Kong Dollar ("HK\$"), unless otherwise stated.

The Interim Financial Information has been reviewed, not audited.

## 2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting". The Interim Financial Information should be read in conjunction with the Group's financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2015 annual report of the Company.

As at 30 June 2016, the Group had capital commitments amounting to HK\$38,649.4 million, mainly relating to acquisition of aircraft (Note 28(b)), of which HK\$5,190.0 million is payable within one year. In view of such circumstance, the directors of the Company have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The directors of the Company adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

- The Group uses short-term borrowings to finance the pre-delivery payments ("PDP") to the aircraft manufacturer when new aircraft ordered by the Group are being built. PDP represents approximately 30% to 40% of the purchase consideration of the aircraft. The Group normally uses PDP financing for settlement of PDP, repayable after the aircraft is delivered. As at 30 June 2016, PDP amounting to HK\$3,230.9 million had been paid (Note 8) and the balance of the corresponding PDP financing amounted to HK\$1,998.8 million (Note 12), of which HK\$1,110.0 million is repayable within one year and is related to aircraft to be delivered in the next twelve months from 30 June 2016. The Group uses long-term aircraft borrowings for the repayment of PDP financing and the settlement of the balance payments of aircraft acquisition costs. However, the long-term aircraft borrowings can only be confirmed shortly before delivery of the relevant aircraft. Based on industry practice and prior experience, long-term aircraft borrowings will be granted by the banks if the aircraft can be leased out to airline companies. For the majority of aircraft scheduled for delivery in the next twelve months from 30 June 2016, lease agreements or letters of intent have already been signed. Thus the directors of the Company believe that long-term aircraft borrowings can be obtained to settle PDP financing and the balance payments of the aircraft acquisition costs due in the next twelve months from 30 June 2016.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2 BASIS OF PREPARATION *(continued)*

- According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next twelve months from 30 June 2016 amounted to HK\$1,213.4 million. As at the approval date of the consolidated financial statements, the Group had signed PDP financing agreements with various commercial banks which have agreed to provide financing of US\$111.4 million (equivalent to approximately HK\$864.7 million) to the Group in the next twelve months from 30 June 2016. The remaining balance of PDP amounting to HK\$348.7 million is to be funded by internally generated financial resources of the Group and additional financing expected to be obtained.
- The Group has entered into cooperative agreements with certain banks, pursuant to which these banks have agreed to provide to the Group conditional loan facilities for aircraft acquisition. The granting of each specific loan will be subject to the banks' credit assessments and approvals and the agreement of terms and conditions of the respective loan agreements, which will only be confirmed shortly before the delivery of the relevant aircraft.
- For the existing long-term aircraft borrowings, under the business model of the Group, the expected cash inflows from lease receivables generally match the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft.
- On 6 May 2016, the Group issued three-year bonds due in 2019 amounted to US\$300.0 million (equivalent to approximately HK\$2,330.1 million). On 22 August 2016, the Group issued five-year bonds due in 2021 amounted to US\$300.0 million (equivalent to approximately HK\$2,327.6 million).

The directors of the Company have reviewed the Group's cash flow projections prepared by management, covering a period of not less than twelve months from the balance sheet date. Based on these projections, the sufficiency of cash flows for the Group's present requirements for the next twelve months from 30 June 2016 is heavily dependent on the Group's ability to obtain the necessary funding from the long-term aircraft borrowings and the availability of banking and other sources of financing. Based on the industry practice and prior experience, the directors are of the view that long-term aircraft borrowings can be obtained as the related lease agreements or letters of intent have already been signed for the majority of aircraft scheduled for delivery in the next twelve months from 30 June 2016.

On this basis, the directors of the Company are of the opinion that, taking into account the Group's operating performance and business prospects, internal resources and available banking facilities that have been granted or will be granted as detailed above, the Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 30 June 2016. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's financial statements for the year ended 31 December 2015.

New standards, amendments and interpretations to the existing standards that are effective during the six months ended 30 June 2016 have been adopted by the Group consistently unless prohibited by the relevant standard from applying retrospectively.

The following new accounting standards, interpretations and amendments to standards that are relevant to the Group have been issued but are not yet effective and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKFRS 15, "Revenue from Contracts with Customers"	1 January 2018
HKFRS 9, "Financial Instruments"	1 January 2018
HKFRS 16, "Leases"	1 January 2019

Management's preliminary assessment is that the application of the above standards, interpretations and amendments will not have a material impact on the Group.

## 4 ESTIMATES

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's financial statements for the year ended 31 December 2015.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 5 FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2015.

There have been no significant changes in the risk management department or in any risk management policies since 31 December 2015.

#### 5.1.1 Market risk

##### (a) *Currency exchange risk*

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other receivables, financial liabilities including borrowings, other payables and accruals held by the Group are denominated in currencies other than HK\$. The aircraft leasing income and the corresponding borrowings used to finance the leases are mainly denominated in USD and RMB. Currency exchange risk may arise when the finance lease receivables and corresponding borrowings are denominated in different currencies. The management minimises the currency exchange risk by matching the finance lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

##### (b) *Cash flow and fair value interest rate risk*

The Group's interest rate risk mainly arises from finance lease receivables, bank borrowings, bonds and medium-term notes. Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, bonds and medium-term notes at fixed rates expose the Group to fair value interest rate risk.

The Group manages the interest rate risk by matching the interest rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the leases and the corresponding bank borrowings do not match. As at 30 June 2016, there are 34 aircraft where the effective interest rates implicit in leases and the associated bank borrowings do not match (31 December 2015: 30 aircraft). Given the above scenario, the Group has managed its cash flow interest rate risk by entering into 18 floating-to-fixed interest rate swaps for the associated bank borrowings for as at 30 June 2016 (31 December 2015: 13 swaps). Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining cases of interest rate mismatch, the Group monitors the interest rate exposure closely and will consider hedging the exposure where necessary and appropriate.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 5 FINANCIAL RISK MANAGEMENT (continued)

### 5.1 Financial risk factors (continued)

#### 5.1.1 Market risk (continued)

##### (b) *Cash flow and fair value interest rate risk* (continued)

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2016. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax for the six months ended 30 June 2016 by approximately HK\$13,685,000 (six months ended 30 June 2015: HK\$3,729,000); and would also have increased/decreased the Group's reserves by approximately HK\$66,803,000 (31 December 2015: HK\$48,854,000) because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

#### 5.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheets date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service.

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as shareholders support. The Group also obtained deposits from the lessees (Note 18). All these strengthen the control and management of credit risk.

The Group is also exposed to credit risk associated with its interest rate swaps arrangement with four investment banks, which has a high credit quality. The interest rate swaps were secured by pledged deposits placed by the Group.

##### (a) *Probability of default*

Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

Late payment risk – in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which it may apply towards the payment or discharge of any obligation owed by the lessee.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 5 FINANCIAL RISK MANAGEMENT (continued)

### 5.1 Financial risk factors (continued)

#### 5.1.2 Credit risk (continued)

(b) *Risk limit control and mitigation policies*

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

(c) *Impairment allowance policies*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group's policy requires a review of the financial statements of the lessee or its parent company and a valuation of the residual value of the aircraft (effectively the collateral held) under the lease regularly as circumstances require.

The lease rental receivables of the Group are neither past due nor impaired. The Group has not encountered any delay or default in the collection of lease rental receivables. No impairment allowance was made for lease rental receivables and financial assets of the Group as at 30 June 2016 (31 December 2015: Nil).

(d) *Concentration of credit risk*

During the six months ended 30 June 2016, the lessees of the Group are airline companies located in Europe, Mainland China and other countries or regions in Asia. Please see Note 7 and Note 19 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

To manage this risk, the Group assesses the business performance of the airline companies on a regular basis. In view of the fact that the airline companies are operating smoothly and the sound collection history of the receivable due from them, management believes that the credit risk inherent in the Group's outstanding finance lease receivable balances from these airline companies is low.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### 5.1 Financial risk factors (continued)

##### 5.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or settled within twelve months after the balance sheet dates:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
<b>Current assets</b>		
Finance lease receivables – net	462,431	515,273
Prepayments and other receivables	232,323	114,563
Cash and cash equivalents	4,352,649	1,389,289
	<b>5,047,403</b>	<b>2,019,125</b>
<b>Current liabilities</b>		
Bank borrowings	3,976,780	3,411,695
Long-term borrowings	1,104	784
Convertible bonds	9,921	10,092
Income tax payables	33,757	37,654
Interest payable	112,042	73,303
Other payables and accruals	625,771	358,818
	<b>4,759,375</b>	<b>3,892,346</b>
<b>Net current assets/(liabilities)</b>	<b>288,028</b>	<b>(1,873,221)</b>

The assets and liabilities of the Group not included in the above table are expected to be recovered or settled more than twelve months after the balance sheet dates.

Please also refer to Note 2 for additional analysis of liquidity risk.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 5 FINANCIAL RISK MANAGEMENT (continued)

### 5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six months ended 30 June 2016.

### 5.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Company estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### 5.3 Fair value estimation (continued)

##### Financial assets and financial liabilities measured at fair values

The following table presents the Group's financial assets and financial liabilities that were measured at fair values.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>As at 30 June 2016 – unaudited</b>				
<b>Assets</b>				
Currency swap	–	20,244	–	20,244
<b>Liabilities</b>				
Interest rate swaps for hedging	–	110,147	–	110,147
<b>As at 31 December 2015 – audited</b>				
<b>Assets</b>				
Currency swap	–	16,148	–	16,148
Interest rate swaps for hedging	–	3,291	–	3,291
	–	19,439	–	19,439
<b>Liabilities</b>				
Interest rate swaps for hedging	–	32,103	–	32,103

The fair values of the interest rate swaps for hedging and the currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, USD/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

##### Financial assets and financial liabilities carried at amortised cost

The fair values of cash and cash equivalents, restricted cash, other receivables, interest payable and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year, are not sensitive to changes in inputs to valuation techniques.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### 5.3 Fair value estimation (continued)

##### Financial assets and financial liabilities carried at amortised cost (continued)

The carrying amounts and fair values of the finance lease receivables, bank and long-term borrowings, medium-term notes and bonds are as follows:

	Unaudited		Audited	
	As at 30 June 2016		As at 31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finance lease receivables	16,423,366	18,318,180	16,473,038	18,516,108
Bank borrowings	20,206,440	21,352,899	18,775,249	19,617,484
Long-term borrowings	1,277,682	1,349,891	794,221	887,854
Medium-term notes	392,355	392,355	400,547	400,547
Convertible bonds	816,667	816,667	796,506	796,506
Guaranteed bonds	2,300,129	2,300,129	-	-

The fair values of finance lease receivables and borrowings are estimated by discounting the future cash flows at the current market rates available to the Group for similar financial instruments. The fair values of medium-term notes and bonds approximated to their carrying amounts. The fair values are considered to be of level 2 within the fair value hierarchy.

### 6 PROPERTY, PLANT AND EQUIPMENT

	Unaudited					Total
	Aircraft	Leasehold improvements	Motor vehicles	Office equipment	Construction in progress	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Six months ended 30 June 2016</b>						
Opening net book amount	2,391,503	2,369	-	3,275	15,397	2,412,544
Additions	1,344,665	75	-	1,188	32,662	1,378,590
Depreciation	(68,781)	(370)	-	(683)	-	(69,834)
Currency translation difference	(3,952)	(1)	-	(3)	(993)	(4,949)
Closing net book amount	3,663,435	2,073	-	3,777	47,066	3,716,351
<b>Six months ended 30 June 2015</b>						
Opening net book amount	1,704,356	260	115	1,964	-	1,706,695
Additions	-	1,333	-	1,547	-	2,880
Depreciation	(43,484)	(619)	(87)	(398)	-	(44,588)
Currency translation difference	1,426	35	-	(6)	-	1,455
Closing net book amount	1,662,298	1,009	28	3,107	-	1,666,442

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 7 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Finance lease receivables	15,249,962	15,970,062
Guaranteed residual values	5,377,980	5,123,495
Unguaranteed residual values	6,433,973	6,142,055
Gross investment in leases	27,061,915	27,235,612
Less: unearned finance income	(10,638,549)	(10,762,574)
Net investment in leases	16,423,366	16,473,038
Less: accumulated allowance for impairment (a)	–	–
Finance lease receivables – net	16,423,366	16,473,038

- (a) The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from airline companies is low. The Group has not encountered any delay or default in the collection of the scheduled payments of finance lease receivables. No impairment allowance was made for the finance lease receivables as at 30 June 2016.

Reconciliation between the gross investment in finance leases at the end of each reporting period and the present value of minimum lease payments receivable under such leases at the end of each reporting period is set out below.

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Gross investment in finance leases	27,061,915	27,235,612
Less: unguaranteed residual values	(6,433,973)	(6,142,055)
Minimum lease payments receivable	20,627,942	21,093,557
Less: unearned finance income related to minimum lease payments receivable	(7,299,143)	(7,506,573)
Present value of minimum lease payments receivable	13,328,799	13,586,984



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 7 FINANCE LEASE RECEIVABLES – NET (continued)

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of each reporting period:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Gross investment in finance leases		
– Not later than 1 year	1,552,221	1,604,293
– Later than 1 year and not later than 5 years	6,454,779	6,879,054
– Later than 5 years	19,054,915	18,752,265
	<b>27,061,915</b>	<b>27,235,612</b>

The table below analyses the present value of minimum lease payments receivable under finance leases by relevant maturity groupings at the end of each reporting period:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Present value of minimum lease payments receivable		
– Not later than 1 year	683,251	720,090
– Later than 1 year and not later than 5 years	2,863,095	3,146,287
– Later than 5 years	9,782,453	9,720,607
	<b>13,328,799</b>	<b>13,586,984</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 7 FINANCE LEASE RECEIVABLES – NET (continued)

The following table sets forth the finance lease receivables attributable to airlines companies:

	Unaudited		Audited	
	As at 30 June 2016 HK\$'000	%	As at 31 December 2015 HK\$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	11,546,573	70%	11,288,283	69%
Other airline companies	4,876,793	30%	5,184,755	31%
	16,423,366	100%	16,473,038	100%

### 8 PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
PDP (a)	3,230,878	2,942,155
Interest capitalised	140,661	94,198
Prepayments and receivables relating to aircraft acquisition	62,809	98,184
Deposit for land use rights (b)	187,628	195,231
Deposits paid	6,123	5,142
Others (c)	231,779	109,422
	3,859,878	3,444,332

(a) In 2012, the Group entered into aircraft purchase agreements with Airbus S.A.S for the acquisition of 36 aircraft for future lease projects. In 2014, the Group entered into additional aircraft purchase agreements with Airbus S.A.S for the acquisition of 100 aircraft. In December 2015 and January 2016, the Group entered into agreements with Airbus S.A.S. for acquisition of additional 4 aircraft which were executed in a form of amendment agreements to the aircraft purchase agreement signed in 2014. Such prepayments were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft are to be delivered during the period from 2016 to 2022.

(b) In July 2015, the Group signed a land use right transfer agreement for purchase a plot of land of approximately 300,000 square metre in the Harbin Airport Economic Zone in the PRC for construction of an aircraft disassembly centre.

(c) The "Others" above were unsecured, interest-free and repayable on demand.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 9 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK\$
<b>Issued:</b>			
As at 1 January 2015	HK\$0.1	585,781,000	58,578,100
Issue of new shares from exercise of share options (a)	HK\$0.1	20,142,800	2,014,280
<b>As at 31 December 2015 and 1 January 2016</b>	<b>HK\$0.1</b>	<b>605,923,800</b>	<b>60,592,380</b>
Issue of new shares from exercise of share options (a)	HK\$0.1	16,860,040	1,686,004
<b>As at 30 June 2016</b>	<b>HK\$0.1</b>	<b>622,783,840</b>	<b>62,278,384</b>

- (a) During the six months ended 30 June 2016, certain employees and consultants exercised share options granted under share option schemes, resulting in 16,860,040 (year ended 31 December 2015: 20,142,800) new shares being issued, with total exercise proceeds of HK\$25,488,000 (year ended 31 December 2015: HK\$31,474,000). The related weighted average price at the time of exercise was HK\$7.46 (year ended 31 December 2015: HK\$10.75) per share.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 9 SHARE CAPITAL (continued)

(a) Movement of outstanding share options granted by the Group on 4 August 2011 (Pre-IPO Share Option Scheme) and 2 September 2014 (Post-IPO Share Option Scheme) is as follows:

	Unaudited Six months ended 30 June 2016			Unaudited Six months ended 30 June 2015		
	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Total	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Total
	Beginning of period	23,028,000	24,748,000	47,776,000	42,030,000	26,890,000
Exercised	(16,417,840)	(442,200)	(16,860,040)	(18,912,560)	(1,148,400)	(20,060,960)
Lapsed	(4,020)	(403,000)	(407,020)	(67,000)	(291,000)	(358,000)
End of period	6,606,140	23,902,800	30,508,940	23,050,440	25,450,600	48,501,040

The exercise price per share of Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme for the six months ended 30 June 2016 was US\$0.177 and HK\$6.38, respectively.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the six months ended 30 June 2016 are as follows:

	Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Directors and employee	655	1,819
Consultants	589	5,434
	1,244	7,253

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 10 RESERVES

	Unaudited							Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Share- based payment HK\$'000	Cash flow hedges HK\$'000	Convertible bonds HK\$'000	Currency translation difference HK\$'000	
Balance at 1 January 2015	651,309	623,720	-	14,594	(19,441)	-	3,349	1,273,531
Convertible bonds – equity component (Note 15)	-	-	-	-	-	116,541	-	116,541
Share option scheme:								
– Value of services	-	-	-	7,253	-	-	-	7,253
– Issue of new shares from exercise of share options	31,584	-	-	(2,526)	-	-	-	29,058
Net effect of cash flow hedges:								
– Change in fair value of interest rate swaps (Note 17)	-	-	-	-	(10,489)	-	-	(10,489)
– Reclassified from other comprehensive income to profit or loss (Note 17)	-	-	-	-	2,436	-	-	2,436
Currency translation differences	-	-	-	-	-	-	323	323
<b>Balance as at 30 June 2015</b>	<b>682,893</b>	<b>623,720</b>	<b>-</b>	<b>19,321</b>	<b>(27,494)</b>	<b>116,541</b>	<b>3,672</b>	<b>1,418,653</b>
Balance at 1 January 2016	683,372	623,720	-	24,173	(12,863)	116,541	2,554	1,437,497
Share option scheme:								
– Value of services	-	-	-	1,244	-	-	-	1,244
– Issue of new shares from exercise of share options	25,338	-	-	(1,536)	-	-	-	23,802
Net effect of cash flow hedges:								
– Change in fair value of interest rate swaps (Note 17)	-	-	-	-	(70,791)	-	-	(70,791)
– Reclassified from other comprehensive income to profit or loss (Note 17)	-	-	-	-	(592)	-	-	(592)
Currency translation differences	-	-	-	-	-	-	(938)	(938)
Purchase of non-controlling interests (a)	-	-	(39)	-	-	-	-	(39)
<b>Balance as at 30 June 2016</b>	<b>708,710</b>	<b>623,720</b>	<b>(39)</b>	<b>23,881</b>	<b>(84,246)</b>	<b>116,541</b>	<b>1,616</b>	<b>1,390,183</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 10 RESERVES (continued)

- (a) On 30 June 2016, the Group purchased the remaining 25% of equity interest in China Corporate Jet Investment Limited for an aggregate cash consideration of US\$2,500,000 (equivalent to approximately HK\$19,500,000), resulting in a reduction in non-controlling interests by HK\$19,461,000 and capital reserve by HK\$39,000.

### 11 DEFERRED INCOME TAX

The analysis of deferred tax liabilities is as follows:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Deferred income tax liabilities:		
– To be settled after 12 months	199,669	122,132

The movement of the deferred income tax liabilities during the six months ended 30 June 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of leased assets HK\$'000
Deferred income tax liabilities	
As at 1 January 2015	67,161
Charged to profit or loss (Note 24)	30,767
Currency translation difference	43
As at 30 June 2015	97,971
As at 1 January 2016	122,132
Charged to profit or loss (Note 24)	78,146
Currency translation difference	(609)
As at 30 June 2016	199,669

The Group offsets its deferred tax assets and deferred tax liabilities to the extent that they relate to the same entity and the same taxation authority.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 12 BANK BORROWINGS

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Secured bank borrowings for aircraft acquisition financing (a)	17,561,592	15,908,923
PDP financing (b)	1,998,833	2,063,645
Working capital borrowings (c)	646,015	802,681
	<b>20,206,440</b>	<b>18,775,249</b>

(a) Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating USD LIBOR rates. As at 30 June 2016, the bank borrowings were secured by, in addition to other legal charges, all of the Group's aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain of the Group companies and pledge of deposits amounting to HK\$351,562,000 (31 December 2015: HK\$119,214,000).

(b) As at 30 June 2016, PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, guarantees from the Company and China Aircraft Leasing Company Limited ("CALC (BVI)"), and pledge of deposits of HK\$2,429,000 (31 December 2015: HK\$6,356,000).

(c) As at 30 June 2016, the Group had aggregate working capital borrowings of HK\$646,015,000 (31 December 2015: HK\$802,681,000) from four banks (31 December 2015: four banks) which were guaranteed by the Company and CALC (BVI) (31 December 2015: Same).

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Floating rate:		
– Expiring within one year	310,344	85,003
– Expiring beyond one year	2,140,027	865,365
	<b>2,450,371</b>	<b>950,368</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 13 LONG-TERM BORROWINGS

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Borrowings from trust plans (a)	1,122,510	794,221
Other borrowings (b)	155,172	-
	<b>1,277,682</b>	<b>794,221</b>

(a) As at 30 June 2016, eleven borrowings (31 December 2015: seven borrowings) were provided by trust plans to eleven subsidiaries (31 December 2015: seven subsidiaries) of the Group. The effective average interest rates of the long-term borrowings range from 6.0% to 7.8% (31 December 2015: 6.2% to 7.8%) per annum for remaining terms of eight to eleven years (31 December 2015: same). These long-term borrowings are secured by the shares of, and the aircraft held by, the relevant subsidiaries and guaranteed by China Asset Leasing Company Limited. The trust plans are also counterparties to the disposal of finance lease receivable transactions entered into with the relevant subsidiaries.

(b) As at 30 June 2016, two borrowings were obtained through a Japanese Operating Lease with a Call Option ("JOLCO") financing arrangement for two aircraft delivered to airlines. The borrowings bear an effective interest rate of 5.1% per annum for their remaining terms of eight years and are guaranteed by the Company.

### 14 MEDIUM-TERM NOTES

On 15 July 2015, a subsidiary of the Company issued five-year medium term notes in the aggregate principal amount of RMB340.0 million (equivalent to approximately HK\$406.0 million) in the PRC, net of transaction cost of HK\$5.5 million. The carrying amount of the notes as at 30 June 2016 was HK\$392,355,000 (31 December 2015: HK\$400,547,000). These notes bear coupon interest at 6.5% per annum and are due in 2020.

### 15 CONVERTIBLE BONDS

In April and May 2015, the Company completed the issue of convertible bonds at par values of HK\$387.9 million, HK\$116.4 million and HK\$387.9 million respectively to China Huarong International Holdings Limited, Great Wall Pan Asia International Investment Co., Limited and China Everbright Financial Investments Limited. These bonds bear coupon interest at 3.0% per annum and arrangement fees of 3.5% per annum with maturity of three years from the issue date and can be converted into shares at the holder's option at any time between the 41st day from issue date and to the 10th day prior to maturity date. The conversion price is HK\$11.28 per share, subject to adjustment in accordance with the terms and conditions of the bonds.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 15 CONVERTIBLE BONDS (continued)

The fair value of the liability component was estimated at the respective date of issue using an interest rate (inclusive of arrangement fees) that would be available at that date to the Company for a non-convertible bond with equivalent terms ("effective interest rate"). The residual amount, being the par value of the bonds less the fair value of the liability component, represents the value of the equity conversion option. The transaction costs of HK\$15,494,000, consisting mainly of the underwriting commission, are netted off against the liability component and the equity conversion option component proportionately to arrive at the carrying amounts of the respective components on initial recognition.

Further to the above information disclosed in the notes to the consolidated financial statements of the annual report of the Company for the year ended 31 December 2015, the Company actually used the total net proceeds of approximately HK\$490,575,000 from issue of the convertible bonds to China Huarong International Holdings Limited and Great Wall Pan Asia International Investment Co., Limited under the general mandate for aircraft acquisition, including part of financing of the aircraft purchases contemplated under the two aircraft purchase agreements entered into by Airbus S.A.S. and CALC (BVI) on 1 December 2014 regulating the purchase of 100 Airbus A320 series aircrafts. The actual use of proceeds was the same as the intended use as announced by the Company on 26 March 2015.

Interest expenses (Note 21) on the carrying amount of the liability component are accrued at the effective interest rate of 11.8% to 14.1% (inclusive of arrangement fees) to adjust the carrying amount of the liability component to its amortised cost, being the present value of the expected future cash flows relating to periodic interest payments and principal repayment at par value at the maturity date.

	Unaudited		
	As at 30 June 2016		
	Liability	Equity	Total
	HK\$'000	HK\$'000	HK\$'000
Par value of convertible bonds issued	773,456	118,714	892,170
Transaction costs	(13,321)	(2,173)	(15,494)
Carrying value on initial recognition	760,135	116,541	876,676
Accumulated interest accrued at effective interest rate	115,224	–	115,224
Accumulated interest paid (inclusive of arrangement fees)	(58,692)	–	(58,692)
Carrying value as at 30 June 2016	816,667	116,541	933,208

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 15 CONVERTIBLE BONDS (continued)

	Audited		
	As at 31 December 2015		
	Liability HK\$'000	Equity HK\$'000	Total HK\$'000
Par value of convertible bonds issued	773,456	118,714	892,170
Transaction costs	(13,321)	(2,173)	(15,494)
Carrying value on initial recognition	760,135	116,541	876,676
Accumulated interest accrued at effective interest rate	66,067	–	66,067
Accumulated interest paid (inclusive of arrangement fees)	(29,696)	–	(29,696)
<b>Carrying value as at 31 December 2015</b>	<b>796,506</b>	<b>116,541</b>	<b>913,047</b>

### 16 GUARANTEED BONDS

On 6 May 2016, a subsidiary of the Company issued three-year US\$300.0 million (equivalent to approximately HK\$2,330.1 million) bonds due in 2019, net of transaction costs of US\$3.7 million (equivalent to approximately HK\$28.9 million) which were listed on The Stock Exchange of Hong Kong Limited and guaranteed by the Company. These bonds bear coupon interest at 5.9% per annum, payable semi-annually in arrears on 6 May and 6 November each year. As at 30 June 2016, the carrying amount of these bonds was HK\$2,300,129,000.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 17 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Derivative financial assets		
– Currency swap (a)	20,244	16,148
– Interest rate swaps (b)	–	3,291
	<b>20,244</b>	<b>19,439</b>
Derivative financial liabilities		
– Interest rate swaps (b)	110,147	32,103

- (a) CALC Baoli Limited (“CALC Baoli”), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the USD lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement included an embedded derivative – a currency swap contract. The notional principal of this embedded currency swap contract amounted to US\$15,684,296 (equivalent to approximately HK\$121,688,000). As at 30 June 2016, the fair value of this currency swap contract amounted to HK\$20,244,000 (31 December 2015: HK\$16,148,000) and the fair value gain of HK\$4,083,000 was recognised in other gains and losses for the six months ended 30 June 2016 (six months ended 30 June 2015: loss of HK\$864,000). As at 30 June 2016, this arrangement was secured by a pledge deposit of HK\$3,539,000 (31 December 2015: HK\$6,008,000).
- (b) As at 30 June 2016, the Group had 18 outstanding interest rate swap contracts (31 December 2015: 13 contracts) which will expire at various dates from 21 September 2018 to 21 December 2024 (31 December 2015: 21 September 2018 to 21 March 2024), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.3% to 2.1% (31 December 2015: 1.5% to 2.1%). As at 30 June 2016, these interest rate swap contracts were secured by pledged deposits of HK\$85,573,000 (31 December 2015: HK\$52,254,000). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.
- (i) 17 outstanding interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective during the period ended 30 June 2016 (year ended 31 December 2015: 12 contracts).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 17 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- (b) (ii) In December 2013, the Group terminated one interest rate swap contract with a realised gain of US\$1,947,000 (equivalent to approximately HK\$15,106,000). This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to interest expense as the hedged bank borrowing is progressively repaid from 2014 to 2026. During the six months ended 30 June 2016, the realised gain of HK\$592,000 (six months ended 30 June 2015: gain of HK\$592,000) was reclassified from cash flow hedges reserve to interest expense.
- (iii) In January 2015, CALC Jianqing Limited, a wholly-owned subsidiary of the Group, repaid the bank borrowing which was hedged by an interest rate swap. As a result, the hedge no longer met the criteria for hedge accounting and the cumulative fair value loss of HK\$3,028,000 was reclassified from cash flow hedges reserve to other gains and losses upon the repayment of bank borrowing on 4 January 2015. During the period ended 30 June 2016, total fair value loss of HK\$10,540,000 (six months ended 30 June 2015: loss of HK\$1,271,000) was charged to other gains and losses.

The fair value changes of financial instruments recognised in other comprehensive income and profit or loss are as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Recognised in other comprehensive income		
– Change in fair value of interest rate swaps which qualified as cash flow hedges (b)(i)	(70,791)	(10,489)
– Reclassified from other comprehensive income to profit or loss (b)(ii) and (iii)	(592)	2,436
	<b>(71,383)</b>	<b>(8,053)</b>
Recognised in profit or loss		
– Unrealised gain/(loss) on currency swap (a)	4,083	(864)
– Fair value loss on interest rate swap (b)(iii)	(10,540)	(1,271)
	<b>(6,457)</b>	<b>(2,135)</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 18 OTHER PAYABLES AND ACCRUALS

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Deposits and fund received for lease and aircraft projects	764,589	424,386
Consultant and insurance premium payable	123,422	118,864
Business tax, value-added tax and withholding tax payables	171,908	90,293
Operating lease rentals received in advance	32,313	26,434
Amounts due to related parties	–	2,845
Others (include salary and bonus payable)	51,735	44,490
	<b>1,143,967</b>	<b>707,312</b>

### 19 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2016, the Group was engaged in a single business segment, provision of aircraft leasing services to airline companies in Mainland China and other countries or regions in Europe and Asia. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

For the six months ended 30 June 2016, the Group leased aircraft to thirteen (six months ended 30 June 2015: ten) airline companies.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

	Unaudited Six months ended 30 June			
	2016 HK\$'000	%	2015 HK\$'000	%
Categorised by customer in terms of lease income:				
Five largest airline companies	485,020	61%	421,078	74%
Other airline companies	308,856	39%	149,194	26%
Total finance and operating lease income	<b>793,876</b>	<b>100%</b>	<b>570,272</b>	<b>100%</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 20 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Gain from disposal of finance lease receivables (a)	145,060	–
Government subsidies (b)	81,859	64,115
Operating lease income on office premise from a related party (Note 27(a))	1,319	–
Others	4,523	1,347
	<b>232,761</b>	<b>65,462</b>

- (a) The Group signed separate contracts to transfer their future aircraft lease receivables under their separate aircraft lease agreements with certain airline companies. As the Group has transferred substantially all the risks and rewards related to the lease receivables, it de-recognised the corresponding finance lease receivable. For the six months ended 30 June 2016, the Group recognised a gain of HK\$145,060,000 (six months ended 30 June 2015: Nil), determined by comparing the net proceeds with the carrying amount of the finance lease receivable de-recognised, less transaction costs and related tax and surcharges accrued.
- (b) Government subsidies represent the grants and subsidies principally received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone as incentives provided by the government to support the development of aircraft leasing industry.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 21 INTEREST EXPENSES

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	445,871	366,790
Interest expenses on long-term borrowings	28,101	22,695
Interest expenses on convertible bonds (a)	49,157	18,059
Interest expenses on medium-term notes	13,740	–
Interest expenses on guaranteed bonds	22,550	–
Less: interest expenses capitalised on qualifying assets (b)	(83,998)	(70,314)
	<b>475,421</b>	<b>337,230</b>

- (a) Interest expenses on convertible bonds consists of interest paid or payable of HK\$13,329,000 (six months ended 30 June 2015: HK\$4,537,000) which is calculated based on interest rate of 3.0% per annum. The remaining amount represents arrangement fee based on a rate of 3.5% per annum and the notional adjustment to accrete the carrying amount of liability component of convertible bonds to the present value of estimated future cash flows expected to be required for settlement up to maturity date.
- (b) Interest expenses capitalised on qualifying assets represents the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 22 OTHER OPERATING EXPENSES

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Employee benefit expenses	38,512	30,204
Professional service expenses	32,207	18,369
Business tax and surcharges	29,397	17,421
Rental and utilities expenses	11,745	8,571
Office and meeting expenses	4,751	4,930
Travelling and training expenses	7,212	7,710
Auditor's remuneration		
– Audit service	900	900
– Non-audit service	2,357	302
Others	10,751	7,233
	<b>137,832</b>	<b>95,640</b>

### 23 OTHER LOSSES

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Unrealised gain/(loss) on currency swap (Note 17)	4,083	(864)
Fair value loss on interest rate swap (Note 17)	(10,540)	(1,271)
Currency exchange (loss)/gain	(1,937)	1,669
	<b>(8,394)</b>	<b>(466)</b>



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 24 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current income tax: Mainland China, Hong Kong and others	16,992	10,316
Deferred income tax	78,146	30,767
	<b>95,138</b>	<b>41,083</b>

### Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25%. PRC CIT is calculated at 25% on taxable income for the six months ended 30 June 2015 and 2016. The leasing income is subject to business tax ("BT") at 5% or value added tax ("VAT") at 17% depending on when the leasing contracts were entered into between the subsidiaries and the customers.

BT at 5% and CIT at 10% are withheld on lease rental income payable by lessees in Mainland China to non-Mainland China tax resident subsidiaries of the Group. Interest payable to the group companies incorporated in Hong Kong was subject to BT at 5% and CIT at 7% (if tax treaty rate is applicable).

### Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits.

### Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first Euro 200,000 of its taxable income and a rate of 25% over its taxable income in excess of Euro 200,000.

The subsidiaries incorporated in Labuan are subject to income tax at 3% on the net profits or at Malaysian Ringgit 20,000 as elected annually by the subsidiaries.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 25 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interim dividend of HK\$0.14 (2015: HK\$0.04) per ordinary share	87,731	24,234

On 26 March 2015, the Company declared a final dividend of HK\$0.16 per ordinary share totalling HK\$94,648,000 for the year ended 31 December 2014 which was paid in May 2015.

On 22 March 2016, the Company declared a final dividend of HK\$0.18 per ordinary share totalling HK\$111,201,000 for the year ended 31 December 2015 which was paid in June 2016.

On 25 August 2016, the Board declared an interim dividend of HK\$0.14 (six months ended 30 June 2015: HK\$0.04) per ordinary share amounting to HK\$87,731,000 (six months ended 30 June 2015: HK\$24,234,000) which is calculated based on 626,646,640 issued shares as at 25 August 2016. The interim dividend is not reflected as a dividend payable in the consolidated financial information as at 30 June 2016, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

### 26 EARNINGS PER SHARE

#### (a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six-month periods ended 30 June 2015 and 2016.

	Unaudited	
	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (HK\$'000)	240,018	116,678
Weighted average number of ordinary shares in issue (number of shares)	612,253,766	588,890,628
Basic earnings per share (HK\$ per share)	0.392	0.198

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 26 EARNINGS PER SHARE (continued)

#### (b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, the weighted average number of ordinary shares is adjusted to include the additional shares issued upon conversion and the net profit is adjusted to eliminate the post-tax interest expense charged to profit or loss during the financial period. For share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Unaudited	
	Six months ended 30 June	
	2016	2015
<b>Earnings</b>		
Profit attributable to owners of the Company(HK\$'000)	240,018	116,678
<b>Adjustments for:</b>		
– Interest expense net of tax on convertible bonds, excluding capitalised amount (HK\$'000)	27,456	5,847
	<b>267,474</b>	<b>122,525</b>
<b>Weighted average number of ordinary shares for diluted earnings per share</b>		
Weighted average number of ordinary shares in issue (number of shares)	612,253,766	588,890,628
<b>Adjustments for:</b>		
– Assumed conversion of convertible bonds	79,093,083	27,586,634
– Share options	13,469,615	16,372,917
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>704,816,464</b>	<b>632,850,179</b>
<b>Diluted earnings per share (HK\$ per share)</b>	<b>0.379</b>	<b>0.194</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 27 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

- (a) Transactions with Friedmann Pacific Asset Management Limited ("FPAM") and its subsidiaries (collectively as "FPAM Group")

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Operating lease income on office premise receivable from: Friedmann Pacific Financial Service Limited	1,319	–
Operating lease expenses on office premises charged by: Friedmann Pacific Advisory Service Limited	–	1,344

- (b) Transactions with China Everbright Limited ("CEL") and its subsidiaries

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Operating lease expenses on office premises charged by: CEL Venture Capital (Shenzhen) Limited	117	354

On 27 September 2013, CALC (BVI) and Ever Alpha Investment Limited ("Ever Alpha"), a subsidiary of China Everbright Limited, entered into a consultancy agreement pursuant to which Ever Alpha agreed to support the Group by providing onsite supporting services to facilitate Qingdao Airlines Co., Ltd. ("Qingdao Airlines") to lease current generation of A320 aircraft from the Group. The onsite supporting services to be provided by Ever Alpha under the consultancy agreement included liaising and participating in preliminary discussion with Qingdao Airlines, providing relevant information to CALC (BVI) in respect of Qingdao Airlines and the leasing, providing strategic advice to CALC (BVI) to facilitate the leasing, assisting CALC (BVI) in negotiation, and contacting relevant government department and arranging for consultation when necessary. During the six months ended 30 June 2016, no supporting service fee was charged by Ever Alpha (six months ended 30 June 2015: HK\$23,400,000).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 27 RELATED PARTY TRANSACTIONS (continued)

### (c) Transactions with China Everbright Group Ltd. ("CE Group")

Following the completion of the restructuring of CE Group on 14 May 2015, CE Group became the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of CEL. CEL indirectly holds approximately 34.77% equity interest in the Company as at 30 June 2016. Accordingly, CE Group is now a controlling shareholder of the Company, and thus CE Group and its subsidiaries, have become related parties of the Company upon completion of the restructuring of CE Group.

#### (i) Deposit, loan and facilities services provided by CE Group

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group will provide deposit services to the Group through its associate, CE Bank. Pursuant to the loan services framework agreement, CE Group will provide secured loan services and guarantees to the Group through CE Bank and through the trustee of a trust plan of which CE Group is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group will assign the finance lease receivables to the trustee.

As at 30 June 2016, the balances of bank deposits placed in CE Group, borrowings, guarantees and undrawn facilities provided by CE Group amounted to HK\$1,699.3 million (31 December 2015: HK\$238.6 million), HK\$2,326.6 million (31 December 2015: HK\$2,096.2 million), HK\$174.6 million (31 December 2015: HK\$174.4 million) and HK\$426.3 million (31 December 2015: HK\$363.2 million). For the period ended 30 June 2016, interest income generated from, interest expense, loans upfront fee, transactions handling charges and guarantee issuing fee charged by CE Group amounted to HK\$265,000, HK\$44,298,000, HK\$20,532,000, HK\$1,069,000 and HK\$183,000 (for the period from 14 May 2015 (completion date of CE Group restructuring) to 30 June 2015: HK\$76,000, HK\$10,389,000, Nil, HK\$330,000 and HK\$472,000 respectively).

During the six months ended 30 June 2016, the Group transferred its future aircraft lease receivables under aircraft lease agreements to CE Group, for an aggregate cash consideration of US\$139.5 million, equivalent to approximately HK\$1,083.1 million (for the period from 14 May 2015 (completion date of CE Group restructuring) to 30 June 2015: Nil).

#### (ii) Compliance advisory service provided by CE Group

During the six months ended 30 June 2016, professional fee amounted to HK\$348,000 was charged by CE Group for the compliance advisory service rendered to the Group (for the period from 14 May 2015 (completion date of CE Group restructuring) to 30 June 2015: HK\$91,000).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 27 RELATED PARTY TRANSACTIONS *(continued)*

#### (d) Issue of convertible bonds to China Everbright Financial Investments Limited

On 26 May 2015, the Company completed the issue of convertible bonds at a par value of HK\$387.9 million to China Everbright Financial Investments Limited maturing in three years with interest rate of 3.0% per annum and arrangement fee of 3.5% per annum (Note 15). As at 30 June 2016, the liability value of such convertible bonds was HK\$357,859,000 (31 December 2015: HK\$350,490,000) and the interest expense incurred at an effective interest rate of 11.8% amounted to HK\$19,975,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$3,664,000). The convertible bonds were partially repurchased by the Company subsequent to 30 June 2016 (Note 29).

#### (e) Amounts due to related parties

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
FPAM Group	–	2,845

The above amounts due to related parties are unsecured, interest-free and repayable on demand.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 28 CONTINGENT LIABILITIES AND COMMITMENTS

#### (a) Contingencies

The Group had no material contingent liabilities outstanding as at 30 June 2016 (31 December 2015: Nil).

#### (b) Capital commitments

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Contracted but not provided for:		
– Acquisition of aircraft	38,614,640	41,080,879
– Acquisition of property, plant and equipment excluding aircraft	34,738	10,398
	<b>38,649,378</b>	<b>41,091,277</b>

#### (c) Operating lease commitments – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating lease in respect of office premise are as follows:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Not later than one year	19,453	18,153
Later than one year and not later than five years	28,579	33,329
Later than five years	2,923	–
	<b>50,955</b>	<b>51,482</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 28 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

#### (d) Operating lease arrangement – where the Group is the lessor

The Group had future minimum lease receipts under non-cancellable operating sub-leases in respect of office premise from a related party as follows:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Not later than one year	2,398	2,398
Later than one year and not later than five years	2,656	3,855
	<b>5,054</b>	<b>6,253</b>

The Group had future minimum lease receipts under non-cancellable operating lease in respect of aircraft as follows:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Not later than one year	413,006	285,780
Later than one year and not later than five years	1,435,602	981,846
Later than five years	1,313,411	982,521
	<b>3,162,019</b>	<b>2,250,147</b>



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 29 EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed elsewhere in the report, the following significant events took place after 30 June 2016:

- (a) The Group further transferred its future aircraft lease receivables under aircraft lease agreements with airline companies, for an aggregate cash consideration of approximately US\$110.7 million (equivalent to approximately HK\$858.9 million).
- (b) On 6 July 2016, the Company entered into separate agreements with China Huarong International Holdings Limited, Great Wall Pan Asia International Investment Co., Limited and China Everbright Financial Investments Limited to repurchase issued convertible bonds in the aggregate principal amount of HK\$581,850,000 for an aggregate consideration of HK\$590,577,750 plus the relevant interests and fees, of which principal amount of HK\$77,580,000 will be repurchased by the Company from China Everbright Financial Investments Limited. Such repurchase was completed on 25 July 2016.
- (c) With the restructuring of Aircraft Recycling International Limited ("ARI") completed on 26 July 2016, the Group's share interest in ARI reduced from 100% to 48% through share allotment by ARI to the Group, China Aero Investment Limited, Sky Cheer International Limited and Neo Modern Limited. In addition, an option right was granted to the Group, at any time during the period of six years from the grant date, to subscribe 612,245 shares of ARI at US\$1.0 per share, subject to the condition that the total shares held by the Group after exercise the option would not exceed 50% of the enlarged issued share capital of ARI.
- (d) On 22 August 2016, a subsidiary of the Company issued five-year US\$300.0 million (equivalent to approximately HK\$2,327.6 million) bonds due in 2021 which were listed on The Stock Exchange of Hong Kong Limited and guaranteed by the Company. These bonds bear coupon interest at 4.9% per annum, payable semi-annually in arrears on 22 February and 22 August each year.

**ISSUER**

**CALC Bond 3 Limited**  
Vistra Corporation Services Centre  
Wickhams Cay II  
Road Town, Tortola  
VG1110  
British Virgin Islands

**GUARANTOR**

**China Aircraft Leasing Group Holdings Limited**  
28th Floor, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

**AUDITOR OF THE GUARANTOR**

**PricewaterhouseCoopers**  
22nd Floor, Prince's Building  
Central  
Hong Kong

**TRUSTEE**

**Bank of Communications Trustee Limited**  
1/F, Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

**PRINCIPAL PAYING AGENT, REGISTRAR AND  
TRANSFER AGENT**

**Bank of Communications Co., Ltd.**  
**Hong Kong Branch**  
20 Pedder Street  
Central  
Hong Kong

**LEGAL ADVISERS**

*To the Issuer  
as to British Virgin Islands law*

**Travers Thorp Alberga**  
1205A The Centrium  
60 Wyndham Street  
Central  
Hong Kong

*To the Lead Managers  
as to English law*

**Deacons**  
5th Floor  
Alexandra House  
18 Chater Road  
Central, Hong Kong

*To the Guarantor  
as to Cayman Islands law*

**Travers Thorp Alberga**  
1205A The Centrium  
60 Wyndham Street  
Central  
Hong Kong

*To the Issuer and the Guarantor  
as to Hong Kong and English laws*

**Linklaters**  
10th Floor  
Alexandra House  
Chater Road  
Hong Kong

*To the Lead Managers  
as to PRC law*

**JunHe LLP**  
20th Floor  
8 Jianguomenbei Avenue  
Beijing 100005  
PRC

*To the Trustee  
as to English law*

**King & Wood Mallesons**  
13/F Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Central, Hong Kong

