

CALC 中國飛機租賃集團控股有限公司

China Aircraft Leasing Group Holdings Limited

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

Stock code : 01848



GLOBAL OFFERING

Joint Sponsors



China Everbright Capital Limited



Joint Global Coordinators and Joint Bookrunners



China Everbright Securities (HK) Limited



Joint Lead Managers



China Everbright Securities (HK) Limited



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED

中國飛機租賃集團控股有限公司

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

GLOBAL OFFERING

Number of Offer Shares	:	131,800,000 Shares (comprising 116,800,000 New Shares and 15,000,000 Sale Shares) (subject to the Over-allotment Option)
Number of International Offer Shares	:	118,620,000 Shares (comprising 103,620,000 New Shares and 15,000,000 Sale Shares) (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	13,180,000 Shares (subject to adjustment)
Offer Price	:	Not more than HK\$7.82 per Offer Share, payable in full on application subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%
Nominal value	:	HK\$0.1 per Share
Stock code	:	01848

Joint Sponsors



Joint Global Coordinators and Joint Bookrunners



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, 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 prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Public Inspection in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Miscellaneous Provisions) Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States. The Offer Shares are being sold outside the United States in offshore transactions in accordance with Rule 903 or 904 of Regulation S.

The section headed "Risk Factors" of this prospectus sets forth a discussion of certain risks that you should consider in connection with an investment in the Shares.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company (acting for itself and on behalf of the Selling Shareholder) on the Price Determination Date which is expected to be on or around Friday, 4 July 2014 and, in any event, not later than Saturday, 5 July 2014. The Offer Price will not be more than HK\$7.82 per Offer Share and is currently expected not to be less than HK\$5.53 per Offer Share. If for any reason, the Offer Price is not agreed by Saturday, 5 July 2014 between the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company (acting for itself and on behalf of the Selling Shareholder), the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) may reduce the indicative Offer Price range and/or the number of Hong Kong Offer Shares below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In the case of such reduction, notices of the reduction in the indicative range of the Offer Price and/or the number of Hong Kong Offer Shares will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.calc.com.hk. Further information on the arrangement will then be announced by us as soon as practicable. Further information is set forth in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" of this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set forth in the section headed "Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Grounds for termination" of this prospectus.

30 June 2014

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under HK eIPO White Form service through the designated website www.hkeipo.hk ⁽⁴⁾	11:30 a.m. on Friday, 4 July 2014
Application Lists open ⁽²⁾	11:45 a.m. on Friday, 4 July 2014
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Friday, 4 July 2014
Latest time for giving electronic application instructions to HKSCC ⁽³⁾	12:00 noon on Friday, 4 July 2014
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 4 July 2014
Application Lists close	12:00 noon on Friday, 4 July 2014
Expected Price Determination Date ⁽⁵⁾	Friday, 4 July 2014

(1) Announcement of: –

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of Hong Kong Offer Shares

to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.calc.com.hk** on or before Thursday, 10 July 2014

- (2) Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.calc.com.hk** (further information is set forth in to the paragraph under "Publication of results" in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus) from Thursday, 10 July 2014

- (3) A full announcement containing (1) and (2) above to be published on the website of the Stock Exchange at **www.hkexnews.hk**⁽⁶⁾ and our website at **www.calc.com.hk**⁽⁷⁾ from Thursday, 10 July 2014

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong

Public Offering will be available at

www.tricor.com.hk/ipo/result with a “search by ID”

function on Thursday, 10 July 2014

Despatch of Share certificates on Thursday, 10 July 2014

Despatch of e-Auto Refund payment

instructions/refund cheques on⁽⁸⁾ Thursday, 10 July 2014

Dealings in our Shares on the Stock Exchange

to commence on 9:00 a.m. on Friday, 11 July 2014

Notes:–

- (1) All times and dates refer to Hong Kong local time and dates.
- (2) If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 July 2014, the Application Lists will not open or close on that day. Further information is set forth in the section headed “How to Apply for Hong Kong Offer Shares – 10. Effect of bad weather on the opening of the Application Lists” of this prospectus.
- (3) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
- (4) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the Application Lists close.
- (5) The Price Determination Date is expected to be on or around Friday, 4 July 2014 and, in any event, not later than Saturday, 5 July 2014. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company (acting for itself and on behalf of the Selling Shareholder) by Saturday, 5 July 2014, the Global Offering will not proceed and will lapse.
- (6) The announcement will be available for viewing on the “Main Board – Allotment Results” page on the Stock Exchange’s website www.hkexnews.hk and our website at www.calc.com.hk.
- (7) None of the websites or any of the information contained on the website form part of this prospectus.
- (8) e-Auto Refund payment instructions/refund cheques will only be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price payable on application.

Share certificates are expected to be issued on Thursday, 10 July 2014 but will only become valid if the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with their respective terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

You should read carefully the sections headed “Underwriting”, “Structure and Conditions of the Global Offering”, and “How to Apply for Hong Kong Offer Shares” of this prospectus for further information relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares, and the expected timetable, including conditions, effect of bad weather and the despatch of refund cheques and Share certificates.

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in our Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set forth in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in our Offer Shares.

OVERVIEW

We are an independent aircraft leasing company focusing on China aircraft leasing market. According to the Ascend Report, as of 31 December 2013, we were the largest independent aircraft lessor in China and the ninth largest aircraft lessor in China in terms of the total number of aircraft in service and on order. Our market share in the China aircraft leasing industry was 3.1% as of 31 December 2013. As of 31 May 2014, we ranked the third among the aircraft leasing companies in China in terms of the total number of aircraft that have been delivered in 2014 and scheduled to be delivered in 2014.

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 entered into five lease agreements for five aircraft to be leased and delivered to an airline operator in Asia. 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 long-term bank borrowings for aircraft acquisition. In addition to aircraft leasing, we also provide our airline customers with value-adding services including trading and marketing of used aircraft and other advisory services on fleet management, which distinguish us from other established aircraft leasing companies in China.

Because of our distinctive business model and the growing airline customer base, our lease income grew at the CAGR of 67.1% during the three years ended 31 December 2013, from HK\$223.1 million in 2011, to HK\$447.6 million in 2012, and further to HK\$623.3 million in 2013. Our fleet size has reached 32 aircraft as of the Latest Practicable Date.

We use SPCs established in China and overseas to enter into aircraft lease agreements with airline operators. The lease term of our long-term aircraft lease agreements is sufficiently long to cover the repayment term of our long-term bank borrowings. 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 of 31 December 2013, our aircraft lease agreements were of an average term of around 12 years.

OUR COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths are critical for our growth in the high-growth China aircraft leasing industry:—

- We are one of the forerunners in the high-growth China aircraft leasing industry with a distinctive business model and proven successful operating track record.
- Our aircraft leasing business grows with our growing airline customer base, value-adding services, and strong aircraft pipeline.
- We benefit from our independent status from major commercial banks, aircraft manufacturers, and airline operators.
- We benefit from our young and modern fleet.
- We have strong financing capability to support our business development.
- Our management team has the proven capability in leasing new and used aircraft.

SUMMARY AND HIGHLIGHTS

OUR GROWTH STRATEGIES

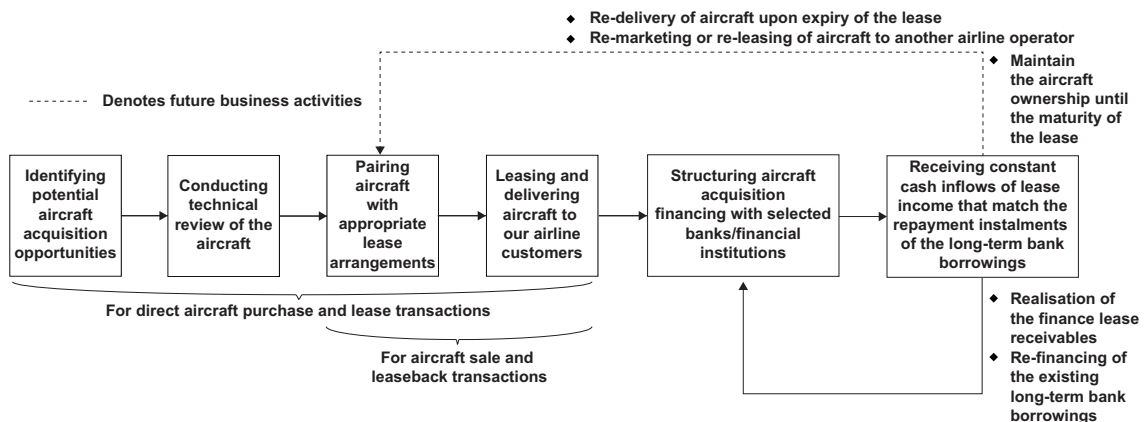
Our Directors believe that the following growth strategies will accelerate our rapid business growth:–

- Expanding our airline customer base by capitalising on the growing opportunities in the high-growth aircraft leasing market in China.
- 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.
- Developing our corporate jet leasing business.

OUR BUSINESS MODEL

We conduct the aircraft leasing business through the SPCs established in China and overseas. Under a direct aircraft purchase and lease transaction, we place the aircraft purchase orders with the aircraft manufacturers, such as *Airbus* under the Aircraft Purchase Agreement, and identify the appropriate airline lessees for leasing 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.

Since the inception of our business, we focus on aircraft leasing business. The following diagram illustrates the principal features of our business model:–



In addition to the aircraft leasing transactions which form part our core business, we completed in December 2013 a realisation transaction of our investment in the finance lease receivable of one aircraft. The transaction further demonstrates not only our business innovation capability, but also our sustainable and expandable business model in the future. Further information on the transaction is set forth in the section headed “Business – Realisation of finance lease receivables” on page 151 to 155 of this prospectus.

OUR FLEET OF AIRCRAFT

Age and model of our fleet

We have a young and modern aircraft fleet which enables us to build a high-quality and growing airline customer base. Our fleet size has reached 32 aircraft as of the Latest Practicable Date. Our aircraft fleet includes 28 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 3.3 years as of 31 December 2013. The average age of our aircraft is 3.8 years as of the Latest Practicable Date taking into consideration the two used aircraft acquired by us in March 2014.

SUMMARY AND HIGHLIGHTS

The following table sets forth the age of our fleet as of the Latest Practicable Date:–

Aircraft type	Number of used aircraft (age)	Number of new aircraft	Total
Airbus A319	–	1	1
Airbus A320	7 (4 years, 4 years, 4 years, 5 years, 1 year, 16 years, 15 years)	10	17
Airbus A321	–	5	5
Airbus A330	–	4	4
Boeing B737 NG	–	5	5
Total	<u>7</u>	<u>25</u>	<u>32</u>

Lease status of our fleet

As of the Latest Practicable Date, all our aircraft are leased and delivered to eight airline operators in China with an average lease term of around 12 years, except for the two short-term aircraft lease agreements, i.e. for the lease term of less than six years, entered into in March 2014. Our Directors confirm that the reason for entering into the two short-term aircraft lease agreements was primarily due to the fact that these two aircraft are used aircraft with an average age of 15 years. Our Directors further confirm that these two transactions are expected to provide us with comparable investment return as that of the long-term lease transactions entered into by us. These transactions would not change our business model which focuses on entering into long-term aircraft lease agreements with airline operators.

The following table sets forth the scheduled lease expiration years by aircraft type as part of our fleet as of the Latest Practicable Date:–

Aircraft type	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Airbus A319							1				1
Airbus A320	2			2	1	1	3	5	2	1	17
Airbus A321	2	1								2	5
Airbus A330						2	2				4
Boeing B737 NG							1	4			5
Total	<u>4</u>	<u>1</u>	<u>–</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>7</u>	<u>9</u>	<u>2</u>	<u>3⁽¹⁾</u>	<u>32</u>

Note:–

(1) The aircraft lease agreements of three aircraft will expire in 2022, the second aircraft lease agreements to commence thereafter for not more than six years.

OUR AIRCRAFT PURCHASE COMMITMENT AND RELATED LEASING COMMITMENT FROM AIRLINE OPERATORS

Aircraft purchase commitment

We currently plan to grow our fleet to 40 aircraft before the end of 2014 and to 64 aircraft before the end of 2016 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. As of the Latest Practicable Date, out of the 64 aircraft, 32 aircraft have been leased and delivered to our airline customers and 32 aircraft are committed to be purchased by us. Among which, two aircraft are committed under aircraft sale and leaseback transactions to be delivered in 2014 and 30 aircraft are committed to be purchased and delivered to us under the Aircraft Purchase Agreement before the end of 2016. As of the Latest Practicable Date, the amount of outstanding aircraft purchase commitment under the Aircraft Purchase Agreement is HK\$7,834.0 million and the commitment under the two aircraft sale and leaseback transactions is HK\$297.4 million.

SUMMARY AND HIGHLIGHTS

In addition, we are one of the launching customers of COMAC and entered into a preliminary non-binding agreement with COMAC in December 2011 for the purchase from COMAC of 20 C919 commercial aircraft, among which 10 C919 commercial aircraft would be purchased by way of confirmation order and another 10 C919 commercial aircraft would be purchased by way of selection order. As the delivery and the payment schedules of the aircraft manufactured by COMAC have yet to be determined, we do not include this aircraft purchase in our aircraft purchase commitment.

Amount of aircraft purchase commitment and its financing

Our Directors confirm that the aircraft purchase commitment of HK\$7,834.0 million under the Aircraft Purchase Agreement as of the Latest Practicable Date is expected to be financed by (a) PDP financing, (b) long-term bank borrowings, and (c) the net proceeds from the Global Offering, and the commitment of HK\$297.4 million under the two aircraft sale and leaseback transactions is expected to be financed by long-term bank borrowings. We may also receive additional financial resources from the possible realisation of our investment in finance lease receivables in the future. Our Directors intend that the following allocation of financial resources to fund our aircraft purchase commitment:—

Description	Amount (HK\$ million)	%
PDP financing	1,166.4	14.3
Long-term bank borrowings	6,735.9	82.9
Net proceeds from the Global Offering	229.1	2.8
Total	<u>8,131.4</u>	<u>100.0</u>

Lease commitment from airline operators for aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement

As of the Latest Practicable Date, we have delivered six aircraft out of the 36 aircraft under the Aircraft Purchase Agreement. As of the Latest Practicable Date, for the 30 aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement by the end of 2016, we have secured, by way of letters of intent and lease agreements, the lease of 17 aircraft scheduled to be delivered in 2014 and 2015. We have secured the aircraft leases for more than a year prior to the delivery date primarily due to our effective marketing efforts.

As of the Latest Practicable Date, we have yet to secure the lease commitment for 13 aircraft scheduled to be delivered in 2015 and 2016. Our Directors confirm that our airline customers would normally enter into letters of intent about 12 months prior to the proposed aircraft delivery date. On this basis, our Directors are satisfied on the percentage of lease commitment as of the Latest Practicable Date. We will continue to focus on the airline operators in China and have commenced our aircraft leasing business with airline operators in other Asian countries. Our Directors confirm that we have never experienced any failure to secure the lease for new aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement. Our existing business network and the high demand for aircraft in China will continue to facilitate us to enter into new leases for our committed aircraft.

Recent development

As of the Latest Practicable Date, we have delivered a total of 32 aircraft to our airline customers. For the period from 1 January 2014 to the Latest Practicable Date, we have delivered seven aircraft: five aircraft are under direct aircraft purchase and lease transactions and two aircraft are under aircraft sale and leaseback transactions. According to the Ascend Report, the demand for aircraft in China market will continue to grow and the total number of leased commercial aircraft in

SUMMARY AND HIGHLIGHTS

China will increase by 262 aircraft to 1,061 aircraft during the three years ending 31 December 2016. Because of our successful business development experience, we have established business relationships with most of the leading airlines in China, which our Directors believe their demand for leased aircraft will continue to increase in the future.

In light of the strong growth in demand, we are engaged in proactive marketing activities for the leasing of the remaining 13 aircraft under the Aircraft Purchase Agreement at favourable terms to capture the business opportunities in our target markets.

Joint Sponsors' view on our expansion plan

Following the review of our performance during the Track Record Period, the latest leasing status of the aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement, our updated working capital position, and the latest development of the aircraft industry in China, the Joint Sponsors are satisfied that our fleet expansion plan is reasonable in light of the prevailing demand and supply condition of the China aircraft leasing industry.

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

In addition to the aircraft leasing business, we also provide our airline customers with value-adding services. The value-adding services include trading and marketing of used aircraft and other advisory services on fleet management. We do not charge separately for these value-adding services as they are part of the services provided to our airline customers.

OUR AIRLINE CUSTOMERS

In 2011, 2012, and 2013, our customers included lessees of our leased aircraft and purchasers of the aircraft sold by us. We leased and delivered our aircraft to three, four, and six airline operators in China in 2011, 2012, and 2013, respectively. As of the Latest Practicable Date, we leased and delivered our aircraft to eight airline operators in China. Our existing airline customers to which we lease and deliver our aircraft include *Air China*, *China Southern Airlines*, *Shenzhen Airlines*, *Chengdu Airlines*, *Shandong Airlines*, *Sichuan Airlines*, *China Eastern Airlines*, and *Qingdao Airlines*.

Out of the eight airline customers, our largest lessee customer has leased from us nine aircraft and our second largest lessee customer leased from us six aircraft. We have business relationship with our airline customers for a longest period of six years. All our airline customers are Independent Third Parties.

LEASE COMMITMENT FROM OUR AIRLINE CUSTOMERS

The following table sets forth a summary of the lease commitment from our airline customers as of the Latest Practicable Date:—

	Total number of aircraft with aircraft lease agreements secured	Total number of aircraft with letters of intent secured	Total number of aircraft with no lease commitment	Total number of aircraft to be delivered
2014	8	0	0	8
2015	9	2	1	12
2016	0	0	12	12
Total	<u>17</u>	<u>2</u>	<u>13</u>	<u>32</u>

SUMMARY AND HIGHLIGHTS

Due to our good relationship with the major airlines in China, we have secured letters of intent before entering into the aircraft lease agreements. As confirmed by *Ascend*, the letters of intent are not the industry practice adopted by most international airline operators before entering into the aircraft lease agreements. As of the Latest Practicable Date, we have secured the lease commitment by way of aircraft lease agreements for eight aircraft to be delivered under direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions in 2014. We have entered into four aircraft lease agreements for four aircraft to be leased and delivered to airline operators in China in 2015. In addition, we have entered into five lease agreements for five aircraft to be leased and delivered to an airline operator in Asia and one letter of intent for two aircraft to be delivered in 2015. The letter of intent for two aircraft entered into with *Sichuan Airlines* is legally binding as advised by our PRC legal advisers.

OUR FUNDING SUPPLIERS

As an aircraft leasing company, our suppliers are the commercial banks that provide us with aircraft acquisition financing in the form of long-term bank borrowings and PDP financing. The long-term bank borrowings would be arranged for each aircraft purchased by us, and the PDP financing is used for the settlement of the PDPs under the Aircraft Purchase Agreement. The major component of our cost is the interest expense paid to our lenders.

In 2011, 2012, and 2013, we obtained aircraft acquisition financing (including the long-term bank borrowings and the PDP financing) from three, four, and six commercial banks, respectively, and all of them are Independent Third Parties. Our interest expense incurred amounted to HK\$124.3 million, HK\$249.9 million, and HK\$329.9 million, respectively, during the three years ended 31 December 2013.

In 2011, 2012, and 2013, our largest supplier for funding accounted for 47.9%, 41.4%, and 43.0% of our total aircraft acquisition financing (including the long-term bank borrowings and the PDP financing), respectively. In 2013, our five largest suppliers for funding accounted for 98.6% of our total aircraft acquisition financing (including the long-term bank borrowings and the PDP financing). We have business relationship with our funding suppliers for an average of four years. All our funding suppliers are Independent Third Parties.

The following table illustrates the financing status of the aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement as of the Latest Practicable Date:–

	Total number of aircraft to be delivered under the Aircraft Purchase Agreement	Total number of aircraft that have secured PDP financing	Total amount of PDP financing secured (HK\$'million)	Total number of aircraft that have secured long-term bank borrowings	Total amount of long-term bank borrowings secured (HK\$'million)
2014	6	6	680.7	5	1,702.4
2015	12	12	1,287.7	–	–
2016	12	8 ⁽¹⁾	901.6	–	–
Total	<u>30</u>	<u>26</u>	<u>2,870.0</u>	<u>5</u>	<u>1,702.4</u>

Note:–

- (1) The PDPs for four aircraft in the amount of HK\$494.1 million have yet to be secured by PDP financing. Our Directors confirm that the PDP financing for two aircraft is expected to be available in July 2014 and for the remaining two aircraft by the end of 2014. China Everbright Bank Co., Ltd. (Hong Kong Branch), and China Development Bank, Hong Kong branch, are the two commercial banks in discussion with us for the PDP financing.

SUMMARY AND HIGHLIGHTS

Our gearing ratio was 93.0%, 89.9% and 92.5% as of 31 December 2011, 2012, and 2013, respectively. As of 31 December 2011, 2012, and 2013, a significant part of our bank borrowings was long-term bank borrowings for aircraft acquisition and PDP financing. As of 31 December 2013, we also had banking facilities for general working capital purpose. The increase in bank borrowings was due to our business expansion and the increase in our fleet size.

REALISATION OF FINANCE LEASE RECEIVABLES

We completed our first realisation of finance lease receivable in December 2013. Pursuant to the transaction, we sold the finance lease receivable for a total consideration of RMB540.3 million. The lease receivable is related to an A330 aircraft that we lease to our airline customer. The lease term is 12 years and the outstanding lease receivable as of 27 December 2013 was US\$121.1 million. As part of the transaction, we borrowed RMB122.0 million (equivalent to HK\$155.2 million) from an Independent Third Party to repay the full amount of the long-term bank borrowings for acquisition of the aircraft. The lender of this long-term borrowing is the buyer of our finance lease receivable. As a result of the transaction, on our balance sheet as of 31 December 2013, we de-recognised HK\$615.0 million finance lease receivables-net. The corresponding long-term bank borrowings in the amount of HK\$769.1 million was repaid in January 2014. We recognised HK\$57.1 million as other income in 2013 determined by comparing the net proceeds with the carrying amount of the finance lease receivable de-recognised, less transaction costs and PRC BT incurred.

Further information on our realisation transaction of finance lease receivable is set forth in the section headed “Business – Realisation of finance lease receivables” on page 151 to 155 of this prospectus.

OUR SALES AND MARKETING

Our sales and marketing activities focus on strengthening the business relationship with airline operators, airline manufacturers, and commercial banks.

We prepare on a regular basis and for our internal use estimated aircraft demand of our existing airline customers and prospective airline customers for the next six to 12 months. These internal reports are used by us for assessment of the future business opportunities. We also participate in major industry promotional events, trade fairs, seminars, and exhibitions, such as 14th Annual Asia Pacific Airfinance Conference and ISTAT Europe 2013 for the purpose of enhancing our industry recognition and identifying prospective customers and future business opportunities.

OUR FINANCIAL DATA

The following is a summary of (a) consolidated statements of comprehensive income for the three years ended 31 December 2013 and (b) certain key items of our consolidated balance sheet as of 31 December 2011, 2012, and 2013. The information is derived from the information in Appendix I to this prospectus. You should read the consolidated financial information, including the notes to such financial information, included in Appendix I to this prospectus.

SUMMARY AND HIGHLIGHTS

SUMMARY OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues			
Finance lease income	223,075	363,727	477,966
Operating lease income	–	83,840	145,359
Other income	149	296	63,610
	<u>223,224</u>	<u>447,863</u>	<u>686,935</u>
Expenses			
Interest expense	(124,291)	(249,903)	(329,906)
Depreciation	(132)	(31,098)	(54,147)
Other operating expenses	(23,985)	(39,393)	(91,405)
	<u>(148,408)</u>	<u>(320,394)</u>	<u>(475,458)</u>
Operating profit	74,816	127,469	211,477
Exchange gain/(losses)	3,496	847	(1,517)
Profit before income tax	78,312	128,316	209,960
Income tax expense	(26,842)	(33,184)	(37,460)
Profit for the year attributable to owners of our Company	<u>51,470</u>	<u>95,132</u>	<u>172,500</u>

The following table sets forth our lease income (under finance leases), interest expense, net interest spread, and net interest margin for the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance lease income	223,075	363,727	477,966
Interest expense	(124,291)	(210,575)	(264,132)
Net finance lease income	98,784	153,152	213,834
Average balance of finance lease receivable, net	2,745,416	4,271,248	5,898,476
Average balance of borrowings attributable to the aircraft classified under finance lease	2,501,921	4,041,592	5,461,871
Net interest spread	3.16%	3.31%	3.27%
Net interest margin	3.60%	3.59%	3.63%

The following table sets forth our lease income (under operating leases), amount of aircraft depreciation of aircraft, related interest expense, and gross profit margin for the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating lease income	–	83,840	145,359
Depreciation of aircraft	–	(30,626)	(53,365)
Interest expense	–	(39,328)	(62,659)
Gross profit	N/A	13,886	29,335
Gross profit margin	N/A	16.6%	20.2%

KEY ITEMS IN OUR CONSOLIDATED BALANCE SHEETS

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	3,339,759	6,889,248	12,832,852
Total liabilities	3,105,095	6,194,539	11,874,754
Total net assets	234,664	694,709	958,098
Total equity	234,664	694,709	958,098

SUMMARY AND HIGHLIGHTS

RECENT DEVELOPMENT ON OUR BUSINESS SUBSEQUENT TO THE TRACK RECORD PERIOD

Our business continues to grow since 31 December 2013 and the aircraft delivered and leased are generally consistent with the delivery schedule. For the period from 1 January 2014 to the Latest Practicable Date, we have delivered seven aircraft: five aircraft are under direct aircraft purchase and lease transactions and two aircraft are under aircraft sale and leaseback transactions. As of the Latest Practicable Date, out of the 30 aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement, we have lease commitment in respect of 17 aircraft.

Based on our unaudited consolidated financial statements prepared by our management, as of 30 April 2014, our finance lease receivables-net amounted to HK\$8,939.4 million and our cash and cash equivalents amounted to HK\$652.0 million.

Our revenues and net profit are generated primarily from three sources, namely finance lease income, operating lease income, and other income from realisation of finance lease receivable. In 2013, we recognised HK\$57.1 million as other income from our first 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 cost is expected to increase because of the expansion of our fleet and that eight additional aircraft expected to be delivered in 2014. Our operating expenses are also expected to increase because of our need to recruit more staff to support business growth and the expenses for the Listing incurred during the year. We also expect that our effective tax rate would increase in 2014 because of certain expenses (including the listing expenses and professional service expenses) incurred by our entities in Hong Kong are not deductible for tax purpose. All of these factors and listing expenses incurred and to be incurred could have adverse impact on our results for the year ending 31 December 2014.

Our Directors further confirm that since 31 December 2013 (being the date to which our latest audited consolidated financial information was prepared) and up to the Latest Practicable Date, there has been no material adverse change in our business, financial condition, and market condition in the aircraft leasing industry of the PRC as whole, and there has been no event since 31 December 2013 which could materially affect the information shown in our consolidated financial statements included in the Accountant's Report set forth in Appendix I to this prospectus.

NET CURRENT LIABILITIES

Our current liabilities exceeded our current assets by HK\$308.8 million, HK\$139.0 million, and HK\$1,421.4 million as of 31 December 2011, 2012, and 2013, respectively. As of 31 December 2011, we had net current liabilities principally because of the short-term borrowing used by us in aircraft acquisition. The short-term borrowing was subsequently replaced by the long-term bank borrowings. As of 31 December 2012 and 2013, one of the principal reasons for the net current liabilities position is that the PDPs amounted to HK\$714.7 million and HK\$2,078.0 million, respectively, are treated as non-current assets, whereas the PDP financing in the amount of HK\$551.0 million and HK\$1,820.1 million as of 31 December 2012 and 2013, respectively, are treated as our current liabilities, according to the HKFRSs and our accounting policies. If our PDPs were classified as current assets, we would have net current asset position of HK\$575.7 million and HK\$656.6 million as of 31 December 2012 and 2013, respectively. Our Directors consider that because of our business model and the requirements under the HKFRSs and our accounting policies, our net current liabilities position would continue in the future. As of 31 December 2013, we had capital commitment of HK\$10,162.5 million in relation to the acquisition of aircraft. As of the Latest Practicable Date, we have capital commitment of HK\$7,834.0 million under the Aircraft Purchase Agreement and the commitment under the two aircraft sale and leaseback transactions is HK\$297.4 million.

Our Directors have given due consideration to our liquidity and adopt a going concern basis in preparing our audited consolidated financial statements based on the following assessments:—

- (a) For the aircraft under aircraft lease agreements, under our business model, the expected cash inflows from the lease receivables match the required cash outflows for repayment instalments of the long-term bank borrowings over the entire lease term of the aircraft.

SUMMARY AND HIGHLIGHTS

- (b) Our net current liabilities position was mainly due to the fact that we used short-term borrowings to finance our aircraft acquisition and the payment of PDPs when the new aircraft ordered by us under the Aircraft Purchase Agreement are being built. As of 31 December 2012 and 2013, PDPs amounting to HK\$714.7 million and HK\$2,078.0 million, respectively, had been paid. According to the Aircraft Purchase Agreement, the amount of PDPs scheduled to be paid in the 12 months from 31 December 2013 is expected to be HK\$1,540.7 million. As of 31 December 2013, we have signed PDP financing with four commercial banks for the PDP of 23 aircraft. Subsequent to 31 December 2013, we entered into three additional agreements for PDP financing for eight aircraft, and we are in discussion with another two banks for the PDP financing for four aircraft. Based on the PDP financing agreements signed, the funding of HK\$1,245.0 million will be provided by commercial banks to support partial settlement of the PDPs. The remaining balance of PDPs amounting to HK\$295.7 million will be funded by our internally generated financial resources and additional PDP financing which is expected to be obtained in July 2014.
- (c) As of 31 December 2012 and 2013, the balance of PDP financing amounted to HK\$551.0 million and HK\$1,820.1 million, respectively. We will replace the PDP financing with the long-term bank borrowings upon the delivery of aircraft as scheduled, which includes 11 aircraft in 2014. As of the Latest Practicable Date, we have entered into lease agreements with airline operators in China for the leasing of eight aircraft expected to be delivered in 2014.
- (d) We have entered into a cooperative agreement with a bank, pursuant to which the bank provides a comprehensive loan facility amounting to US\$1.5 billion (equivalent to HK\$11.7 billion) to us during the period between 2013 and 2018. The granting of each specific loan will be subject to the credit assessment to be performed by the bank and the finalisation of the terms and conditions of the loan agreements, which will only be confirmed shortly before the delivery of aircraft.
- (e) Under the Aircraft Purchase Agreement, CALC (BVI) has an obligation to have net asset value of more than US\$300.0 million as of 31 December 2013. The net asset value of CALC (BVI) as of 31 December 2013 was US\$124.4 million (equivalent to HK\$970.7 million). *Airbus* has confirmed to us that despite such net asset value shortfall, it will not exercise its right to defer the delivery of aircraft until 30 June 2015. Therefore, our Directors believe that the delivery of the aircraft will be in accordance with the schedule and we should be able to obtain long-term loans as planned for the aircraft to be delivered in the coming 12 months.

Taking into consideration our cash flows from operating activities, presently available banking facilities and the PDP financing, the estimated amount of net proceeds from the Global Offering, and based on the assumption that the conditional loan facility of US\$1.5 billion (equivalent to HK\$11.7 billion) and the confirmed PDP financing of HK\$1,137.3 million as of 30 April 2014 will be available to us, as and when required, our Directors are of the opinion that we will have sufficient working capital for our present requirements for the next 12 months from the date of this prospectus to 30 June 2015 on the basis that (a) we would deliver a total of 12 additional aircraft and that all of which are secured with lease commitment by way of aircraft lease agreements or letters of intent and (b) the cash inflows from lease income of leased aircraft will cover the cash outflows for the repayment of the long-term bank borrowings for aircraft acquisition. Our Directors are also of the view that we will be in a position to continue as a going concern and that we have prepared the financial statements on a going concern basis.

DERIVATIVE FINANCIAL INSTRUMENTS

As part of our long-term bank borrowings are subject to floating interest rates, we entered into interest rate swaps contracts for the sole purpose of managing our exposure on our long-term bank borrowings to interest rate fluctuations. As of the Latest Practicable Date, we maintain eight interest rate swap contracts for nine aircraft outstanding. Further information on the hedging transactions engaged by us during the Track Record Period is set forth in the section headed "Business – Our financing strategies – Hedging transactions" on pages 149 to 151 of this prospectus.

SUMMARY AND HIGHLIGHTS

OUR CONTROLLING SHAREHOLDERS AND PRE-IPO INVESTORS

Our Controlling Shareholders

FPAM and CE Aerospace will become our Controlling Shareholders. FPAM is majority owned by Capella which is ultimately owned as to 90% by Mr. POON and 10% by Ms. NG. CE Aerospace is a wholly-owned subsidiary of CEL. As such, Capella, Mr. POON, Ms. NG, and CEL are also our Controlling Shareholders. Further information on our Controlling Shareholders is set forth in the section headed “Controlling Shareholders and Substantial Shareholders” on page 282 to 294 of this prospectus.

Pre-IPO Investors

We have three Pre-IPO Investors, namely Easy Smart, Prosper Victory, and VandI Investments. Following completion of the investments made by Easy Smart and Prosper Victory but before completion of the Reorganisation, Easy Smart is interested in 8.05% of the then number of CALH Shares in issue and Prosper Victory is interested in 2.10% of the then number of CALH Shares in issue.

Vandi Investments will request for the transfer of 18,139,535 Shares from FPAM pursuant to the Exchangeable Note issued by FPAM within the last two Business Days before the Listing Date.

Further information of above investments is set forth in the section headed “History, Development, and Reorganisation – Investments by the Pre-IPO Investors” on page 104 to 107 of this prospectus.

DIVIDENDS AND DIVIDEND POLICY

In 2011, 2012, and 2013, we declared and settled HK\$55.4 million, HK\$19.2 million, and HK\$53.0 million as dividends, respectively. On 19 May 2014, our Company proposed to declare final dividend of HK\$69.0 million to its then sole shareholder, CALH, for the year ended 31 December 2013. Such dividend will be paid before the Listing Date. The payment of final dividend of HK\$69.0 million will have the following immediate financial impact on us: (a) our gearing ratio will be slightly increased by 0.3% for the year ending 31 December 2014 assuming that all other variables remain constant; (b) the net current liabilities will be increased by HK\$69.0 million, which represents 3.7% of our net current liabilities position of HK\$1,854.8 million as of 30 April 2014; and (c) there is no impact on our aircraft purchase commitment. After considering these factors, our Directors are of the view that the payment of final dividend of HK\$69.0 million would not materially affect our financial position.

Following Listing, subject to the factors set forth below, we expect that we would distribute annual dividend of not less than 30% of our profit attributable to equity holders of our Company in the relevant year. Our Board may determine the amount of future dividends at their sole discretion after considering our profits, cash flows, business opportunities, capital commitment and capital expenditure requirements, general financial condition, and other factors that our Board considers appropriate.

PRINCIPAL RISK FACTORS

There are risks associated with our business and investment in the Offer Shares. These risks are set forth in the section headed “Risk Factors” of this prospectus. You should read that entire section carefully before making any investment in our Offer Shares. The following sets forth a summary of the material risks relating to us.

As of the Latest Practicable Date, our fleet of aircraft comprises 32 aircraft leased and delivered to eight airline operators in China.

Our business model depends on the continuing leasing of aircraft on favourable terms to airline operators in China and other countries. If we are not able to implement our business model effectively or distinguish ourselves from our competitors, our operating results and financial condition could be materially and adversely affected. Competition amongst aircraft leasing

SUMMARY AND HIGHLIGHTS

companies, particularly in China, is keen and is primarily based on the lease terms offered to the airline operators. Hence, we have to continue to maintain a sustainable financing source with terms acceptable to us in order to maintain our competitiveness and profitability and continue our business growth.

Our principal assets are our fleet of aircraft, the value of which is depending to a significant extent on economic, political, and other factors outside our control. The demand and supply of air travel affect the value of the aircraft as well as their lease rates. Factors affecting the airline industry globally and in China, such as fuel price, wars, and other extraneous events, including terrorist attacks, major air travel accidents or the outbreak of contagious diseases, also affect us indirectly should they hinder air travel or reduce the demand for air travel.

As of the Latest Practicable Date, we commit to purchase 30 aircraft under the Aircraft Purchase Agreement to be delivered by the end of 2016. As of the Latest Practicable Date, the amount of the outstanding aircraft purchase commitment under the Aircraft Purchase Agreement is HK\$7,834.0 million. Among the 30 aircraft, 17 aircraft are secured with lease commitment by way of letters of intent or aircraft lease agreements, with the remaining 13 aircraft not being secured with any lease commitment. Because of the lease commitment in place, our Directors have no doubt on the availability of the aircraft acquisition financing for the 17 aircraft. Regarding the remaining 13 aircraft to be delivered in 2015 and 2016 which are not secured with lease commitment, our Directors believe that they can be leased because of the growing China airline industry and the existing and established business relationship between us and the leading airline operators in China. There are contingency plans in place if we are not able to lease these aircraft. We have also included in this prospectus a risk factor entitled “*We may not be able to secure lease commitment for aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement*”.

As part of our business model, we arrange for long-term bank borrowings for each aircraft acquired by us. These bank borrowings may or may not be available depending on the credit market condition and other factors outside our control. As of 31 December 2013, the balance of our bank borrowings was HK\$11,436.4 million and our gearing ratio was 92.5%. The high level of bank borrowings and high gearing ratio may pose significant risks to us, and further information is set forth in the risk factor of “*Our high level of bank borrowings, high gearing ratio, and net current liabilities position expose us to liquidity risk*”.

Our current liabilities exceeded our current assets by HK\$308.8 million, HK\$139.0 million, and HK\$1,421.4 million as of 31 December 2011, 2012, and 2013, respectively. Although our Directors believe that we will be in a position to continue as a going concern because a majority of our indebtedness consists of long-term bank borrowings, our substantial amount of bank borrowings could prevent us from achieving our business growth or fulfilling our obligations under the existing or new business plans.

Our business model also depends on our ability to match the cash inflows from the lease income under the aircraft lease agreements with the cash inflows for the repayments under the long-term bank borrowings. If we are not able to match cash flows, we may face continuous cash outflows and significant liquidity risk. We have included in this prospectus the risk factor on “*We rely on constant cash inflows to service the cash outflows for the repayment of long-term bank borrowings and satisfy other requirements*”.

The other material risks faced by us on our leased aircraft is the default risk of our airline customers. There were very few cases of business suspension amongst the airline operators in China and none of them has resulted in prolonged and significant claims amongst the creditors. Our Directors are of the view that our customers' default risk is not overwhelming. In any event, we have disclosed in this prospectus the appropriate risk factors, namely “*We rely on a few airline customers for our aircraft leasing business*”, “*Our success depends on the business prospects and financial strength of our airline customers*”, and “*If any of our airline customers is in material default of the payment obligation under the aircraft lease agreement with us, we may not be able to effect re-possession or re-lease of the aircraft in a timely manner and we may incur costs to effect such a re-possession*”.

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Another risk faced by us is interest rate risk. Interest rate exposure arises when interest rates of the lease income and the corresponding bank borrowings do not match. Out of the 31 aircraft (excluding the aircraft under the realisation arrangement), we have 14 aircraft with fixed amount of lease income while the corresponding borrowings have floating interest-rate repayment. We have included in this prospectus the risk factor on “*Increase in the interest rates would increase our borrowing costs which could adversely affect our business and financial condition*”.

OFFER STATISTICS

	Based on the Offer Price of HK\$5.53	Based on the Offer Price of HK\$7.82
Market capitalisation of our Shares ⁽¹⁾	HK\$3,239 million	HK\$4,581 million
Unaudited consolidated pro forma adjusted net tangible asset per Share ⁽²⁾	HK\$2.63	HK\$3.08

Notes:—

- (1) The calculation of the market capitalisation is based on 585,781,000 Shares expected to be in issue immediately following completion of the Global Offering and the Capitalisation Issue without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Post-IPO Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (2) The unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of our Company per Share has been arrived on the basis of a total of 585,781,000 Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme, or any option that may be granted under the Post-IPO Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

FUTURE PLANS AND PROPOSED USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

Our future plans will focus on the aircraft leasing business in China and other countries in Asia. Hence, we will use a significant portion of our net proceeds from the Global Offering for aircraft acquisition. Our Directors estimate that we will receive net proceeds from the Global Offering (other than the net proceeds for the sale of the Sales Shares) of HK\$722.1 million, after deducting the underwriting fees and estimated total expenses paid and payable by us in connection with the Global Offering, assuming that the Offer Price is HK\$6.68 (being the mid-point of the indicative range of the Offer Price stated in this prospectus). We intend to use the net proceeds for the following purposes:—

- HK\$649.9 million, representing 90% of the total net proceeds from the Global Offering, for aircraft acquisition; and
- HK\$72.2 million, representing 10% of the total net proceeds from the Global Offering, for our working capital purpose.

LISTING EXPENSES

The estimated total amount of expenses for the Listing (excluding underwriting commission) incurred in relation to the Global Offering is HK\$38.6 million. In 2012, we incurred HK\$1.9 million of expenses for the Listing, of which HK\$0.7 million was recognised as prepayments and HK\$1.2 million was charged to our profit and loss. In 2013, we incurred HK\$13.0 million of expenses for the Listing, of which HK\$9.8 million was charged to our profit and loss and HK\$3.2 million was capitalised. We estimate that HK\$23.7 million of expenses will be incurred by us in 2014 for the Listing, of which an amount of HK\$20.5 million will be charged to our profit and loss for the year ending 31 December 2014 and HK\$3.2 million will be capitalised. These expenses for the Listing are principally comprised of professional fees paid to the parties involved in the Global Offering for their services rendered for the purpose.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the capitalised terms used herein shall have the following meanings:–

“Airbus”	Airbus S.A.S., an aircraft manufacturer and an Independent Third Party
“Aircraft Purchase Agreement”	the aircraft purchase agreement dated 23 October 2012 entered into between CALC (BVI) and Airbus and supplemented by letter agreements and amendments
“Application Form(s)”	WHITE application form(s), YELLOW application form(s), and GREEN application form(s), or where the context so requires, any of them, for the Hong Kong Public Offering
“Application Lists”	the application lists for the Hong Kong Public Offering
“Articles of Association”	the articles of association of our Company adopted on 23 June 2014 and effective on the Listing Date and as amended from time to time, a summary of which is set forth in Appendix III to this prospectus
“Ascend”	Ascend China Holding Limited, a Flightglobal advisory service and part of Reed Business Information Limited, our independent industry consultant and an Independent Third Party
“Ascend Report”	the industry report prepared by Ascend on 30 June 2014 and commissioned by us, an extract of which is set forth in the section headed “Industry Overview” of this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	audit committee of our Board established on 11 September 2013 with Mr. NG Ming Wah, Charles, Mr. ZHANG Chongqing, Mr. GUO Zibin, and Mr. SUN Quan as members
“Board”	the board of Directors
“Business Day”	any day other than a Saturday or Sunday or public holiday in Hong Kong or days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. on which licenced banks in Hong Kong are generally open for business during their normal business hours
“BVI”	the British Virgin Islands

DEFINITIONS

“CAAC”	中國民用航空局 (Civil Aviation Administration of China), a government agency in China under the Ministry of Transportation overseeing airlines, airports, and air lanes in China
“CAGR”	compound annual growth rate
“CALC (BVI)”	China Aircraft Leasing Company Limited (中國飛機租賃有限公司), a company incorporated in the BVI with limited liability on 24 March 2006, the entire issued share capital of which is owned by our Company
“CALC (Tianjin)”	中飛租融資租賃有限公司 (China Asset Leasing Company Limited), a wholly-foreign owned enterprise established in the PRC on 13 December 2010 and a wholly-owned subsidiary of CALL
“CALC Baoli”	中飛寶曆租賃(天津)有限公司 (CALC Baoli Limited), a company established in the PRC on 25 June 2013 and a wholly-owned subsidiary of CALC (Tianjin)
“CALH”	China Aircraft Leasing Holdings Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands on 31 December 2010
“CALH Shareholders’ Agreement”	the shareholders’ agreement dated 30 June 2011 entered into between CALH, FPAM, and CE Aerospace
“CALH Shares”	the issued CALH Shares of US\$0.1 each
“CALL”	China Aircraft Leasing Limited, a company incorporated in Hong Kong with limited liability on 21 October 2010, and a wholly-owned subsidiary of CALC (BVI)
“Capella”	Capella Capital Limited (formerly known as Capella Consultants Limited), a company incorporated in the BVI with limited liability on 23 July 2001, which is owned as to 90.0% by Mr. POON and 10.0% by Ms. NG, and one of our Controlling Shareholders
“Capitalisation Issue”	the issue of 29,071 new Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company referred to in the paragraphs under “Resolutions in writing of our Shareholders passed on 23 June 2014” in Appendix IV to this prospectus

DEFINITIONS

“CASC”	中國航天科技集團公司 (China Aerospace Science and Technology Corporation), a State-owned enterprise engaged in research, development and commercialisation of space technology and products and the ultimate holding company of Easy Smart
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCBI”	CCB International Capital Limited, a company incorporated in Hong Kong and licenced to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
“CE Aerospace”	China Everbright Aerospace Holdings Limited, a company incorporated in the Cayman Islands on 13 January 2009, a wholly-owned subsidiary of CEL and one of our Controlling Shareholders
“CE Aerospace Agreement”	the sale and purchase agreement dated 31 May 2011 entered into between CE Aerospace, FPAM, CALH, and Mr. POON for the purchase of CE Shares
“CE Completion Date”	30 June 2011
“CE Finance”	China Everbright Finance Limited (中國光大財務有限公司), a company incorporated in Hong Kong on 9 April 1991 and a registered money lender under Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), a wholly-owned subsidiary of CEL and a connected person of our Company
“CE Investment Option”	the investment option granted by FPAM to CE Aerospace pursuant to the CE Aerospace Agreement, which has been cancelled since 28 January 2014

DEFINITIONS

“CE Shares”	14,400,000 CALH Shares purchased by CE Aerospace pursuant to the CE Aerospace Agreement, representing 48.0% of the then number of CALH Shares in issue prior to completion of the investments by the Pre-IPO Investors
“CEL”	China Everbright Limited, a company incorporated in Hong Kong on 25 August 1972 and listed on the Stock Exchange (Stock code: 165) and one of our Controlling Shareholders
“China” or “PRC”	The People’s Republic of China which, except where the context otherwise requires and for the purpose of this prospectus only, does not include Hong Kong, The Macau Special Administrative Region of the PRC, and Taiwan
“China Aerospace”	China Aerospace Investment Holdings Ltd (航天投資控股有限公司), a limited liability company established in the PRC on 29 December 2006 and a non-wholly owned subsidiary of CASC
“China Credit Trust”	China Credit Trust Co., Limited, the buyer named in the Lease Receivable Assignment
“China Everbright Capital”	China Everbright Capital Limited, a company incorporated in Hong Kong and licenced to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
“China Everbright Securities”	China Everbright Securities (HK) Limited, a company incorporated in Hong Kong and licenced to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO
“Chinese Government” or “PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“COMAC”	Commercial Aircraft Corporation of China, Ltd. (中國商用飛機有限責任公司), a State-owned enterprise in China and an Independent Third Party
“Companies (Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented and/or otherwise modified from time to time
“Companies Law”	Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

DEFINITIONS

“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented and/or otherwise modified from time to time
“Company” or “our Company”	China Aircraft Leasing Group Holdings Limited (中國飛機租賃集團控股有限公司) (formerly known as China Aircraft Leasing Company Limited (中國飛機租賃有限公司)) an exempted company incorporated with limited liability under the laws of the Cayman Islands on 21 December 2012
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consultancy Agreement”	the consultancy agreement dated 27 September 2013 entered into between CALC (BVI) and Ever Alpha
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to Capella, FPAM, Mr. POON, Ms. NG, CE Aerospace, and CEL
“Deed of Indemnity”	a deed of indemnity dated 23 June 2014 entered into by our Controlling Shareholders in favour of our Group, further information of which is set forth in the paragraphs under “F. Other Information – 1. Estate duty, tax and other indemnity” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 23 June 2014 entered into by our Controlling Shareholders in favour of our Group in respect of certain non-competition undertakings
“Director(s)”	the directors of our Company
“Easy Smart”	Easy Smart Limited, a company incorporated in the Cayman Islands with limited liability on 16 March 2011 and a wholly-owned subsidiary of China Aerospace, and one of the Pre-IPO Investors
“Ever Alpha”	Ever Alpha Investments Limited, a company incorporated in the BVI on 5 September 2013 and a wholly-owned subsidiary of CEL and a connected person of our Company
“Exchangeable Note”	the exchangeable note issued by FPAM to Vandri Investments in the principal amount of HK\$78.0 million, a summary of its terms is set forth in the section headed “History, Development, and Reorganisation – Investments by the Pre-IPO Investors – Subscription for the Exchangeable Note by Vandri Investments” of this prospectus

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“Exchangeable Note Agreement”	the subscription agreement dated 10 April 2013 entered into between FPAM and Vandri Investments for the subscription by Vandri Investments of the Exchangeable Note
“Exchangeable Shares”	up to 18,139,535 Shares to be transferred to Vandri Investments following the full exercise of the Exchangeable Note, further information of which is set forth in the section headed “Controlling Shareholders and Substantial Shareholders – Principal terms of the Exchangeable Note” of this prospectus
“FPAM”	Friedmann Pacific Asset Management Limited (formerly known as Alpha Pacific Investment Management Inc.), a company incorporated in the BVI on 24 May 2000 and one of our Controlling Shareholders
“GDP”	gross domestic product
“General Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new shares, further information of which is set forth in the section headed “Share Capital – General Mandate” of this prospectus
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN application form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider, The Bank of East Asia, Limited
“Group”, “our Group”, “we” or “us”	our Company and subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HK\$” and “cent”	Hong Kong dollar and cent, respectively, the lawful currency of Hong Kong
“ HK eIPO White Form ”	an application for Hong Kong Offer Shares to be issued in the applicant’s own name submitted online through the designated website of HK eIPO White Form at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	The Bank of East Asia, Limited
“HKAS(s)”	Hong Kong Accounting Standard(s)
“HKFRSs”	Hong Kong Financial Reporting Standards (including HKASs and their interpretations) issued by HKICPA

DEFINITIONS

“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Offer Shares”	the 13,180,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering” of this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by members of the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Underwriters – Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 27 June 2014 in respect of the Hong Kong Public Offering entered into between, among others, our Company, our Controlling Shareholders, our executive Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, Joint Lead Managers, and the Hong Kong Underwriters, further information of which is set forth in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement” of this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of our Company, our subsidiaries or any of their respective associates

DEFINITIONS

“International Offer Shares”	the 118,620,000 Shares (comprising 103,620,000 New Shares and 15,000,000 Sale Shares) being initially offered for subscription and purchase under the International Offering together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as set forth in the section headed “Structure and Conditions of the Global Offering – The International Offering” of this prospectus
“International Offering”	the conditional placing of the International Offer Shares outside the US in offshore transactions in reliance on Regulation S, including offering to professional investors in Hong Kong, as further described in the section headed “Structure and Conditions of the Global Offering” of this prospectus
“International Underwriters”	the underwriters of the International Offering listed in the section headed “Underwriting – Underwriters – International Underwriters” of this prospectus
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering expected to be entered into between, among others, our Company, our Controlling Shareholders, our executive Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, Joint Lead Managers, and the International Underwriters on or around 4 July 2014, further information of which is set forth in the section headed “Underwriting – International Offering – International Underwriting Agreement” of this prospectus
“Investment Committee”	the investment committee of CALH with Mr. CHEN Shuang, Mr. TSANG Sui Cheong, Mr. POON, and Ms. LIU Wanting appointed as members appointed on 4 August 2011, the function of which has been taken over by the Strategy Committee since the Reorganisation Date
“Joint Global Coordinators” or “Joint Bookrunners”	China Everbright Securities, CCBI, and China International Capital Corporation Hong Kong Securities Limited
“Joint Lead Managers”	China Everbright Securities, CCBI, China International Capital Corporation Hong Kong Securities Limited, and Taiping Securities (HK) Co Limited
“Joint Sponsors”	China Everbright Capital and CCBI

DEFINITIONS

“Latest Practicable Date”	24 June 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Lease Receivable Assignment”	a lease receivable assignment dated 30 December 2013 entered into between CALC Baoli as the seller and China Credit Trust as the buyer and trustee to a trust plan, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables in the total amount of US\$121.1 million (equivalent to HK\$944.6 million) under an aircraft leasing agreement with an airline to China Credit Trust
“Listing”	the listing of the Shares on the Main Board
“Listing Date”	the date, expected to be on or around Friday, 11 July 2014, on which dealings in the Shares first commence on the Main Board
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Main Board”	the main board of the Stock Exchange
“Memorandum of Association”	the memorandum of association of our Company adopted on 23 June 2014 and effective on the Listing Date and as amended from time to time
“MOFCOM”	中華人民共和國商務部 (Ministry of Commerce of China)
“Mr. POON”	Mr. POON Ho Man (潘浩文), one of our executive Directors and our Chief Executive Officer, and our Controlling Shareholders
“Ms. NG”	Ms. NG Christina, the spouse of Mr. POON
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of China)
“New Shares”	the 116,800,000 new Shares being offered for subscription by our Company at the Offer Price under the Hong Kong Public Offering and the International Offering
“Nomination Committee”	nomination committee of our Board established on 11 September 2013 with Mr. FAN Yan Hok, Phillip, Mr. NG Ming Wah, Charles, Mr. ZHANG Chongqing, and Mr. SUN Quan as members

DEFINITIONS

“Offer Price”	the final offer price per Offer Share (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee) which is expected to be not more than HK\$7.82 and not less than HK\$5.53 and may be determined on the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators (acting for themselves and on behalf of other International Underwriters), pursuant to which our Company may be required to allot and issue up to 17,793,000 additional new Shares, representing 13.5% of the initial number of the Offer Shares, to, among other things, cover over-allocations in the International Offering, further information of which is set forth in the section headed “Structure and Conditions of the Global Offering – International Offering” of this prospectus
“PBOC”	中國人民銀行 (The People’s Bank of China)
“Post-IPO Share Option Scheme”	the share option scheme conditionally adopted by our Company on 23 June 2014, the principal terms of which are summarised under the paragraphs under “D. Post-IPO Share Option Scheme” in Appendix IV to this prospectus
“PRC BT”	business tax in the PRC
“PRC CIT”	corporate income tax in the PRC
“PRC CIT Law”	Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法) adopted by the National People’s Congress on 16 March 2007, effective from 1 January 2008
“PRC Company Law”	PRC Company Law (《中華人民共和國公司法》), as enacted by the National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC VAT”	value-added tax in the PRC
“PRC VAT Pilot Programme”	the tax reform programme commenced in January 2012 in selected cities in China replacing the business tax with PRC VAT for the transportation, asset leasing, and modern services sectors
“Pre-IPO Investors”	Easy Smart, Prosper Victory, and Vandi Investments

DEFINITIONS

“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by CALH on 4 August 2011 with the obligations taken over by our Company under the Reorganisation, the principal terms of which are summarised under the paragraphs under “E. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus
“Price Determination Date”	the date, expected to be on or around Friday, 4 July 2014 but not later than Saturday, 5 July 2014, on which the Offer Price may be agreed between our Company (acting for itself and on behalf of the Selling Shareholder) and the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters)
“Prosper Victory”	Prosper Victory Limited, a company incorporated in the BVI with limited liability on 11 January 2011, the entire issued share capital of which is owned by Mr. WONG Kin Ting, an Independent Third Party, and one of the Pre-IPO Investors
“PV Call Option”	the option granted by FPAM to Prosper Victory for acquiring 2,000,000 Shares from FPAM following the Listing, which has been cancelled on the Reorganisation Date
“Regulation S”	Regulation S under the US Securities Act
“Remuneration Committee”	remuneration committee of our Board established on 11 September 2013 with Mr. FAN Yan Hok, Phillip, Mr. NG Ming Wah, Charles, Mr. ZHANG Chongqing, and Mr. SUN Quan as members
“Reorganisation”	the corporate reorganisation of our Group, further information of which is set forth in the section headed “History, Development, and Reorganisation – Reorganisation” of this prospectus
“Reorganisation Date”	23 June 2014, being the completion date of all steps comprising the Reorganisation
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of our shares, further information of which is set forth in the section headed “Share Capital – Repurchase Mandate” of this prospectus
“RMB” or “Renminbi”	the lawful currency of China
“SAFE”	中華人民共和國國家外匯管理局 (State Administration of Foreign Exchange of China)
“Sale Shares”	the 15,000,000 Shares being offered for sale by the Selling Shareholder at the Offer Price under the International Offering

DEFINITIONS

“Selling Shareholder”	FPAM
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) with par value of HK\$0.10 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sino Asset”	中僑融資租賃有限公司 (Sino Asset Financial Leasing Limited*), a limited liability company established in the PRC on 29 May 2012, the registered capital of which is indirectly wholly-owned by FPAM
“Sino Teamwork”	Sino Teamwork Limited (華荃有限公司), a company incorporated in Hong Kong on 9 January 2013 and a wholly-owned subsidiary of our Company
“SPCs”	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 long-term bank borrowings for aircraft acquisition
“State Council”	中華人民共和國國務院 (State Council of the PRC)
“Stock Borrowing Agreement”	the stock borrowing agreement that may be entered into between FPAM and China Everbright Securities on or around the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of our Board established on 11 September 2013 with Mr. CHEN Shuang, Mr. POON, Ms. LIU Wanting, and Mr. TANG Chi Chun as members
“subsidiary”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Track Record Period”	the three years ended 31 December 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

DEFINITIONS

“United States” or “US”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“US dollar” or “US\$”	United States dollar, the lawful currency of the United States
“US Securities Act”	the United States Securities Act of 1933, as amended
“Vandi Investments”	Vandi Investments Limited, a company incorporated in the BVI with limited liability on 20 October 2011 and a wholly-owned subsidiary of CCBI Investments Limited, and one of the Pre-IPO Investors and one of our Shareholders holding 3.1% of our Shares in issue as of the Listing Date
“Warranting Shareholders”	has the meaning as defined in the Hong Kong Underwriting Agreement and refers to Capella, FPAM, Mr. POON, CE Aerospace, and CEL
“ WHITE application form(s)”	the form of application for the Hong Kong Offer Shares for use by applicants who are members of the public in Hong Kong and require such Hong Kong Offer Shares to be issued in their own name
“ YELLOW application form(s)”	the form of application for the Hong Kong Offer Shares for use by applicants who are members of the public in Hong Kong and require such Hong Kong Offer Shares to be deposited directly into CCASS

In this prospectus, unless the context requires otherwise, certain amounts denominated in US\$ and RMB have been translated into HK\$ at the then prevailing exchange rates. Such conversions shall not be construed as representations that amounts in US\$ or RMB were or may have been converted into HK\$ at such rate or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English names of PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are for identification purpose only.

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with us and our business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

“aircraft sale and leaseback”	a lease arrangement whereby one person (the lessee) sells an aircraft to another (the lessor) and leases it back for long-term use
“cargo aircraft”	aircraft operated by an airline or cargo airline for transporting cargo
“Chinese lessor”	an aircraft leasing company in which a Chinese company has a controlling shareholding
“commercial aircraft”	passenger aircraft and cargo aircraft operated by an airline operator, excluding the aircraft operated by military, private, business jet and general aviation operators
“direct aircraft purchase and lease”	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
“EBITDA”	earnings before interest, taxation, depreciation, and amortisation
“finance lease”	a lease arrangement classified under the HKFRSs 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
“foreign lessor”	any aircraft leasing company which is not a Chinese lessor
“freight ton kilometres” or “FTK”	an industry standard measure of freight traffic where each FTK represents one metric ton of revenue load carried one kilometre
“full-life condition”	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

GLOSSARY OF TECHNICAL TERMS

“LIBOR”	London Interbank Offered Rate, the average interest rate estimated by banks in London that they would be charged if borrowing from other banks
“long-term bank borrowings”	long-term bank borrowings obtained from banks and financial institutions for the payment of the aircraft purchase price, the payment schedule of which generally matches the lease income generated from the aircraft lease agreement relating to the relevant aircraft
“narrowbody aircraft”	single-aisle aircraft, such as Airbus A320 family aircraft A319/320/321 series, Boeing 737 NG series, and B737-700/800 series
“operating lease”	a lease arrangement classified under the HKFRSs and our accounting policies, pursuant to which substantially all of the risk and rewards of the leased assets remain with the lessors
“passenger aircraft”	aircraft operated by an airline with primary intention for transporting passenger. It may carry cargo in the lower deck or aircraft belly
“PDP”	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
“PDP financing”	bank borrowings obtained from banks and financial institutions for the payment of PDP
“revenue passenger kilometre” or “RPK”	an industry standard measure of paying passengers flown where one RPK represents one kilometre travelled by a paying customer
“widebody aircraft”	twin-aisle aircraft, such as Airbus A330 series and Boeing 777 series

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:–

- our business prospects;
- our aircraft purchase commitment and our indebtedness level;
- future development, trends, and conditions in the industry in which we operate;
- our strategies, plans, objectives, and goals;
- general economic conditions of China;
- changes to regulatory and operating conditions in the industry in which we operate;
- our ability to reduce costs;
- our capital expenditure plans;
- capital market development;
- our dividend policy;
- the actions and development of our competitors; and
- certain statements in the sections headed “Risk Management” and “Financial Information” of this prospectus with respect to prices, operations, margins, overall market trends, risk management, and exchange rates.

The words “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would”, and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including those discussed in the section headed “Risk Factors” of this prospectus. Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our operating results and financial condition could be materially and adversely affected and could vary significantly from those described herein as anticipated, believed or expected. Accordingly, such statements are not guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking statement. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statement in this section.

RISK FACTORS

You should carefully consider the risks described below and all other information contained in this prospectus before making an investment decision. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that almost all of our business operations are conducted in China and are governed by a legal and regulatory environment that differs in many material respects from those that prevail in other countries. Any of the following risks could adversely affect our business, financial condition and results of operations. In that event, the trading price of our Shares could decline, and you could lose part or all of your investment.

RISKS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE

Our high level of bank borrowings, high gearing ratio, and net current liabilities position expose us to liquidity risk.

We rely on cash generated from our business operations, long-term bank borrowings, and PDP financing to finance the aircraft acquisition and business operation. We expect that we will continue to do so in the future. Our high level of bank borrowings and gearing ratio could materially and adversely affect our liquidity. For example, the high level of bank borrowings and high gearing ratio could:–

- require us to allocate a higher portion of our cash flow from operations to fund repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditure and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate;
- potentially restrict us from pursuing strategic business opportunities;
- limit our ability to incur additional debt; and
- increase our exposure to interest rate fluctuations.

Our gearing ratio was 93.0%, 89.9%, and 92.5% as of 31 December 2011, 2012 and 2013, respectively. Our current liabilities exceeded our current assets by HK\$308.8 million, HK\$139.0 million, and HK\$1,421.4 million as of 31 December 2011, 2012, and 2013, respectively. As of 31 December 2011, we had net current liabilities principally because of the short-term borrowing used by us in aircraft acquisition. One of the principal reasons for the net current liabilities position is that the PDPs made by us as of 31 December 2012 and 2013 in the amount of HK\$714.7 million and HK\$2,078.0 million, respectively, are treated as our non-current assets, whereas the PDP financing in the amount of HK\$551.0 million and HK\$1,820.1 million as of 31 December 2012 and 2013, respectively, are mainly treated as our current liabilities, according to the HKFRSs and our accounting policies. The short-term borrowing was subsequently replaced by the long-term bank borrowings. Our Directors consider that because of our business model and the requirements under the HKFRSs and our accounting policies, our net current liabilities position would continue in the future. The net current liabilities position would 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.

RISK FACTORS

Moreover, we cannot assure you that we will always be able to continue to obtain the required bank financing in the future or that we would be able to arrange for re-financing the bank borrowings when they become due, repay our bank borrowings 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 bank borrowings 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. 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 rely on constant cash inflows to service the cash outflows for the repayment of long-term bank borrowings and satisfy other requirements.

Our ability to repay our long-term bank borrowings and to fund the planned aircraft acquisition depends to a certain extent on the level of the lease income and our operating cash flows. We cannot assure you that our business will generate constant cash inflows to service the cash outflows for the repayment of our long-term bank borrowings. Nor are we able to assure you that the airline operators leasing the aircraft from us will make the lease payments promptly.

If our cash flows and financial resources are not sufficient to service our long-term bank borrowings or to support our business growth, we may need to re-schedule the implementation of our growth strategies and our future investments in aircraft. We may also need to arrange for new bank borrowings, the availability of which is subject to the condition of the capital and credit markets and our financial condition at such time. Any new bank borrowings obtained by us may be at higher interest rates and may require us to comply with onerous undertakings and covenants, which could further restrict our business and adversely affect our operating results and financial condition.

Any material breach of the undertakings and covenants in our existing bank borrowings and asset purchase arrangements could adversely affect our business and financial condition.

The agreements for our bank borrowings and asset purchase contain a number of undertakings and covenants which principally include:–

- there will be no material change to the shareholding structure of the relevant SPCs which are the borrowers in the relevant bank borrowings transaction;
- there will be no additional financing from third parties for the relevant leased aircraft without the prior approval of the relevant banks; and
- full compliance with certain financial thresholds set forth in our bank borrowing and asset purchase agreements, including the gearing ratio, the amount of our net assets, the aggregate of the non-current borrowings, and the equity divided by the finance leases receivable, net.

RISK FACTORS

We were in breach of the financial covenant on net asset value as set forth in the Aircraft Purchase Agreement as of 31 December 2013 and the latest practicable date for the purpose of determining the amount of indebtedness in this prospectus. Our Directors confirm that waivers of exercising its rights to defer the delivery of the ordered aircraft for breach of such financial covenants has been granted by *Airbus* on 25 September 2013 and 19 February 2014 (the “**Waivers**”) and such Waivers would continue to be effective until the earlier of 30 June 2015, the Listing Date or the date on which the application for the Listing is withdrawn (the “**Standstill Period**”). As set forth in the Waivers, *Airbus* shall be entitled to exercise any rights it may have for breach of financial covenants after the Standstill Period has elapsed. As agreed between *Airbus* and us, the obligation of financial covenants’ undertakings shall be terminated upon Listing and hence, there is no related ground for *Airbus* to terminate the Aircraft Purchase Agreement with respect to the financial undertakings after Listing.

Our Directors further confirm that we have not received any delay request from *Airbus* under the Aircraft Purchase Agreement because of the above mentioned breach of covenants.

Further information on the financial undertakings and covenants are set forth in the section headed “Financial Information – Material covenants in financing and asset purchase arrangements” of this prospectus.

Except for the above mentioned breach, we have not received, during the three years ended 31 December 2013 and up to the Latest Practicable Date, 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. Nevertheless, if we fail to comply with any of such undertakings and covenants, it may constitute a breach of the relevant agreements, which may entitle the lenders to accelerate the maturity of the bank borrowings or the aircraft manufacturer to delay the delivery of the ordered aircraft. In any of these events, our business, operating results, and financial condition could be adversely and materially affected.

We require significant amount of financing by way of bank borrowings 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 long-term bank borrowings. We also need to arrange for PDP financing for aircraft purchased by us under the Aircraft Purchase Agreement. Pursuant to the Aircraft Purchase Agreement, we have committed to purchase 36 current generation of A320 family aircraft. As of the Latest Practicable Date, the amount of outstanding aircraft purchase commitment is HK\$8,131.4 million, which is expected to be financed by (a) PDP financing, (b) long-term bank borrowings, and (c) the net proceeds from the Global Offering. As of 31 December 2011, 2012, and 2013, our bank borrowings for aircraft acquisition amounted to HK\$2,622.8 million, HK\$5,536.1 million, and HK\$9,195.7 million, respectively. As of 31 December 2012 and 2013, the balances of our PDP financing were HK\$551.0 million and HK\$1,820.1 million, respectively. The first aircraft under the Aircraft Purchase Agreement was delivered in November 2013 and we have delivered six aircraft under the Aircraft Purchase Agreement as of the Latest Practicable Date. 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 access to the financing source 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;

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- 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 liquidity gap and we may need to use other means, such as selling our aircraft assets at inappropriate time, to support our funding needs.

If we are unable to obtain sufficient financing from banks or other financing source 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.

In 2011, 2012, and 2013, we obtained aircraft acquisition financing (including the long-term bank borrowings and the PDP financing) from three, four, and six commercial banks, respectively, and all of them are Independent Third Parties. Our interest expense incurred amounted to HK\$124.3 million, HK\$249.9 million, and HK\$329.9 million, respectively. In 2011, 2012 and 2013, our largest supplier for funding accounted for 47.9%, 41.4%, and 43.0%, respectively, of our total aircraft acquisition financing (including the long-term bank borrowings and the PDP financing).

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 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 the general market conditions and the interest rate fluctuations, which are outside our control. Negative sentiment in the capital and credit market could lead to commercial banks less willing to provide long-term financing for aircraft acquisition or that the cost of such financing would not be commercially acceptable to us.

Our substantial amount of total balance of bank borrowings could adversely affect our cash flows and could prevent us from achieving our business growth or fulfilling our obligations under new financing.

As of 31 December 2013, the balance of our total bank borrowings was HK\$11,436.4 million which represented 89.1% of our total assets as of the same date. In 2011, 2012, and 2013, our interest expense incurred amounted to HK\$124.3 million, HK\$249.9 million, and HK\$329.9 million, respectively. Due to the nature of the aircraft leasing business and our financing strategy to fully utilise the available banking facilities in aircraft acquisition financing, we expect that our gearing ratio will continue to remain at a high level in the near future. If the market conditions are unfavourable, our airline customers may slow down their fleet expansion plan or that they may not be able to honour their lease payment obligation. In such event, we may not be able to generate sufficient cash inflows to cover the repayment instalments of our long-term bank borrowings. In addition, a corollary of our high gearing ratio is that a substantial portion of our cash flows is dedicated to interest and principal repayments, and will not be available to fund our business operations, capital expenditure or for working capital purposes. The amount of indebtedness may also impair our ability to obtain new financing in the future, particularly from commercial banks, and may limit our flexibility in planning for, or reacting to, changes in the aircraft leasing industry.

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Increase in the interest rates would increase our borrowing costs which could adversely affect our business and financial condition.

In 2011, 2012, and 2013, a substantial portion of our indebtedness, including long-term bank borrowings and PDP financing, was subject to floating interest rates with reference to three-month or six-month US\$ LIBOR. In 2011, 2012 and 2013, our long-term bank borrowings subject to floating interest rate represented 52.1%, 62.4%, and 62.7%, respectively, of the balance of our bank borrowings. We expect that most of our bank borrowings will continue to be subject to floating interest rates in the future. Hence, the interest expense incurred by us will follow the trend of the three-month or six-month US\$ LIBOR and if the US\$ LIBOR increase, our interest expense will increase accordingly and could adversely affect our profitability.

The levels of LIBOR have been changing from time to time. Before 31 January 2014, the LIBOR is administered by the British Bankers' Association. During the last decade, the US\$ LIBOR fluctuated significantly reflecting the global credit market conditions. The average six-month LIBOR increased to 7.064% in May 2000 and the average six-month US\$ LIBOR in June 2013 was 0.414%. The level of six-month US\$ LIBOR increased generally in 2011, from 0.455% to 0.780%. In 2012, the average six-month LIBOR declined from 0.797% to 0.515%. In 2013, the average six-month US\$ LIBOR decreased from 0.488% to 0.346%.

On 31 January 2014, the responsibility for the administration of LIBOR was handed over to Intercontinental Exchange Benchmark Association. This follows the recommendation from the government in the United Kingdom after a series of alleged manipulations of LIBOR by the participating banks for unjust profit on derivatives. The impact of the anticipated replacement of administrator of LIBOR is uncertain.

As of the Latest Practicable Date, we maintain eight interest rate swap transactions to limit our interest rate exposure, further information of which is set forth in the section headed "Business – Our financing strategies – Hedging transactions" of this prospectus. Such hedging activities will, however, require us to incur additional costs and may not be sufficient to protect us from the adverse impact on our business, operating results or financial condition as a result of the fluctuations in interest rates.

However, we cannot assure you that our business will continue to grow at the same pace as it did during the Track Record Period. The continuous development of our business will depend on various factors, such as our ability to capitalise on the business opportunities in China, the level of volatility of interest rates, the availability of aircraft acquisition financing on commercially acceptable terms, the creditworthiness of our airline customers, and the overall development of the China airline industry. Any new adverse development of any of these factors could materially and adversely affect our business, operating results, and financial condition.

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 long-term bank borrowings incurred for aircraft acquisition. Our ability to lease of aircraft is, however, subject to a number of factors outside our control, including the economic change in China, the level of air traffic demand in China, the demand and supply of aircraft and aircraft leasing services in China, 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

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breach of covenants and undertakings in our financing arrangements and the Aircraft Purchase Agreement. Our business, operating results, and financial condition could also be adversely and materially affected by the general market conditions of the airline industry in China and globally. A summary of these factors is set forth in the section headed “Financial Information – Significant factors affecting our operating results and financial condition” of this prospectus.

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

China 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. In 2011, 2012, and 2013, our lease income was HK\$223.1 million, HK\$447.6 million, and HK\$623.3 million, respectively. The CAGR of our lease income during the three years ended 31 December 2013 was 67.1%. The substantial increase in our lease income during the Track Record Period was primarily attributable to the increase in our fleet size. Our operating profit also increased from HK\$74.8 million in 2011, to HK\$127.5 million in 2012, and further to HK\$211.5 million in 2013.

Our revenues and net profit are generated primarily from three sources, namely finance lease income, operating lease income, and other income from realisation of finance lease receivable. In 2013, we recognised HK\$57.1 million as other income from our first 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 cost is expected to increase because of the expansion of our fleet and that eight additional aircraft are expected to be delivered in 2014. Our operating expenses are also expected to increase because of our need to recruit more staff to support business growth and the expenses for the Listing incurred during the year. We also expect that our effective tax rate would increase in 2014 because of certain expenses (including the listing expenses and professional service expenses) incurred by our entities in Hong Kong are not deductible for tax purpose. All of these factors and listing expenses incurred and to be incurred could have adverse impact on our results for the year ending 31 December 2014.

We may not be able to secure lease commitment for aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement.

As of the Latest Practicable Date, we commit to purchase 30 aircraft under the Aircraft Purchase Agreement which are to be delivered before the end of 2016. For the 30 aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement by the end of 2016, we have secured, by way of letters of intent and lease agreements, the lease of 17 aircraft scheduled to be delivered in 2014 and 2015, representing more than half of the total number of aircraft committed to purchase under the Aircraft Purchase Agreement. We have yet to secure the lease commitment for 13 aircraft scheduled to be delivered in 2015 and 2016 as of the Latest Practicable Date.

If we are not able to secure timely the lease commitment in respect of the 13 aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement, 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. *Airbus* 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 *Airbus* for failure to take aircraft delivery and our reputation in aircraft leasing industry would also be affected.

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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 acquisition;
- 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.

In 2011, 2012, and 2013, we had three, four, and six airline customers, respectively, for our aircraft leasing business. As of the Latest Practicable Date, we lease nine, six, and five aircraft to the three largest airline customers, representing approximately two-third 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 concern, and other political or economic events adversely affecting the world or regional markets. All of these factors affect indirectly the aircraft leasing industry. Our airline customers' abilities 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 materially and adversely affect our cash flow and profitability. This could also result in possible breach by us of the undertakings and covenants contained in any of our bank borrowings agreements, resulting in an adverse impact on our business, operating results, and financial condition.

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Our success depends on the business prospects and financial strength of our airline customers.

The ability of our airline customers to perform their obligations under our leases will depend primarily on their own financial condition, which could be affected by factors outside our control and anticipation, including:–

- the level of the passenger air travel;
- the air fare competition amongst the airlines;
- the economic conditions and the currency fluctuations in the countries and regions in which our airline customers operate;
- increases in operating costs and fuel price;
- other geopolitical events including war, acts of terrorism, and outbreaks of epidemic diseases and natural disasters; and
- governmental regulations and associated fees affecting the air transportation business.

In addition, the impact of each of these factors interrelates with all the others. For example, fuel prices fluctuate widely depending primarily on the international market conditions, geopolitical and environmental events, regulatory changes (including those related to greenhouse gas emissions), and currency exchange rates. Other events could also significantly affect fuel prices, including natural disasters, decisions by the Organisation of the Petroleum Exporting Countries, regarding their members' oil output, and the increases in the global demand for fuel.

Due to the competitive nature of the airline industry, the airlines may not be able to transfer all increases in their operating costs to their customers. As a result, these factors could affect their business operations, and the airlines may then want to re-negotiate for reduction in their lease rates or other concessions, such as their contribution toward their maintenance reserve. Any of these reductions could decrease our revenues and cash flow as well as the value of our fleet. Hence, if we repossess our aircraft upon the default of our airline customers, we may not be able to re-lease the aircraft promptly or upon more favourable terms.

If any of our airline customers is in material default of the payment obligation under the aircraft lease agreement with us, we may not be able to effect re-possession or re-lease of the aircraft in a timely manner and we may incur costs to effect such a re-possession.

Our principal source of income is lease income derived from the aircraft lease agreements entered into with airline operators in China. In 2011, 2012, and 2013 and up to the Latest Practicable Date, we are not aware of any material default by our airline customers of their payment obligation under the relevant aircraft lease agreements. However, we cannot assure you that our airline customers would continue to perform their obligation in accordance with the terms of the relevant aircraft lease agreements. In such event, our business, operating results, and financial condition could be adversely affected.

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Our rights upon the default by our airline customers are dependent on the applicable international convention and the applicable law. When a defaulting airline is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations could apply in some jurisdictions. Certain jurisdictions give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third-party, or entitle the airline or another third-party to retain possession of the aircraft without paying the scheduled lease payments or performing all or some of the obligations under the relevant lease. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing the affected aircraft.

If any of our airline customer is in material default, we may need to incur additional costs to effect re-possession or re-lease of the relevant aircraft, particularly if our airline customer is in bankruptcy or contesting proceedings with its creditors. In addition, we may have to incur additional amount on maintenance of the relevant aircraft if the defaulting airline customer fails to do so and where such maintenance is necessary to put the aircraft in appropriate condition for re-leasing. We may also incur storage costs associated with any aircraft that we repossess and are unable to lease to another airline customer promptly. We may also need to pay off liens, taxes, and other governmental charges on the aircraft to obtain clear possession and to remarket the aircraft effectively, including, in some cases, liens that the airline operator might have incurred in connection with the operation of other aircraft.

Even if we repossess an aircraft, we may need to incur additional costs in retrieving aircraft records required for registration of the aircraft and securing the aircraft to become airworthiness in accordance with the applicable laws and regulations. In any of these events, our business, operating results, and financial condition could be materially and adversely affected.

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 following completion of the transaction of realisation of finance lease receivable entered into on 30 December 2013 and subsequent transactions of similar nature.

We entered into our first transaction of realisation of finance lease receivable on 30 December 2013, further information of which is set forth in the section headed “Business – Realisation of finance lease receivables” of this prospectus. 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 Lease Receivable Assignment.

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In relation to this transaction, CALC Baoli has also been appointed by China Credit Trust as the funds service agent to collect the lease payments received from the airline lessee, further information of which is set forth in the section headed “Business – Realisation of finance lease receivables – Arrangements between China Credit Trust and us” of this prospectus. The appointment is for a term commencing from 30 December 2013 to 4 September 2025. Under the term of appointment, we have to convert each future lease payments received on behalf of China Credit Trust during the period from 27 February 2024 to 27 May 2025 from US\$ into RMB at the pre-determined exchange rate. We will therefore bear the foreign exchange risk during this period. We will also be liable if we fail to transfer payment to China Credit Trust on time following the receipt from our airline lessee customer, failing which China Credit Trust may terminate the appointment and we will then be liable for any loss that China Credit Trust or the Trust Plan suffers.

As part of the realisation transaction, we obtained from China Credit Trust a long-term borrowing in the amount of RMB122.0 million (equivalent to HK\$155.2 million). If we fail to make regular repayment of the long-term borrowing, it would constitute an event of default which could result in immediate repayment of the entire outstanding amount.

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 during the Track Record Period 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 in our 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.

If our airline customers fail to maintain our aircraft properly, the market value of the aircraft may decline.

Pursuant to the aircraft lease agreements entered into between our airline customers and us, our airline customers are responsible for the costs, expenses, insurance, and all liabilities involved in the maintenance and operation of the aircraft during the lease term. Nevertheless, if an aircraft is not maintained properly in its full-life condition or such other condition stipulated in the relevant aircraft lease agreement, we may need to incur additional amount to restore the aircraft to its appropriate condition. An aircraft with less satisfactory maintenance condition or record would affect its market value and would be less likely to be re-leased or re-sold on favourable terms.

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Failure of our airline customers to perform the required maintenance during the lease term could result in a decrease in the market value of an aircraft, an inability to re-lease an aircraft at favourable rates, if at all, or a potential grounding of an aircraft. Any failure by our airline customers to meet their obligations to perform required scheduled maintenance under the aircraft lease agreements could adversely affect the value of our aircraft and our business, 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 under the Aircraft Purchase Agreement 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 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 of the Latest Practicable Date, 23 out of the 32 aircraft we own and being leased are 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.

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All our lessee customers are airline operators in China.

As all our airline customers have their business operation in China, we are exposed to the local economic and political conditions of China. The economic and political conditions include additional regulations or, in extreme cases, requisition of our aircraft. The airline industry is highly sensitive to general economic conditions. An economic recession or other worsening of the economic conditions, particularly if combined with high fuel prices, could have an adverse effect on the ability of our airline customers to meet their financial and other obligations under our leases.

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.

We do not directly control the operation of any aircraft we own. Nevertheless, because we hold the ownership and the title of the aircraft, we could be sued or held strictly liable for losses resulting from the operation of such aircraft. We require our airline customers to obtain specified levels of insurance and indemnify us for, and insure against, liabilities arising out of their use and operation of the aircraft and where the aircraft is damaged or lost as a result of accidents. Some airline customers may fail to maintain adequate insurance coverage during a lease term, which, although in contravention of the lease terms, would require us to take some corrective action such as terminating the lease or taking out insurance for the aircraft, either of which could adversely affect our financial condition and operating results.

In addition, there are certain risks or liabilities that our airline customers may face, for which insurers may be unwilling to provide coverage or the cost to obtain such coverage may be prohibitively expensive. Accordingly, our airline customers' insurance or other coverage may not be sufficient to cover all claims that could or will be asserted against us arising from the operation of our aircraft by our lessees. 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.

The aircraft leasing industry is increasingly competitive. Some of our competitors 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 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. 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 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.

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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 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 the 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 40 aircraft before the end of 2014 and to 64 aircraft before the end of 2016 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. As of the Latest Practicable Date, out of the 64 aircraft, 32 aircraft have been leased and delivered to our airline customers and 32 aircraft are committed to be purchased by us, of which 30 aircraft are to be purchased under the Aircraft Purchase Agreement and two aircraft are to be purchased under aircraft sale and leaseback transactions. However, other than the Aircraft Purchase Agreement to be delivered before the end of 2016, we have yet to enter into any other agreement or commitment in respect of aircraft acquisition as of the date of this prospectus. We cannot assure you that we will be able to identify any suitable aircraft acquisition target and 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.

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We intend to enter the corporate jet 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 corporate jet market in addition to our existing commercial aircraft leasing business. Our Directors believe that the demand for corporate jet in China will increase rapidly as a result of the economic growth in China and the increase in the numbers of large-scale private enterprises and affluent families and individuals. Towards this end, we have started the preparation of this business, further information of which is set forth in the section headed “Business – Our growth strategies – Developing our corporate jet leasing business” of this prospectus.

Pursuing the above business expansion plans involve inherent business risks, such as making incorrect estimation on the level of demand for corporate jet in China. We have little or no experience in the corporate jet business. Our expertise and experience in the existing commercial aircraft leasing business may not be readily applied to or relevant to the prospective business involving corporate jet leasing. In addition, the existing market participants of the corporate jet market may have competitive advantages over us, which may result in our commercial jet business less attractive to our target customers and hence, less revenue generating 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 supply of commercial aircraft is dominated by a few international leading manufacturers, such as *Airbus* and *Boeing*, and they are principally based in the United States and Europe. As a result, we are dependent on these manufacturers in remaining financially stable, manufacturing aircraft and related components which meet the airlines’ demands and fulfilling any contractual obligations they may have to 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, for instance, the delivery schedule set forth in the Aircraft Purchase Agreement is delayed, we may experience:–

- missed or late 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 growth rates and strained customer relationships;
- an inability to acquire aircraft and related components on terms which will allow us to lease those aircraft to airline customers at a profit, resulting in lower growth rates or a contraction in our aircraft fleet; or
- a market environment with too many aircraft available, potentially creating downward pressure on demand for the anticipated aircraft in our fleet and reduced market lease rates and sale prices.

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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 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 a new aircraft models could also materially and adversely affect the market value of the our fleet.

We may not be able to retain members of our management team and other key personnel or attract qualified and experienced personnel to join us.

Members of our management team are experienced in the aircraft leasing industry. Their reputation and business relationships with airline operators, aircraft manufacturers, buyers, and commercial banks and financial institutions are important to us. As such, our future performance and success depend to a large extent on our ability to retain and motivate the members of our management team, including Mr. POON and Ms. LIU Wanting, who are our executive Directors, and Mr. DUAN Xiaoge, our Head of Technical and Asset Management. Further information on our Directors and senior management team is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus.

Aircraft leasing industry is sophisticated. We have encountered, and anticipate that we will continue to encounter, intense competition for qualified employees from other competitors in our industry. We cannot assure you that we will be able to retain members of our senior management team or recruit additional competent personnel for our future development. Any loss of members of our senior management team without immediate and adequate replacement may limit our competitiveness and affect our successful implementation of business strategies. In addition, if any member of our senior management team joins our competitor or forms a competing company, we may lose customers, suppliers, and other key staff members. As a result, our operating results and financial condition could be materially and adversely affected.

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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.

CALC (Tianjin) 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. In addition, CALC (Tianjin) has to obtain the certificate of approval issued by MOFCOM. 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. Our PRC legal advisers advise us that 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. Our PRC legal advisers confirm that the Management Committee is the competent authority to issue the confirmation.

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 affecting our operating results and financial condition.

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Some of the property lease agreements entered into by us have yet to be registered.

As advised by our PRC legal advisers, under the relevant PRC laws, an executed lease agreement must be registered and filed with the relevant land and real estate administration bureau.

Out of the 91 leases entered into by us in respect of the leased properties in China, 54 lease agreements have not been registered with the relevant government authorities in China as of the Latest Practicable Date.

Pursuant to our PRC legal advisers, we may be subject to penalty of not more than RMB218,000 for the failure to file and register the lease agreements under the relevant PRC laws and regulations. However, as advised by our PRC legal advisers, the non-registration will not affect the validity of the lease agreements entered for the leased properties.

Should the relevant authorities order us to rectify the situation and we fail to do so within the stipulated time, we would be subject to penalty and in such event, our operating results and financial condition could be adversely affected.

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.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Changes in political and economic policies of the Chinese government could have an adverse effect on the overall economic growth of China, which could reduce the demand for our service and adversely affect our competitive position.

Most of our business operations are conducted in China for China aviation market. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources.

While the Chinese economy has grown significantly in the past decades, the growth has been uneven, both geographically and among various sectors of the economy. The Chinese Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely and materially affected by government control over capital investments or changes in tax regulations that are applicable to us.

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The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. However, the Chinese Government still exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, as the Chinese economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. Any adverse change in the economic conditions in China, in policies of the Chinese government or in laws and regulations in China, could have an adverse effect on the overall economic growth of China and market demand for our service and our competitive position.

Any slowdown in the Chinese economy could affect the airline industry and result in a material adverse effect on our business, operating results, and financial condition.

A significant part of our revenues is derived from the aircraft leasing business. We rely primarily on domestic demand to achieve growth in our revenue. Such demand is materially affected by the overall economic growth in China as well as policy support for the airline industry. Any deterioration in the China airline industry as a result of global economic downturn or the Chinese government's macroeconomic measures affecting the airline industry may have a material adverse impact on our operating results and financial condition. Furthermore, any deterioration in the financial condition or difficulties of our lessees could affect our business (such as the deterioration of the quality of our existing lease receivable and our ability to generate new leases), thereby could materially and adversely affecting our operating results and financial condition.

Furthermore, the global crisis in financial services and credit markets since 2008 caused a slowdown in the growth of the global economy with a corresponding impact on the Chinese economy. Although there are signs of recovery in the global and Chinese economies, we cannot assure you that any such recovery is sustainable. In addition, if the crisis in global financial services and credit markets were to persist, there is no certainty as to its impact on the global economy, especially the Chinese economy. As a result of global economic cycles, we cannot assure you that the Chinese economy will grow in a sustained or steady manner. Any slowdown or recession in the Chinese economy may affect our ability to secure new leases and contracts, and may increase the default rate on our existing leases and contracts and our ability to obtain sufficient financing, which may in turn have a material adverse effect on our operating results and financial condition.

Chinese regulation of loans and direct investment by offshore holding companies to Chinese entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could adversely affect our liquidity and our ability to fund and expand our business.

To use the proceeds from the Global Offering or any future offerings, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to Chinese regulations and approvals. For example, loans by us to our wholly-owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterparts. Any capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local counterparts.

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In addition, on 29 August 2008, SAFE promulgated Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises* (Hui Zong Fa [2008] No. 142) (“**Circular 142**”) (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知(匯綜發[2008]142號). The notice requires that the capital of a foreign-invested company converted from foreign currencies and settled in Renminbi may not be used for equity investments within China but may only be used for purposes within the company’s business scope, as approved by the authorities in charge of foreign investment or by other competent authorities, and as registered with the Administration for Industries and Commerce. In addition, SAFE strengthened its oversight of the flow and use of the capital of a foreign-invested company settled in Renminbi and converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE’s approval and may not in any case be used to repay Renminbi denominated loans if the proceeds of such loans have not been used. Violations of Circular 142 may significantly limit our ability to transfer the net proceeds from the Global Offering to our PRC subsidiaries or to convert the net proceeds from this offering into Renminbi to invest in or acquire any other Chinese companies, which may adversely affect our ability to expand our business.

Uncertainties with respect to the Chinese legal system could have an adverse effect on our business.

The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the Chinese Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

In addition, some regulatory requirements issued by certain Chinese Government authorities may not be consistently applied. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners and airline customers.

In addition, such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of Chinese law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the more developed countries. We cannot predict the effect of future developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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Companies having business in China may have a chance to be classified as a “resident enterprise” for PRC enterprise income tax purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders.

The PRC CIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered PRC “tax resident enterprises” and will generally be subject to the uniform 25.0% PRC enterprise income rate on their global income. Under the implementation rules to the PRC CIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise, however, the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China are currently unclear. A tax circular issued by the State Administration of Taxation on 22 April 2009 (“**Circular 82**”), provides that certain foreign enterprises controlled by a PRC company or a PRC company group will be classified as “resident enterprises” if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders’ meetings; and half or more of the senior management or directors having voting rights.

We may be deemed to be a PRC resident enterprise if the related criteria under Circular 82 are referred to and applied to us by the PRC tax authorities. If our company or any of our overseas subsidiaries is considered a PRC tax resident enterprise for PRC tax purposes, a number of unfavourable PRC tax consequences could follow. First, our Company or our overseas subsidiary will be subject to the uniform 25.0% enterprise income tax rate as to our global income as well as tax reporting obligations. Second, we cannot assure you that such dividends, which would normally qualify as “tax-exempted income” under applicable rules, will not be subject to a 10.0% withholding tax, as the PRC taxation authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC tax purposes. Finally, dividends payable by us to our investors that are non-resident enterprises and gain on the sale of our Shares may become subject to PRC withholding tax, if such dividends and gains are regarded by PRC tax authorities to be sourced from China.

PRC tax laws on dividend distribution may adversely affect our operating results and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws.

Dividends received by foreign investors from foreign-invested enterprises were exempt from withholding income tax prior to 1 January 2008. Therefore, we were exempt from withholding tax on dividends we received from our PRC subsidiaries. Under the PRC CIT Law, a withholding income tax at the rate of 20.0% is applicable to dividends derived from sources within China paid by foreign-invested enterprises to their non-PRC parent companies. However, pursuant to the implementation rules of the PRC CIT Law, a reduced withholding income tax rate of 10.0% shall be applicable in such case. In addition, due to the Arrangement between China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, signed on 21 August 2006 (the “**Hong Kong Tax Treaty**”), a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5.0% on dividends it receives from its PRC subsidiaries if it holds a 25.0% or more interest in that particular PRC subsidiary, or 10.0% if it holds less than a 25.0% interest in that subsidiary. In

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addition, the State Administration of Taxation promulgated a tax notice on 27 October 2009 (“**Circular 601**”), which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-the-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries. It is possible however, that under Circular 601, the Hong Kong subsidiaries would not be considered as the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10.0% rather than the favourable 5.0% rate applicable under the Hong Kong Tax Treaty.

In addition, due to ambiguities in the PRC CIT Law and its implementation rules, a withholding tax at the rate of 10.0% may also be applicable to dividends payable to investors (excluding individual natural persons) that are non-resident enterprises to the extent such dividends are sourced within China. Similarly, any gain realised on the transfer of our Shares by such investors is also subject to a withholding tax at the rate of 10.0% if such gain is regarded as income derived from sources within China. If we are considered a resident enterprise in China, it is unclear whether the dividends we pay with respect to our Shares would be treated as income derived from sources within China and be subject to PRC income tax. If we are required under the PRC CIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected. Further information is set forth in the risk factor of “Companies having business in China may have a chance to be classified as a “resident enterprise” for PRC enterprise income tax purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders” of this prospectus.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and an active trading market may not develop.

Prior to the Global Offering, there has been no public market for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between our Company (acting for itself and on behalf of the Selling Shareholder) and the Joint Global Coordinators (acting for themselves and on behalf of other Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. The listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering. You may not be able to resell your Shares at a price that is attractive to you, or at all.

The price and trading volume of our Shares may be volatile.

The trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including, but not limited to:–

- variations in our operating results (including variations arising from foreign exchange rate fluctuations);
- law of significant curtailments or material default by our lessees;

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- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments in China affecting us, our customers or our competitors;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and China;
- developments in our business sector or in the financial sector generally, including the effect of direct governmental action in the financial markets;
- changes in pricing made by us or our competitors;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- acquisitions by us or our competitors;
- the depth and liquidity of the market for our Shares;
- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or anticipated sales of additional Shares;
- involvement in litigation; and
- changes in global financial and credit markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may lose a significant value on your investments.

Investors for our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

As the Offer Price is higher than the net tangible asset value per Share of our Shares immediate prior to the Global Offering, investors of our Shares in the Global Offering will experience an immediate dilution in pro forma adjusted net tangible asset of HK\$3.08 per Share (assuming the Offer Price to be HK\$7.82, being the high-end of the indicative range of the Offer Price stated in this prospectus). If we issue additional Shares in the future, investors of our Shares in the Global Offering may experience further dilution in their ownership percentage. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or

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equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares.

Future offerings or sales could adversely affect the prevailing market price of our Shares.

Future offerings or sales of our Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price deemed appropriate. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

Dividends declared in the past may not be indicative of our dividend policy in the future.

In 2011, 2012, and 2013, we declared and settled HK\$55.4 million, HK\$19.2 million, and HK\$53.0 million as dividends, respectively. On 19 May 2014, our Company proposed to declare final dividend of HK\$69.0 million to its then sole shareholder, CALH, for the year ended 31 December 2013. Such dividend will be paid before the Listing Date.

Following Listing, any dividend declared by us will have to be approved by our Board and the amount of any dividend will depend on various factors, including, without limitation, our operating results, financial condition, future prospects and other factors which our Board may determine are important. Our historical dividends are therefore not indicative of our future dividend distribution policy. Potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favourable return to our Shareholders. We plan to use the net proceeds from the Global Offering to further develop our business and our fleet of aircraft. Further information of which is set forth in the section headed of our intended “Future Plans and Proposed Use of Net Proceeds from the Global Offering” of this prospectus. However, our Directors will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgement you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

Facts and statistics in this prospectus relating to the Chinese economy and the China aircraft leasing industry may not be fully reliable.

Facts and statistics in this prospectus relating to the Chinese economy and the China aircraft leasing industry are derived from various publications of governmental agencies or independent third parties, including a commissioned report issued by Ascend, and obtained in communications with various governmental agencies or independent third parties which we believe are reliable. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources

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of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other person and any party involved in the Global Offering and we cannot ensure you the accuracy and completeness of such information, or ensure that any such information is consistent with other information publicly available or available from other sources. Investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics and should not place undue reliance on them.

You should read the entire prospectus carefully, and we strongly caution investors not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

There had been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus, the Application Forms and any announcement we made.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

CONTINUING CONNECTED TRANSACTIONS

Members of our Group have entered into a transaction which would constitute non-exempt continuing connected transaction for our Company under the Listing Rules after the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with certain requirements set forth in Chapter 14A of the Listing Rules for such non-exempt continuing connected transaction. Further information of the non-exempt continuing connected transaction and the conditions of the waiver are set forth in the section headed “Continuing Connected Transactions” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS IN THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong), and the Listing Rules for the purpose of giving information to the public with regard to us.

Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

SELLING RESTRICTIONS

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his acquisition of Hong Kong Offer Shares to, confirm that he or she or it is aware of the restrictions described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, agents, or any other person or party involved in the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Offer Shares, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of our Shares on the Main Board is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. The International Underwriting Agreement is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price between our Company (acting for itself and on behalf of the Selling Shareholder) and the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters). Further information on the Underwriters and the underwriting arrangements is contained in the section headed "Underwriting" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company (acting for itself and on behalf of the Selling Shareholder) on the Price Determination Date.

If our Company (acting for itself and on behalf of the Selling Shareholder) and the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) are unable to reach an agreement on the Offer Price not later than Saturday, 5 July 2014, the Global Offering will not become unconditional and will lapse.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue (including any additional Shares which may fall to be issued under the Over-allotment Option), Shares to be issued pursuant to the Capitalisation Issue, and Shares which may be issued under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

No part of our Shares or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or currently proposed to be sought in the near future.

HONG KONG REGISTER AND STAMP DUTY

All of our Shares issued and sold pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our branch register of members in Hong Kong. We will maintain our principal register of members in the Cayman Islands.

Dealings in our Shares registered in our Hong Kong share register will be subject to Hong Kong stamp duty.

Unless we determine otherwise, dividends payable in Hong Kong dollars in respect of our Shares will be paid to our Shareholders listed on our Hong Kong share register, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares should consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in our Shares. None of us, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our and their respective directors, agents or advisers, or any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of our Shares.

STRUCTURE OF THE GLOBAL OFFERING

Detailed information on the structure of the Global Offering, including its conditions, is set forth in the section headed “Structure and Conditions of the Global Offering” of this prospectus.

OVER-ALLOTMENT AND STABILISATION

Further information on the arrangements relating to the Over-allotment Option and stabilisation is set forth in the section headed “Structure and Conditions of the Global Offering” of this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set forth in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus and on the relevant Application Forms.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

The English translation of names of companies, entities, laws or regulations in Chinese or another language and vice versa are for identification purposes only.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
Chairman and Non-executive Director		
Mr. CHEN Shuang (陳爽)	Flat A, 11/F, Block 8 Leighton Hill Happy Valley Hong Kong	Chinese
Executive Directors		
Mr. POON Ho Man (潘浩文) <i>Chief Executive Officer</i>	Flat D, 51/F, Block 6 Park Avenue 18 Hoi Ting Road Tai Kok Tsui Kowloon Hong Kong	Chinese
Ms. LIU Wanting (劉晚亭)	Flat A, 3/F, Medal Court 30-38 Queen's Road West Sheung Wan Hong Kong	Chinese
Non-executive Directors		
Mr. TANG Chi Chun (鄧子俊)	Flat D, 26/F, Excelsior Court 83 Robinson Road Mid-Levels Hong Kong	British
Mr. GUO Zibin (郭子斌)	Unit 3, No. 202 First Floor, Yu Ze Yuan Hai Dian District Beijing	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
Independent non-executive Directors		
Mr. FAN Yan Hok, Philip (范仁鹤)	Flat B, 6/F, Block 1 61 South Bay Road Grand Garden Repulse Bay Hong Kong	Chinese
Mr. NG Ming Wah, Charles (吴明华)	No. 137A Sheung Tsuen Pat Heung Kam Tin Yuen Long Hong Kong	British
Mr. ZHANG Chongqing (张重慶)	Room 1103 Unit 1, Building 2 39 Nanmofang Road Chaoyang District Beijing	Chinese
Mr. SUN Quan (孫泉)	121 Tanjong Rhu Road #13-36 Tanjong Ria Condominium Singapore 436914	Chinese

Further information on the qualifications and experience of our Directors is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

China Everbright Capital Limited
17th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

CCB International Capital Limited
12th Floor, CCB Tower
3 Connaught Road Central
Central
Hong Kong

Joint Global Coordinators and Joint Bookrunners

China Everbright Securities (HK) Limited
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

CCB International Capital Limited
12th Floor, CCB Tower
3 Connaught Road Central
Central
Hong Kong

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Joint Lead Managers

China Everbright Securities (HK) Limited
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

CCB International Capital Limited
12th Floor, CCB Tower
3 Connaught Road Central
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Taiping Securities (HK) Co Limited
2901 China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

**Legal advisers
to our Company**

As to Hong Kong law:–
K&L Gates
44th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:–
Run Ming Law Office
Unit 1804, NCI Tower
A12 Jianguomenwai Avenue
Beijing
China

As to Irish law:–
A&L Goodbody
International Financial Service Centre
North Wall Quay
Dublin 1
Ireland

As to Dutch law:–
De Brauw Blackstone Westbroek N.V.
Claude Debussylaan 80
P.O Box 75084
1070 AB Amsterdam
The Netherlands

As to Cayman Islands law:–
Maples and Calder
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to Malaysian law:–</i> Zaid Ibrahim & Co Level 19 Menara Milenium Pusat Bandar Damansara 50490 Kuala Lumpur Malaysia</p>
<p>Legal advisers to the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters</p>	<p><i>As to Hong Kong law:–</i> Squire Sanders 29th Floor, Edinburgh Tower The Landmark 15 Queen’s Road Central Hong Kong</p>
	<p><i>As to PRC law:–</i> Zhong Lun Law Firm 36-37/F, SK Tower 6A Jianguomenwai Avenue Chaoyang District Beijing 100022 China</p>
<p>Auditor and Reporting Accountant</p>	<p>PricewaterhouseCoopers Certified Public Accountants 22nd Floor, Prince Building Central Hong Kong</p>
<p>Compliance adviser</p>	<p>China Everbright Capital Limited</p>
<p>Receiving banks</p>	<p>Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower 3 Garden Road Central Hong Kong</p> <p>Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong</p>
<p>Industry consultant</p>	<p>Ascend China Holding Limited Room 1204-06, Tai Tung Building 8 Fleming Road, Wan Chai Hong Kong</p>

CORPORATE INFORMATION

Registered office in the Cayman Islands	Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal place of business in China	Room 6026-14, F/6 Joint Inspection Service Centre of Closed Area 1 American Road Dongjiang Free Trade Port Zone Tianjin, China
Principal place of business in Hong Kong registered under Part XI of the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong)	28th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Company's website	www.calc.com.hk (information contained in this website does not form part of this prospectus)
Company secretary	Mr. LEUNG Ming Yiu (梁明耀), CPA
Authorised representatives	Mr. POON Ho Man (潘浩文) Flat D, 51/F, Block 6 Park Avenue 18 Hoi Ting Road Tai Kok Tsui Kowloon Hong Kong Mr. LEUNG Ming Yiu (梁明耀), CPA Flat A, 43rd Floor Block 1, Maritime Bay 18 Pui Shing Road Tseung Kwan O, New Territories Hong Kong

CORPORATE INFORMATION

Audit Committee	Mr. NG Ming Wah, Charles (吳明華) (<i>Chairman</i>) Mr. ZHANG Chongqing (張重慶) Mr. SUN Quan (孫泉) Mr. GUO Zibin (郭子斌)
Remuneration Committee	Mr. FAN Yan Hok, Philip (范仁鶴) (<i>Chairman</i>) Mr. NG Ming Wah, Charles (吳明華) Mr. ZHANG Chongqing (張重慶) Mr. SUN Quan (孫泉)
Nomination Committee	Mr. ZHANG Chongqing (張重慶) (<i>Chairman</i>) Mr. FAN Yan Hok, Philip (范仁鶴) Mr. NG Ming Wah, Charles (吳明華) Mr. SUN Quan (孫泉)
Strategy Committee	Mr. CHEN Shuang (陳爽) (<i>Chairman</i>) Mr. POON Ho Man (潘浩文) Ms. LIU Wanting (劉晚亭) Mr. TANG Chi Chun (鄧子俊)
Principal share registrar and transfer office in the Cayman Islands	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square Grand Cayman, KY1-1102 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong

CORPORATE INFORMATION

Principal bankers

China Development Bank (Hong Kong Branch)
Suit 3304-3316
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

The Export-Import Bank of China
No. 30, Fuxingmennei Street
Xi Cheng District
Beijing, China

Industrial and Commercial Bank of China
Limited
No. 55 Fuxingmennei Street
Xicheng District
Beijing
China

Industrial and Commercial Bank of China
(Asia) Limited
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

China Everbright Bank Co., Ltd.
(Hong Kong Branch)
30/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

INDUSTRY OVERVIEW

This section contains statistics, industry data or other information relating to the industry that were prepared from an independent market research report published by Ascend as well as various government or official sources that are publicly available.

We believe that the source of such information is appropriate source for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of their respective directors, officers, affiliates, advisers or representatives, and any other party involved in the Global Offering and no representation is given as to its accuracy.

Our Directors further confirm that, after taking reasonable care, there is no material adverse change in the market information since the date of the Ascend Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

SOURCE OF INFORMATION AND DEFINITIONS

We commission *Ascend*, an independent industry consultant in airline and aircraft leasing industries, to conduct analysis of the airline industry and the aircraft leasing industry in both the global and the China markets. Based on its information and analyses, *Ascend* has prepared the Ascend Report on the following areas:–

- the global airline industry;
- the airline industry in China;
- the global aircraft leasing industry;
- the aircraft leasing industry in China; and
- the competitive analysis of aircraft leasing market in China.

We understand that the information contained in the Ascend Report is obtained through its primary and secondary research, including the information obtained from various sources.

In preparing the Ascend Report, *Ascend* has used various methodologies, including economic growth projection, air traffic growth projection, and fleet growth projection. Ascend has also relied on certain principal assumptions as set forth below:–

- as the main driver of air traffic growth, the China economy is expected to grow at a faster rate than the world's average in the next 20 years;
- China's civil aviation industry will further evolve to market oriented operation which will promote the growth and development of the whole aviation industry in China; and
- the market share of Chinese lessor will continue to rise in the aircraft leasing market in China.

INDUSTRY OVERVIEW

We have extracted certain information from the Ascend Report for inclusion in this section for the purpose of providing our prospective investors with the information on the airline industry and the aircraft leasing industry, both of which are inter-related, and the factors affecting the airline industry will also affect the aircraft leasing industry. For the purpose of commissioning the preparation of the Ascend Report, we have agreed to pay a fee of approximately HK\$700,000 to *Ascend*. Apart from the engagement of *Ascend* for the preparation of the Ascend Report, we have also subscribed for, as part of our ordinary course of business, various reports published by *Ascend* on the airline industry and aircraft leasing industry in China. The analysis mainly focuses on the commercial aircraft market which is composed by passenger and cargo aircraft. These aircraft can be further classified into narrowbody aircraft, widebody aircraft, or regional jets. We have not commissioned *Ascend* to prepare other reports for the purpose of the Listing.

For the purpose of this section, the following terms shall have the following meanings:–

- “aircraft lease” means the operating lease arrangement under which an entity (other than the airline operator) owns and manages a commercial aircraft and leases the commercial aircraft to the airline operator for the use of the aircraft during the lease term. The meanings of aircraft lease and operating lease are different from the accounting classification under the HKFRSs and our accounting policies;
- “aircraft leasing company” means operating lessor which is engaged in the business of aircraft leasing;
- “Base value” the underlying economic value of an aircraft in an open, unrestricted, stable market environment with a reasonable balance of supply and demand, and assumes full consideration of its “highest and best use”;
- “lessor” means an aircraft leasing company;
- “manager of an aircraft” means (a) an airline or its holding company or (b) an aircraft leasing company, which may have different degree of influence on the operation of the aircraft, including restrictions on the utilisation of aircraft and the region in which the aircraft may operate;
- “major airlines” the four major airline operators in China include *Air China*, *China Eastern Airlines*, *China Southern Airlines Company Limited* (hereinafter as “*China Southern Airlines*”), and *Hainan Airlines*;
- “owner of an aircraft” means the registered owner of an aircraft, which can either be an airline or its holding company, an aircraft leasing company, a bank, or their respective SPCs; and
- “regional jets” passenger aircraft which typically has less than 100 seats.

INDUSTRY OVERVIEW

GLOBAL AIRLINE INDUSTRY

GDP and air traffic

The demand for air transportation is driven by the underlying demand for passenger and cargo air traffic, which is closely linked to the global economy. Historically, the growth of global GDP, air traffic, and the number of commercial aircraft were positively correlated. From 2003 to 2013, the average growth rate of global real GDP was 3.8%. During the same period, the global RPK, FTK, and the number of commercial aircraft in service has grown at the CAGR of 5.5%, 3.2%, and 3.3% respectively. The following table sets forth the growth of the global real GDP, global RPK, FTK and the number of commercial aircraft in service globally from 2003 to 2013.

GDP, traffic, and fleet size breakdown (2003-2013)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR (03-13)	Average Growth Rate
Global RPK (in billion)	3,139	3,599	3,883	4,112	4,466	4,509	4,354	4,659	4,833	5,113	5,378	5.5%	
Global FTK (in billion)	1,258	1,390	1,425	1,519	1,591	1,578	1,438	1,722	1,734	1,713	1,730	3.2%	
Number of global commercial aircraft in service	14,926	15,665	16,174	16,819	17,675	17,602	18,016	18,605	19,370	19,765	20,572	3.3%	
Growth rate													
Global real GDP	3.7%	5.0%	4.6%	5.3%	5.4%	2.8%	(0.6%)	5.2%	4.0%	3.2%	2.9%		3.8%
Global RPK growth rate	1.3%	14.7%	7.9%	5.9%	8.6%	1.0%	(3.4%)	7.0%	3.7%	5.8%	5.2%		5.2%
Global FTK	4.9%	10.6%	2.5%	6.6%	4.7%	(0.8%)	(8.9%)	19.8%	0.7%	(1.2%)	1.0%		3.6%
Global commercial aircraft in service	2.6%	4.7%	2.6%	3.4%	3.5%	1.2%	1.3%	3.0%	3.6%	2.2%	4.1%		2.9%

Source: Ascend Report

Ascend forecasts that from 2013 to 2032, the global RPK and FTK will continue to grow at the CAGR of 5.0% and 4.2% respectively, with a higher growth rate in the emerging markets, including Asia Pacific, China, South America and the Middle East, and a lower growth rate in the developed market, including US and Europe. According to Ascend's forecast, from 2013 to 2032, the RPK in China will grow at the CAGR of 7.7%.

Airbus, as one of the two leading commercial aircraft manufacturers, forecasts in its publications that from 2013 to 2032, the global RPK and FTK will grow at the CAGR of 4.7% and 4.8% respectively. Boeing, as the other leading commercial aircraft manufacturer, also forecasts that from 2013 to 2032, both the global RPK and FTK will grow at the CAGR of 5.0%.

Fleet projections

From 2003 to 2013, the number of global commercial aircraft in service has grown at the CAGR of 3.3%. By the end of 2013, there have been a total of 20,572 commercial aircraft in service globally.

Ascend forecasts that the total member of commercial aircraft in service globally will continue to grow at the CAGR of 3.7% from 2013 to 2032, and by the end of 2032, there will be over 41,000 commercial aircraft in service globally. To fulfil the growing demand, over 34,900 new commercial aircraft, with an estimated worth of over US\$ 4,000 billion, will be delivered during the period from 2013 to 2032. In terms of regional allocation, Asia Pacific, North America and Europe is expected to account for 40.5%, 20.8% and 16.3% of the total new commercial aircraft deliveries, respectively.

INDUSTRY OVERVIEW

Out of the 34,900 new commercial aircraft to be delivered, 59.3% of the new aircraft delivery are to fulfil the new aircraft demand, while 40.7% are to satisfy the replacement demand and the demand for passenger-to-freighter conversion.

Airbus expects that from 2013 to 2032, 29,226 new commercial aircraft will be delivered globally and *Boeing* expects that from 2013 to 2032, 35,280 new commercial aircraft will be delivered globally.

As the global demand for commercial aircraft is expected to have a stable growth, it is also expected that the delivery of the new commercial aircraft will keep pace with the demand growth. From 2007 to 2013, the ratio of annual delivery of new commercial aircraft to the total number of aircraft in service were in the range between 5.8% to 6.7%. The following table sets forth the global delivery of new commercial aircraft from 2007 to 2018.

Global new aircraft delivery (2007-2018)

	2007	2008	2009	2010	2011	2012	2013	2014F*	2015F*	2016F*	2017F*	2018F*
Narrow body aircraft	685	666	755	754	772	850	914	918	980	983	945	882
Wide body aircraft	193	175	198	186	215	305	336	379	380	367	398	379
Regional Jet	191	225	183	139	159	131	136	169	172	181	195	215
Total aircraft (a)	1,069	1,066	1,136	1,079	1,146	1,286	1,386	1,466	1,532	1,531	1,538	1,476
Current Commercial aircraft in service (b)	17,675	17,602	18,016	18,605	19,370	19,765	20,572					
(a)/(b)	6.0%	6.1%	6.3%	5.8%	5.9%	6.5%	6.7%					

Source: Ascend Report

AIRLINE INDUSTRY IN CHINA

History and development of the civil aviation market in China

During the past two decades, China's civil aviation industry has gradually evolved from government control to market oriented operation, which promoted the growth and development of the whole aviation industry in China. The history and development of the Chinese aviation administrative system can be divided into four development stages:

Before 1987: Government control and management

During this period, China's civil aviation administration system emerged and the civil aviation began to separate from the Air Force. Former state-owned airline was divided into six major carriers, which, along with all civilian airports, were run by the CAAC as subsidiaries.

1987 to 2002: Separation of governmental from enterprise functions

During this period, the management of the aviation enterprises was separated from the government function. The local governments invested and controlled a few new airports, and also sponsored the establishment of new airlines.

2002 to 2004: Separation of asset management function

During this period, China's airlines are consolidated to *Air China*, *China Southern Airlines*, and *China Eastern Airlines*. But almost all civilian airports were transferred from CAAC to the local governments, and the assets formerly owned by CAAC were transferred to SASAC.

INDUSTRY OVERVIEW

2004 and forward: Further promotion of a market-based economy in the civil aviation industry

During this period, the privatisation of civilian airports was accelerated through initial public offerings or acquisition by domestic and foreign investors. The provincial CAAC bureaus were abolished and the regulation of business approval was simplified. During the same time, the private owned airlines emerged in the Chinese market.

China's airline industry has experienced strong growth

Driven by China's robust economic development, China's aviation market has experienced strong growth in the past decade. As the real GDP has grown at the average rate of 10.2% from 2003 to 2013, China's air passengers has grown from 87.6 to 354.0 million, at the CAGR of 15.0%. China's RPK has also grown from 101.5 billion kilometres to 455.8 billion kilometres, at the CAGR of 16.2%.

For the freight traffic, as China's export and import value has increased from US\$851.0 million to US\$4,160.0 million at the CAGR of 17.2% during the past decade, China's FTK has grown from US\$5.8 billion to US\$16.9 billion, at the CAGR of 11.3%. The following table sets forth the growth of China's real GDP, air traffic passengers, RPK, export and import value, and FTK.

China's GDP, air traffic, export and import value, and FTK (2003-2013)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR (2003-2013)	Average Growth Rate
China real GDP growth rate.	10.0%	10.1%	11.3%	12.7%	14.2%	9.6%	9.2%	10.4%	9.3%	7.8%	7.7%		10.2%
China air traffic passengers (millions)	87.6	121.2	138.3	159.7	185.8	192.5	230.5	267.7	293.2	319.0	354.0	15.0%	
China RPK (in billion)	101.5	138.4	159.3	184.7	217.3	230.6	280.9	327.7	362.4	404.8	455.8	16.2%	
China export and import value (US\$ billion)	851.0	1,154.6	1,421.9	1,760.4	2,176.6	2,563.3	2,207.5	2,974.0	3,641.9	3,866.8	4,160.0	17.2%	
China FTK (in billion).	5.8	7.2	7.9	9.4	11.6	12.0	12.6	17.9	17.4	16.2	16.9	11.3%	

Source: Ascend Report

The rapid development of China's tourism is another important factor contributing to the growth of China's airline industry. With increasing citizen income and the easing of overseas travel restrictions, tourism industry has become one of the fastest growing industries in China. From 2002 to 2012, the domestic visitors and the international visitors has increased at the CAGR of 12.9% and 6.5%, respectively. As aviation is the preferred transportation mode for tour visitors, especially international visitors, the further development of China's tourism industry will continue to promote air traffic. The following table sets forth the growth of China's tour visitors from 2002 to 2012.

China's tour visitors (2002-2012)

In million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	CAGR
China's domestic visitors	878	870	1,100	1,200	1,390	1,610	1,710	1,900	2,100	2,640	2,960	12.9%
China's international visitors	115	112	138	151	160	173	176	174	191	205	215	6.5%
Inbound visitors	98	92	109	120	125	132	130	126	134	135	132	3.0%
Outbound visitors	17	20	29	31	35	41	46	48	57	70	83	17.2%

Source: Ascend Report

INDUSTRY OVERVIEW

Potential for further development of China's airline industry

China's airline industry has experienced significant growth in the past decade. But comparing with the US and global markets, China's airline industry is still in the emerging stage and has great potential for further development. In 2013, the RPK per capita in China was 335.0 kilometres, which was only 11.0% of the RPK per capita of 3,018.8 kilometres in the US and 43.8% of the RPK per capita of 764.7 kilometres in the world. By the end of 2013, one million Chinese people own only 1.5 passenger aircraft, which was 8.5% of the 17.2 passenger aircraft in the US, and 53.9% of the 2.7 passenger aircraft in the world. The following table sets forth the growth in the RPK and the number of passenger aircraft in China, the US and the world.

RPK and passenger aircraft in service in China, US and the world (2003-2013)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
RPK (in billion)												
China	101.5	138.4	159.3	184.7	217.3	230.6	280.9	327.7	362.4	404.8	455.8	16.2%
USA	805.2	888.3	932.9	942.1	972.4	933.8	883.6	904.8	908.9	937.7	955.5	1.7%
Global	3,138.6	3,599.0	3,882.7	4,111.8	4,466.2	4,508.9	4,353.9	4,659.2	4,833.1	5,112.5	5,378.4	5.5%
RPK per capita (kilometres)												
China	78.5	106.5	121.8	140.5	164.5	173.6	210.5	244.4	269.0	299.0	335.0	15.6%
US.	2,769.5	3,027.6	3,150.6	3,151.6	3,220.8	3,064.3	2,874.5	2,921.3	2,913.7	2,984.4	3,018.8	0.9%
Global	530.0	597.4	633.7	659.3	703.1	696.1	669.3	705.5	720.7	752.4	764.7	3.7%
Passenger aircraft In Service												
China	610	688	798	929	1,047	1,146	1,309	1,456	1,611	1,781	1,987	12.5%
USA	5,300	5,567	5,501	5,506	5,661	5,429	5,340	5,344	5,368	5,327	5,435	0.3%
Global	14,311	14,979	15,362	15,877	16,438	16,629	16,843	17,354	17,973	18,373	19,045	2.9%
Passenger aircraft per million persons												
China	0.5	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.5	12.0%
US.	18.2	19.0	18.6	18.4	18.8	17.8	17.4	17.3	17.2	17.0	17.2	(0.6%)
Global	2.4	2.5	2.5	2.5	2.6	2.6	2.6	2.6	2.7	2.7	2.7	1.1%

Source: Ascend Report

Ascend forecasts that China will be one of the key growth markets for air traffic and aircraft in the next 20 years. The key drivers of the growth include the strong economic growth, the growing middle class population and the increased desire to travel. The development of new airports will also stimulate the demand of air traffic continuously.

Impact of the 12th Five-year Plan on China's civil aviation industry

The 12th Five-year Plan, or the Plan, for the Civil Aviation Development is an important policy for the development of China's aviation industry. According to the Plan, from 2010 to 2015, China's air transport turnover will grow at the CAGR of 13.0%, the number of air passenger will grow at the CAGR of 10.9%, and the air freight will grow at the CAGR of 10.0%. The following table sets forth the details of the Plan.

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China's air transport turnover, air passenger and air freight

	2010	2015F	CAGR
Air Transport Turnover (billion ton kilometres)	53.8	99.0	13.0%
Air passengers (million)	267.7	450.0	10.9%
Air Freight (million tons)	5.6	9.0	10.0%

Source: Ascend Report

Pursuant to the Plan, from 2010 to 2015, China will continue to develop a comprehensive national air network. While as of the end of 2013, China has only 193 civil airports, over 60 new airports will be built and over 100 current airports will be expanded or rebuilt through 2015. The Plan also aims at optimizing China's airport system in order to improve operational efficiency, with the major focus on easing capacity constraints at large airports and boosting the development of regional airports. These developments will further increase the air traffic in China.

Fleet expansion and projection

In line with the development of airline industry, the number of commercial aircraft operated by China's airlines has grown significantly from 635 in 2003 to 2,080 in 2013, at the CAGR of 12.6%. The new delivery of commercial aircraft has also grown from 59 in 2003 to 283 in 2013, at the CAGR of 17.0%. The table below sets forth the growth of China's commercial aircraft in service and new aircraft deliveries from 2003 to 2013.

China's commercial aircraft in service and new deliveries (2003-2013)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
China's commercial aircraft In												
Service	635	718	833	978	1,109	1,213	1,386	1,544	1,698	1,877	2,080	12.6%
China's new deliveries of												
commercial aircraft	59	36	110	144	145	137	182	195	192	226	283	17.0%

Source: Ascend Report

Ascend forecasts that the number of commercial passenger aircraft operated by China's airlines will reach 3,381 by 2021 with the CAGR of 6.9% from 2013 to 2021 and will reach 5,387 by 2031 with the CAGR of 5.7% from 2013 to 2031, and narrowbody aircraft will account for over 70% of the total number of commercial passenger aircraft by 2021 and 2031. The new aircraft delivery in China is to accommodate the increased air traffic and to replace current aircraft that will retire in the next 20 years. Ascend forecasts that approximately 50% of the current aircraft in service will be replaced by 2031. The following table sets forth Ascend's forecast of the growth of commercial passenger aircraft in China from 2013 to 2021 and 2013 to 2031, respectively.

INDUSTRY OVERVIEW

China's fleet expansion (2013-2031)

	2013	2021	CAGR from 2013	2031	CAGR from 2013
Narrowbody (a)	1,656	2,667	6.1%	4,161	5.3%
Widebody	206	391	8.3%	770	7.6%
Regional jet	125	323	12.6%	456	7.5%
Total commercial passenger aircraft (b)	1,987	3,381	6.9%	5,387	5.7%
(a) / (b)	83.3%	78.9%	N/A	77.2%	
Cargo aircraft	93	N/A	N/A	N/A	

Source: Ascend Report

Airbus forecasts that from 2013 to 2032, China's domestic RPK and domestic FTK will grow at the CAGR of 7.0% and 7.5% respectively. Boeing also forecasts that from 2013 to 2032, both RPK and FTK in China will grow at the CAGR of 6.9%, and 5,580 new commercial aircraft will be delivered during the period, out of which 3,900 will be narrowbody aircraft.

GLOBAL AIRCRAFT LEASING INDUSTRY

Market size

The ownership structure of the global fleet has changed over time, largely as a result of the emergence of operating lease, which has grown in popularity over the past 30 years. By the end of 2013, 36.9% of the commercial aircraft in the world were leased by aircraft leasing companies. Ascend forecasts that the percentage of the leased commercial aircraft will reach 45% by 2022. The following table sets forth the growth in the number of leased commercial aircraft from 1981 to 2013.

Leased commercial aircraft (1981-2013)

	1981	1986	1991	1996	2001	2006	2011	2013
Leased commercial aircraft (a)	190	498	1,345	2,280	3,475	5,831	7,303	7,601
Total commercial aircraft (b)	5,793	6,975	8,900	11,322	13,749	16,819	19,370	20,572
(a) / (b)	3.3%	7.1%	15.1%	20.1%	25.3%	34.7%	37.7%	36.9%

Source: Ascend Report

The reason airlines have turned to aircraft leasing is that, comparing with 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 a narrowbody aircraft for five to seven years, and a widebody aircraft for 10 to 12 years. Aircraft leasing also allows the airlines that do not have sufficient financial resources to acquire new and more fuel-efficient aircraft. Aircraft leasing also allows airlines to have the better control of their financial performance and to relieve their responsibility on aircraft residual value management.

INDUSTRY OVERVIEW

Critical success factors for aircraft leasing companies

Diversification

Aircraft leasing companies typically diversify their portfolios by airline operators in different regions and business models. Usually, a lessor would not have a significant concentration on a single airline. Diversification by lease return date is also a critical part of portfolio management and a lessor will try to spread out the lease return date for aircraft under their aircraft portfolio to ensure stable earnings.

Low finance costs and low refinance risk

Aircraft leasing companies rely on debt financing for expansion and low cost financing is always important for them. Leased aircraft are usually financed for seven to 12 years and after that the aircraft will need to be re-financed. It will be a challenge for a lessor to re-finance in a volatile financial market and the high refinance cost will have the negative impact on a lessor's cash flow and return on equity.

Low numbers of aircraft in storage

Aircraft companies are aircraft managers and will seek to keep their aircraft flying with airlines as much as possible. For this reason, during the market downturn, a lessor may accept lower rentals for shorter terms in anticipation of better rentals once the market recovers.

Rapid action after the defaults of airline operators

When an airline operator defaults or ceases operation, aircraft leasing companies need to take rapid action to repossess the aircraft and have their aircraft in the market earlier to find new customers.

Ability to manage the aircraft throughout their lives

As aircraft age, the lessor may lease the aircraft to smaller airlines with lower credibility. The maintenance for older aircraft will also be more complicated. a lessor need to be able to manage aircraft throughout their full lives to ensure the sustainable lease return in long term.

INDUSTRY OVERVIEW

Competition of global aircraft leasing markets

As of 31 December 2013, there were 167 aircraft leasing companies in the world. The following table sets forth the 20 largest aircraft leasing companies in terms of the number of aircraft:–

20 largest aircraft leasing companies in the world

Lessor	In service fleet			Stored aircraft	Total aircraft	Firm Orders
	Regional Jets	Single Aisle	Twin Aisle			
GECAS	379	1,023	162	91	1,655	280
ILFC	0	702	255	53	1,010	323
BBAM LLC	2	360	52	22	436	7
SMBC Aviation Capital	10	315	8	10	343	52
AerCap	6	239	44	15	304	13
AWAS	0	200	45	24	269	44
CIT Aerospace	14	202	40	13	269	147
Aviation Capital Group	0	231	8	17	256	139
BOC Aviation	10	170	38	1	219	115
Boeing Capital Corp	0	189	13	10	212	0
Air Lease Corporation	31	115	32	1	179	301
Aircastle Advisor LLC	5	90	54	8	157	0
Macquarie AirFinance	3	124	12	2	141	0
ORIX Aviation	2	102	17	11	132	0
ICBC Leasing Co	12	85	20	0	117	122
Avolon Aerospace Leasing Limited	6	94	13	0	113	51
CDB Leasing Company	20	61	26	3	110	30
MC Aviation Partners/Mitsubishi Corporation	0	77	18	0	95	0
Standard Chartered Aviation Finance	0	78	15	2	95	0
SkyWorks Leasing LLC	6	42	14	19	81	0

Source: Ascend Report

Note:–

* an order which is disclosed by an aircraft manufacturer on its order book as a firm order.

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. As of 31 December 2013, there were over 50 lessors managing 25 or more aircraft. The two largest lessors are GE Capital Aviation Services (GECAS) and International Lease Finance Corporation (ILFC), each with a fleet size over 1,000 aircraft, which account for 31.5% of the total number of leased aircraft.

Most large lessors target to have a portfolio of 200 to 250 aircraft, with a portfolio value of approximately US\$7.0 billion to US\$8.0 billion. The average lease period for a typical portfolio is around five years, and the lessors are required to remarket 40 to 50 aircraft every year.

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.

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Entry barriers of aircraft leasing industry

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.

Profitability of aircraft leasing industry and whole aviation value chain

Aircraft leasing companies derive revenue from three primary sources including lease rental, proceeds from the sale of aircraft, and aircraft management fee.

The profitability of a lessor depends on its ability to manage the aircraft asset to ensure good returns on the aircraft assets, which are dependent on the following factors:–

- the ability to secure lease rentals on good terms;
- the ability to secure financing on good terms; and
- the disposal of the aircraft where necessary and profitable.

It is therefore important for the lessor to understand the value retention of their aircraft under their aircraft portfolio, to manage that aircraft through their full lives and to have access to competitive financing in order to maximise the return.

According to International Air Transport Association (IATA), from 2004 to 2011, the return on invested capital (ROIC) of aircraft leasing industry is about 9%, which is the highest among different industries in the air transportation sector. The following table sets forth IATA's estimates of the average ROIC from 2004 to 2011 of aircraft leasing, aircraft manufacturing, airport, and airline industry.

Average return on invested capital

	Aircraft leasing	Aircraft manufacturer	Airport	Airline
Average annual ROIC.	9%	7%	6%	4%

Source: Ascend Report

The aircraft leasing industry has proven to be stable in terms of both revenues and ROIC amid several highly turbulent airline cycles, principally because of the following reasons:–

- lessors' fundamental exposure is the demand for air traffic, which has demonstrated more stable growth. Thus, if the airline defaults, the aircraft assets can be rapidly re-deployable to other airlines;

INDUSTRY OVERVIEW

- lessors' returns are supported not just by the streams of lease income but also the disposal of the aircraft assets, and the volatility of aircraft residual value is limited;
- many lessors have proven adept at mitigating risk by acquiring mostly newer, more common or standardised aircraft models, which can be easily re-deployable in the event of scheduled or unscheduled return off-lease; and
- a mature lease portfolio should typically have not more than 20% of the fleet reaching lease renewal in any year. This serves to mitigate the effect of the peaks and troughs in the industry cycle.

Aircraft values and lease rates

Aircraft value is impacted by various factors including macro-economic factors, industry specific factors and aircraft-type specific factors. Comparing with aircraft values, aircraft lease rates are more volatile as the rates tend to react to market conditions more quickly than aircraft values.

Movements in the base value of aircraft

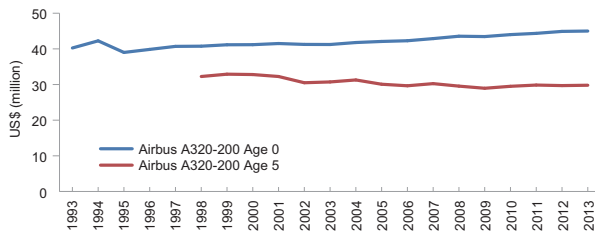
We set forth below the aircraft value trend of certain popular aircraft models:–

Year of value (for aircraft at age)	Base value in (US\$ million)							
	Airbus A320-200	Airbus A320-200	Airbus A321-200	Airbus A321-200	Boeing 737 (NG)-800 Series	Boeing 737 (NG)-800 Series	Airbus A330-200	Airbus A330-200
	Age 0	Age 5	Age 0	Age 5	Age 0	Age 5	Age 0	Age 5
Year	Age 0	Age 5	Age 0	Age 5	Age 0	Age 5	Age 0	Age 5
1993.	40.25							
1994.	42.25							
1995.	39							
1996.	39.85		45.5					
1997.	40.7		45.5					
1998.	40.75	32.25	45.5		40.5		87.5	
1999.	41.15	32.9	46.25		40.5		88.7	
2000.	41.175	32.8	46.55		41		89.5	
2001.	41.5	32.25	46.95	36.7	41.05		89.8	
2002.	41.25	30.5	46.5	35.5	40.2	31.2	87.4	66.4
2003.	41.225	30.725	46.2	34.7	41	30.75	85.8	63.3
2004.	41.78	31.28	46.3	34.55	41.45	30.95	86.2	62.7
2005.	42.08	30.08	46.75	34.75	42.4	31.15	86.7	61.7
2006.	42.28	29.65	46.85	34.85	42.6	31.1	87	61.5
2007.	42.88	30.25	47.28	34.65	42.9	31.9	89.5	64
2008.	43.55	29.55	48	35	43.2	31.45	90.75	65.25
2009.	43.45	28.95	48.25	34.75	42.85	31.1	90.75	63
2010.	44	29.5	48.25	34.75	43	31.25	90.75	62.25
2011.	44.35	29.85	49	34.5	43.45	31.15	91.5	61.75
2012.	44.9	29.7	49.95	34.7	44.05	30.55	93.564	62.314
2013.	45	29.8	50.2	34.1	44.45	30.35	94	60

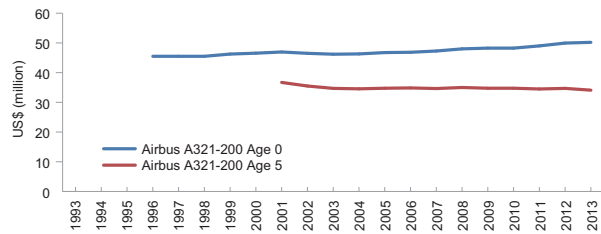
Source: Ascend (in US\$ millions)

INDUSTRY OVERVIEW

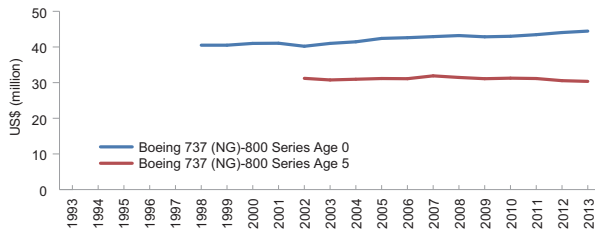
Airbus A320-200 Base Value Movements



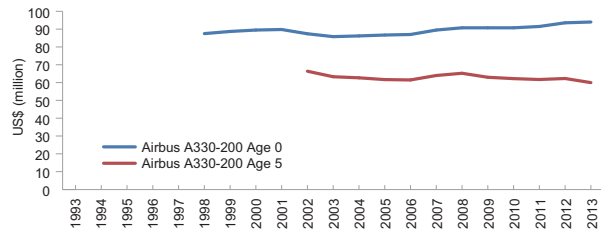
Airbus A321-200 Base Value Movements



Boeing 737 (NG)-800 Base Value Movements



Airbus A330-200 Base Value Movements



In *Ascend's* opinion and in accordance with the International Society of Transport Aircraft Trading (ISTAT), the base value of the aircraft is the underlying economic value of an aircraft in an open, unrestricted, stable market environment with a reasonable balance of supply and demand, and assumes full consideration of its "highest and best use". An aircraft's base value is founded on the historical trend of values and in the projection of value trends and assumes an arm's-length cash transaction between willing, able and knowledgeable parties, acting prudently, with an absence of duress and with a reasonable period of time available for marketing. This base value is the value that most closely reflects the underlying assumption that the current value of an aircraft is a function of its future earning potential. *Ascend* considers that the historical market values and the performance reflect the future expectation of an aircraft's earning potential and thus, these historical market values need to be incorporated into any analysis of an aircraft's future value.

AIRCRAFT LEASING INDUSTRY IN CHINA

Market size and forecast

By the end of 2013, 2,080 commercial aircraft were operated by the Chinese airlines, and 38.4% of them were under leases. *Ascend* forecasts that by 2018, 3,027 commercial aircraft will be operated by the Chinese airlines and approximately 40% of them will be under lease. The following table sets forth the growth of China's aircraft leasing market from 2003 to 2013.

China's aircraft lease (2003-2013)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Leased commercial aircraft (a)	198	248	293	393	474	538	579	633	690	715	799	15.0%
Total commercial aircraft (b)	635	718	833	978	1,109	1,213	1,386	1,544	1,698	1,877	2,080	12.6%
(a) / (b)	31.2%	34.5%	35.2%	40.2%	42.7%	44.4%	41.8%	41.0%	40.6%	38.1%	38.4%	

Source: *Ascend Report*

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The following table sets forth *Ascend's* forecast of the total number of aircraft and aircraft under leases in China from 2014 to 2018.

China's total number of aircraft and aircraft under lease (2014-2018)

	2014F	2015F	2016F	2017F	2018F	CAGR (2014-18)
Leased commercial aircraft (a)	911	987	1,061	1,137	1,211	7.4%
Total commercial aircraft (b)	2,277	2,467	2,652	2,842	3,027	7.4%
(a) / (b)	40.0%	40.0%	40.0%	40.0%	40.0%	

Source: Ascend Report

Drivers and entry barriers of China's aircraft leasing industry

The aircraft leasing market in China has historically been dominated by foreign lessors. Chinese lessors have only been active in the market during the past six years, after CBRC relaxed its regulations on aircraft leasing.

The rapid growth of aircraft leasing in China began in January 2007, when the CBRC issued new regulation policy for the financial leasing companies, which lowered the minimum registered capital from RMB 500 million to RMB 100 million. The policy permits domestic and overseas commercial banks to set up financial leasing companies, provided that their capital adequacy ratio is higher than 8%, total assets are at least RMB8.0 billion, and the institutions are profitable for two consecutive years.

To develop the aircraft leasing business in China, Chinese lessors generally tackle some entry barriers better than foreign lessors. Chinese lessors generally 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 a 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. According to *Ascend*, by 31 December 2013, no special purpose companies have been set up by foreign lessors in China to conduct aircraft leasing business.

Comparison between the aircraft leasing markets in China and the world

Fewer historical airline bankruptcies

Comparing with many airline bankruptcy cases globally, only four airlines have ceased or suspended operations in China during the past years. The fewer bankruptcies was due to the Chinese government's support to the airline industry and their decision to consolidate the China's airlines into three major airlines. The four airlines that have suspended operations in China are all young airlines and two of them are cargo airlines. The fewer ceasing or suspending operation of airlines in China leads to relatively low default risk and re-marketing risk for Chinese lessors.

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Younger fleet

The aircraft operated by China's airlines are generally younger than that of the world. The table below sets forth the average fleet age in China and the world as of 31 December 2013.

Average age of fleet by China's airlines and foreign airlines

	Age of all aircraft	Age of aircraft under lease
Aircraft operated by China's airlines	7.0	6.8
Aircraft operated by foreign airlines	13.3	11.4

Source: Ascend Report

Aircraft operated by China's airlines are expected to maintain a relatively young age profile in the medium term as the airlines tend to introduce mainly new aircraft to their fleets, due to government regulations on the importation of aircraft of more than 10 years.

Major players and market competition

Foreign lessors have traditionally dominated China's aircraft leasing market, but from 2007 to 2013, Chinese lessors have experienced a significant growth and have expanded their market share from 9.1% to 37.8%. Ascend forecasts that Chinese lessors will continue to expand their market share to 55.0% by 2018. The following table sets forth the historical and forecasted growth of Chinese lessors' market share in commercial aircraft leasing market from 2007 to 2018.

Market share of Chinese lessors and foreign lessors in China's aircraft leasing market (2007-2018)

	2007	2008	2009	2010	2011	2012	2013	2014F*	2015F*	2016F*	2017F*	2018F*	CAGR
Chinese lessors (a)	43	75	111	150	196	238	302	364	414	509	591	666	28.3%
Foreign lessors	431	463	468	483	494	477	497	546	572	552	546	545	2.2%
Total aircraft under lease (b)	474	538	579	633	690	715	799	910	986	1,061	1,137	1,211	8.9%
(a) / (b)	9.1%	13.9%	19.2%	23.7%	28.4%	33.3%	37.8%	40.0%	42.0%	48.0%	52.0%	55.0%	

Source: Ascend Report

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As of 31 December 2013, nine Chinese lessors were among the 20 largest aircraft leasing companies in terms of fleet size in China. The following table sets forth the 20 largest aircraft leasing companies leased to Chinese airlines in terms of fleet size as of 31 December 2013.

20 largest aircraft leasing companies in China⁽¹⁾⁽²⁾

Lessor	Aircraft in service	Market Share
ILFC	152	19.0%
GECAS	118	14.8%
ICBC Leasing Co*	60	7.5%
Changjiang Leasing Company*	53	6.6%
CDB Leasing Company*	52	6.5%
BBAM LLC	43	5.4%
Air Lease Corporation	38	4.8%
BoCom Leasing*	37	4.6%
China Aircraft Leasing Limited*	25	3.1%
Aviation Capital Group	24	3.0%
AVIC International Leasing*	23	2.9%
SMBC Aviation Capital	21	2.6%
Aircastle Advisor LLC	15	1.9%
AWAS	14	1.8%
BOC Aviation*	14	1.8%
Dragon Aviation Leasing Company*	13	1.6%
Standard Chartered Aviation Finance	9	1.1%
ORIX Aviation	8	1.0%
AerCap	7	0.9%
CIT Aerospace	6	0.8%
Comsys Aviation Leasing Co Ltd*	6	0.8%
Others	61	7.6%
Total	799	100.0%

Notes:—

(1) Means aircraft leased to China's airlines

(2) None of the above 20 largest aircraft leasing companies in China is a listed company.

* Chinese lessors

Source: Ascend Report

INDUSTRY OVERVIEW

COMPETITIVE ANALYSIS OF CHINA'S AIRCRAFT LEASING MARKET

Category of Chinese lessors and the characteristics

Chinese lessors may broadly be divided into four categories based on their ownership structure, including independent lessors, affiliates of commercial banks, affiliates of airlines and affiliates of aircraft manufacturers.

Independent lessors

According to *Ascend*, as of 31 December 2013, we are the largest independent Chinese lessor in terms of the number of aircraft in service and on order. Other independent Chinese lessors are Dragon Aviation Leasing Company and Comsys Aviation Leasing Company Limited.

The independent status from aircraft manufacturers, commercial banks and airline operators provides the independent lessors greater flexibility in selecting appropriate aircraft and structuring their leases to address the specific business needs of the airline customers. The independent status also offers the lessors the flexibility to expand the customer base and provide a wide range of comprehensive fleet management services to the airline customers.

Affiliates of commercial banks

The largest Chinese lessors are affiliates of commercial banks, including BOC Aviation, ICBC Leasing Co., CDB Leasing Company and BoCom Leasing. These lessors have strong financial backing from the parent companies and are able to secure more favourable financing terms for aircraft acquisition. The reputation of these banks is also advantageous when dealing with aircraft manufacturers and airline operators.

Affiliates of airlines

Hainan Airline has equity interest in three Chinese lessors in this category, namely Changjiang Leasing Company, Hong Kong International Aviation Leasing, and Hong Kong Aviation Capital. With the strong support from their shareholders, airline affiliated lessors can source aircraft for sale and leaseback transactions from their parent company to expand their portfolios rapidly.

Affiliates of aircraft manufacturers

AVIC International Leasing is the only major manufacturer owned lessor in China. It offers customers aircraft leasing for aircraft manufactured by the parent company. One example is AVIC's MA60 turboprop aircraft, 17 of which are on lease with the airlines in China. Our Company has also worked with some regional airlines in China on aircraft sale and leaseback transaction.

Most Chinese lessors focus on sale and leaseback transactions in China. This is due to the fact that aircraft imported into China is regulated by CAAC and NDRC, and the airlines have the right to import aircraft with import tax concession. Under sale and leaseback transaction, the airlines transfer the purchase commitment of the aircraft to the lessors. Chinese lessors are also placing direct order with the aircraft manufacturers without end-user lessee identified. This arrangement is intended to allow the lessors to have quick delivery of the aircraft to China's airlines.

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Ranking of Chinese lessors

The following table sets forth the ranking of Chinese lessors in terms of the number of commercial aircraft in service and in storage, and aircraft on order as of 31 December 2013.

Ranking of Chinese lessors

	Aircraft in service	Aircraft in storage	Aircraft on order (no C919 and ARJ)	Total aircraft	C919 on order	ARJ on order
Independent aircraft leasing companies						
China Aircraft Leasing Company Limited.	25	1	35	81	20	0
Dragon Aviation Leasing Company	20	0	0	20	0	0
Comsys Aviation Leasing Co Ltd	6	0	0	6	0	0
Affiliates of commercial banks						
BOC Aviation	218	1	95	334	20	0
ICBC Leasing Co	117	0	77	239	45	0
CDB Leasing Company	107	3	0	140	10	20
BoCom Leasing	41	2	0	73	30	0
CCB Financial Leasing.	5	0	0	55	50	0
ABC Financial Leasing.	2	0	0	47	45	0
Affiliates of airlines						
Hong Kong Aviation Capital.	77	2	0	79	0	0
Changjiang Leasing Company	57	0	0	57	0	0
Hong Kong International Aviation Leasing.	7	0	0	7	0	0
Affiliates of aircraft manufacturers						
AVIC International Leasing	23	0	0	23	0	0

Note:—

Aircraft in storage refers to aircraft temporarily removed from commercial service, usually awaiting lease return or delivery to a new lessee, but can also signify aircraft where the lessor is looking for a lessee.

The fleet numbers exclude any business jets, passenger jets for corporate use, turboprop aircraft and general aviation aircraft which are managed by the aircraft leasing companies.

Source: *Ascend Report*

INDUSTRY OVERVIEW

AVIATION AND AIRCRAFT LEASING INDUSTRY IN INDIA

According to India Brand Equity Foundation (“IBEF”), a trust established by the Department of Commerce, Ministry of Commerce and Industry, Government of India, India is one of the fastest growing aviation markets and currently the ninth largest civil aviation market in the world.

India’s GDP has grown at an average of 7.8% from 2003 to 2012. In line with the strong growth in economy, India’s aviation industry has experienced significant expansion and the number of operational airports in India increased by 75 from 2000 to 125 airports in 2012. Since 2006, the total passenger traffic in India has expanded at a CAGR of 11.7% to 159.3 million in 2013, while its total freight traffic registered a CAGR of 6.6% to 2.2 million over the same period.

Aircraft leasing market has also been growing significantly in India. According to the *Ascend Report*, there were 144 commercial aircraft operated by the Indian airlines and 26.4% of them were under leases in 2003. By the end of 2013, the number of commercial aircraft operated by the Indian airlines and the percentage under leases increased to 346 and 58.4% respectively.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Leased commercial aircraft (a)	38	46	88	159	186	176	160	174	185	188	202	18.2%
Total commercial aircraft (b)	144	157	201	265	321	326	329	344	338	327	346	9.2%
(a) / (b)	26.4%	29.3%	43.8%	60.0%	57.9%	54.0%	48.6%	50.6%	54.7%	57.5%	58.4%	

Source: *Ascend Report*

IBEF forecasts that aviation industry will continue to grow and by 2020, passenger traffic in India will further increase to 450 million from 159.3 million in 2013 and by 2030, the number of airport in India will increase to 250 to cater the growing leisure and business travel demand.

CONFIRMATION FROM OUR DIRECTORS

As of the Latest Practicable Date, after taking reasonable steps, our Directors confirm that there is no significant or material adverse change in the market information since the respective dates of the various data contained in this section which may qualify, contradict or have an impact on the information in this prospectus.

APPLICABLE LAWS AND REGULATIONS

This section sets forth summaries of the most significant laws and regulations applicable to our operations and business in different jurisdictions.

CHINA

Overview

Our business is mainly conducted in China. The key laws and regulations regulating our business operations in China include the following:–

- Measures on the Administration of Foreign Investment in the Leasing Industry (the “**Measures**”)
- Announcement of State Administration of Taxation, No. 13 in 2010 “Announcement of Tax Issues Concerning Lessee Selling Assets in Financial Sale-leaseback”
- The PRC Contract Law
- Enterprise Accounting Codes No. 21 – Leasing
- Circular of the Ministry of Finance and the State Administration of Taxation on the Inclusion of the Railway Transport Industry and Postal Service Industry in the Pilot Collection of Value Added Tax in Lieu of Business Tax (Cai Shui [2013] No. 106)
- Circular of the General Office of the State Council on Strengthening the Management of Imported Civil Aircrafts (Guo Ban Fa [1997] No. 17)
- Administrative Regulations of the People’s Republic of China on the Import and Export of Goods (Order of the State Council No. 332) (the “**Regulations**”)
- Measures on the Administration of the Automatic Import Licensing for Goods (Order of the Ministry of Commerce and the General Administration of Customs [2004] No. 26) (the “**Licensing Measures**”)
- Notice of Ministry of Finance and State Administration of Taxation on Some Issues about Policies on Business Tax (Cai Shui [2003] No.16)
- Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business (Guo Shui Han [2000] No. 514) and Supplemental Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business (Guo Shui Han [2000] No. 909)

APPLICABLE LAWS AND REGULATIONS

The Measures

MOFCOM promulgated the Measures on 3 February 2005 to regulate the operation of foreign-invested leasing business and financial leasing business.

The Measures apply to the establishment of foreign-invested enterprises by foreign investors such as foreign companies, enterprises and other economic organisations in the form of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises in the PRC to engage in the leasing business or financial leasing business as well as to carry out business activities. Under the Measures, foreign investors with total assets of no less than US\$5 million are permitted to apply to MOFCOM for establishing wholly foreign-owned financial leasing companies in the PRC. Foreign-invested financial leasing companies must satisfy the following conditions: (i) the registered capital shall not be less than US\$10 million; (ii) the term of operation of a foreign-invested financial leasing company in the form of a limited liability company normally shall not exceed 30 years; and (iii) it shall be staffed by appropriate professionals and its senior management personnel shall possess the appropriate professional qualifications and not less than three years experience in the business.

Under the Measures, foreign-invested financial leasing companies may conduct the following businesses: (i) financial leasing business; (ii) leasing business; (iii) purchase of leased property inside and outside China; (iv) maintenance of assets underlying the leases and disposal of the residual value of assets underlying the leases; (v) lease transaction consultancy and security services; and (vi) other businesses approved by MOFCOM. “**Financial leasing business**” is defined as the business in which lessor based on a lessee's selections with respect of the seller and the leased object, agrees to purchase the assets underlying the leases from a seller, makes the leased object available to the lessee for use and collects rental from the lessee.

Foreign-invested financial leasing companies may carry out financial leasing business by means such as direct leasing, sub-leasing, sale-leaseback, leveraged leasing, entrusted leasing and joint leasing. The leased objects allowed include (i) movable properties such as manufacturing equipment, telecommunication equipment, medical equipment, scientific and research equipment, inspection and testing equipment, engineering and machinery equipment and office equipment; (ii) transportation equipment, such as airplanes, automobiles and ships; and (iii) intangible asset such as software and technology that are attached to the moveable properties and transportation equipment mentioned above provided that the value of such attached intangible assets shall not exceed half value of the movable properties or transportation equipment they are attached to.

The Measures require that the risky assets of a foreign-invested financial leasing company, which are determined by the total amount of residual assets after deducting cash, bank deposits, PRC treasury securities and entrusted leased assets from the total assets of the enterprise, shall generally not exceed ten times the company's net assets as of the end of each financial year. The Measures further enquire that foreign-invested financial leasing companies shall submit a report on their business operations and an audited financial statements of the past year to MOFCOM for filing purposes before 31 March of each year. In addition, if the leased property to be imported by a foreign-invested financial leasing company based on the selection of the lessee is subject to special policy administrations such as quota or licensing, the lessee or the financial leasing company shall carry out application procedures in accordance with the relevant provisions.

APPLICABLE LAWS AND REGULATIONS

To establish a foreign-invested financial leasing company, the investor shall submit all application materials to MOFCOM's provincial branch at the place where the company will be located. MOFCOM's provincial branch shall, after preliminary examination of the submitted application materials, submit the application materials together with a preliminary examination opinion to MOFCOM within 15 working days from the date on which it receives all application materials. MOFCOM shall make a decision with respect to whether or not it shall grant an approval within 45 working days from the date on which it receives all application materials. If it decides to grant an approval, it shall issue the foreign investment enterprise approval certificate; if it decides not to grant an approval, it shall explain in written form. Pursuant to the Decision of the State Council of PRC on the Fifth Batch of Administrative Examination and Approval Matters to be Cancelled or Delegated to Subordinate Authorities promulgated and effected on 4 July 2010, the approval process for the establishment or modification of foreign-invested enterprises engaged in financial leasing business with a total investment amount of US\$300 million or less can be approved by provincial-level governmental authorities without the need to submit the application to national level authorities.

Announcement of State Administration of Taxation, No. 13 in 2010 “Announcement on Tax Issues Concerning Lessee Selling Assets in Financial Sale-leaseback”

On 8 September 2010, the State Administration of Taxation promulgated the Announcement on Tax Issues Concerning Lessee Selling Assets in Financial Sale-leaseback for introducing some preferential tax treatments on the lessees in financial sale-leaseback. Under this announcement, “financial sale-leaseback” is defined as the business in which a lessee for the purpose of financing sell its assets to an enterprise which has been approved to engage in the financial leasing business and then have the sold assets leased back from such enterprise. According to the announcement, the lessee in financial sale-leaseback can enjoy the following preferential tax treatments: (i) no value added tax and business tax shall be imposed on the lessees activities of selling assets in financial sale-leaseback (ii) the lessees activities of selling assets in financial sale-leaseback would not be recognised as sale income and the depreciation of the assets of financial leasing shall still be made by lessees based upon the book value before the sale of the assets. The financing interest paid by the lessee during the financial leasing period shall be deducted as financial costs before making payments of corporate income tax.

PRC VAT reform

The State Administration of Taxation and the Ministry of Finance promulgated the Circular on the Inclusion of the Railway Transport Industry and Postal Service Industry in the Pilot Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2013] No. 106) (hereafter the “Circular”) on 12 December 2013. This Circular has been effective from the date of 1 January 2014 and the former Circular on Tax Policies in the Nationwide Pilot Collection of Value Added Tax in Lieu of Business Tax in the Transportation Industry and Certain Modern Services Industries (Cai Shui [2013] No. 37) has been abolished accordingly.

Appendix 1 to the Circular, Implementing Measures for Pilot Collection of Value-added Tax in Lieu of Business Tax, stipulates that entities and individuals providing services of asset leasing within the territory of the People's Republic of China shall pay PRC VAT at a rate of 17% according to these measures. However, Appendix 2 of the Circular, Provisions on Matters Concerning the Pilot Collection of Value-added Tax in Lieu of Business Tax, also clearly states that with regards to contracts executed, but not yet fully implemented, on the day of the implementation of the pilot policy in the region, the PRC BT shall continue to be paid in accordance with existing business tax

APPLICABLE LAWS AND REGULATIONS

policies before the expiry date of the contract. In addition, under Appendix 3: Provisions on the Transit Policies for the Pilot Collection of Value-added Tax in lieu of Business Tax, where general taxpayers among the pilot taxpayers approved by the People's Bank of China, China Banking Regulatory Commission, and Ministry of Commerce to engage in financial leasing services further provide asset finance leasing services, the actual PRC VAT part of whichever rate is more than 3% shall be immediately refunded upon collection.

The respective output PRC VAT will be charged to and collected from the lessees, and such as the Pilot Collection of Value Added Tax in Lieu of Business Tax rules mentioned above will not have significant impact to the financial performance of us.

The PRC Contract Law

The National People's Congress promulgated the PRC Contract Law on 15 March 1999 for regulating the civil contractual relationship among natural persons, legal persons and other organisations. Chapter 14 of the PRC Contract Law sets mandatory rules about financial leasing contracts.

Under the PRC Contract Law, the financial leasing contracts shall be in written form at and shall include terms such as the name, quantity, specifications, technical performance and inspection method of the leased object, the lease term, the composition, payment term, payment method and currency of the rent and the ownership of the leased object upon expiration of the lease.

Under the financial leasing contracts, the lessor shall conclude a purchase contract based on the lessees selections in respect of the seller and the leased property, and the seller shall deliver the lease property to the lessee as agreed. The lessee has the rights of a buyer when taking delivery of the leased property. Without the consent of the lessee, the lessor may not modify relevant particulars related to the lessee of the purchase contract which has been concluded based on the lessee's selections in respect of the seller and the leased property.

In respect of the usage and maintenance of the leased property, the lessee shall take due care of the leased property and use it properly. The obligation to maintain and repair the leased object while in the possession of the lessee shall be performed by the lessee. The lessor is not liable for injury to the body or damage to the property of a third party caused by the leased property while in the possession of the lessee. However, the ownership of the leased property vests in the lessor. If the lessee becomes bankrupt, the leased property does not become part of the property available for distribution in the bankruptcy. If the leased property fails to meet the requirements stipulated by the parties or is not fit for the purpose for which it is to be used, the lessor shall not be liable, unless the lessee selected the leased property in reliance on the technical ability of the lessor or the lessor interfered in the selection of the leased property.

The lessor and the lessee may stipulate in which party ownership of the leased property shall vest upon expiration of the lease. If they have not stipulated in which party ownership shall vest upon expiration, If such stipulation is not clear, or if ownership cannot be determined in accordance with the PRC Contract Law, the ownership of the leased object shall vest in the lessor. If the parties have stipulated that ownership of the leased property shall vest upon the lessee upon expiration of the lease, and the lessee has already paid most of the rent but is unable to pay the balance, and if the lessor terminates the contract and repossesses the leased property on those grounds, the lessee may demand a partial refund if the value of the leased property repossessed exceeds the rent and any other expenses owed by the lessee.

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The PRC Contract Law includes a general mandate that the interest rate charged to a customer under a financial leasing contract shall take into account the purchase cost of the property or asset underlying a lease contract and should allow for a reasonable profit margin for the lessor, except as otherwise agreed upon by the contracting parties.

Enterprise Accounting Codes No. 21 Leasing

The Ministry of Finance promulgated the Enterprise Accounting Codes No. 21 Leasing (the “Codes”) on 15 February 2006 to regulate the accounting and information disclosure about financial leasing and operating leasing.

Under the Codes, leasing means an agreement to transfer the use rights of an asset to another party for a specified period in return for a rental payment. These Codes do not apply to the leasing of land-use rights or buildings through operating lease or the licensing of films, video tapes, scripts, writings, patents and copyrights, and the impairment losses of long-term credits formed by the financial leasing of a lessor.

In respect to financial leasing, the Codes require the lessor and the lessee to classify the leasing as financial leasing or as operating leasing at the commencement of the lease. The Codes also set out factors to be considered in such classification. The accounting treatment of financial leasing and operating leasing to be applied to the lessor and the lessee are specified in separate sets of detailed provisions in the Codes. The lessor and the lessee are also required to comply with several disclosure requirements in respect of their lease transaction on the notes of their balance sheet. In addition, they are required to disclose each sale-leaseback transaction as well as the important provisions of these sale-leaseback contracts.

Circular of the General Office of the State Council on Strengthening the Management of Imported Civil Aircrafts (Guo Ban Fa [1997] No. 17)

According to this circular, the batch and procurement plan for large volume of aircraft imports should be prepared by the Civil Aviation Administration of China in conjunction with relevant departments and, after being examined, be reported to the State Council for approval. If the volume of aircraft imports is small or any civil aviation company in the preparation stage intends to import aircraft, the plan should be examined by the Civil Aviation Administration of China and then reported the State Planning Commission (which has been renamed as the National Development and Reform Commission) for approval. For short term operation of leasing aircraft (including less than one year, inclusive of one year), leasing aircraft on a trial basis, small aircraft given as gifts, and importing utility aircraft and light aircraft, the plan should be examined and approved by the Civil Aviation Administration of China with strict control and then reported to the State Planning Commission for filing purposes. Entities not engaged in civil aviation transportation businesses should not be allowed to import aircraft.

The Regulations

The State Council promulgated the Regulations on 10 December 2001 for the purpose of standardising the administration over the import and export of goods, maintaining the order of import and export of goods and promoting the healthy development of foreign trade.

APPLICABLE LAWS AND REGULATIONS

Under the Regulations, a licence shall be issued to the import of goods subject to the automatic import licensing administration. When importing goods under automatic import licence administration, the import business operators shall, prior to handling the formalities of customs declaration, file an application with the Foreign Trade Department under the State Council or relevant economic administrative departments under the State Council for obtaining the automatic import licence. According to the latest *2013 Catalogue of Goods Subject to the Automatic Import Licensing Administration*, aircraft is categorised as goods subject to automatic import licensing administration.

The Licensing Measures

MOFCOM and General Administration of Customs promulgated the *Licensing Measures* on 10 November 2004 to effectively regulate the foreign trade operators and other entities undertaking the import of goods.

Under the Licensing Measures, a consignee (including the importer and user) shall, when importing the goods subject to the automatic import licence administration, submit an application for automatic import licence to the local or corresponding licence issuing organ and obtain an "Automatic Import Licence" before it makes customs declaration. The customs shall handle the inspection and release formalities on the strength of automatic import licences affixed with the special seals of automatic import licence. The bank shall handle the formalities on selling and paying foreign exchanges on the strength of automatic import licences.

Notice of Ministry of Finance and State Administration of Taxation on Some Issues about Policies on Business Tax (Cai Shui [2003] No. 16)

The Ministry of Finance and the State Administration of Taxation jointly promulgated the *Notice of Ministry of Finance and State Administration of Taxation on Some Issues about Policies on Business Tax* on 15 January 2003. According to this notice, if an entity is approved by the PBOC, the Ministry of Foreign Trade and Economic Cooperation and the State Economic and Trade Commission to conduct financial leasing business, its turnover in the financial leasing business shall be calculated as the total price and off-price fees received from the lessee (including the residual value) after deducting the actual cost of leasing goods borne by the lessor. Such actual cost of leasing goods shall include the purchase price, customs duty, value added tax, consumption tax, transportation cost, installation cost, insurance premium and interest on loans (including interest on foreign currency and RMB-denominated loans) borne by the lessor.

Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business (Guo Shui Han [2000] No. 514) and Supplemental Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business (Guo Shui Han [2000] No. 909)

The State Administration of Taxation promulgated the *Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* on 7 July 2000. According to this notice, the financial leasing business conducted by entities approved by the PBOC shall be levied business tax according to the *Provisional Regulations on Business Tax* and no value added tax shall be levied, regardless of whether or not the ownership of the leased goods has been transferred to the lessee. For the same business conducted by other entities, value added tax rather than business tax shall be levied if the ownership of the leasing goods has been transferred to the lessee; while business tax rather than value added tax shall be levied if the ownership of the leasing goods has not been

APPLICABLE LAWS AND REGULATIONS

transferred to the lessee. The State Administration of Taxation promulgated the *Supplemental Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* on 15 November 2000. According to this notice, *the Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* shall be applicable to the financial leasing business conducted by foreign-invested enterprises and foreign enterprises approved by Ministry of Foreign Trade and Economic Cooperation.

Regulatory agencies

MOFCOM is the principal regulatory authority responsible for the supervision and regulation of foreign-invested financial leasing company operating in China. Our Company's financial leasing business in the PRC is subject to the administration of MOFCOM.

MOFCOM is an executive agency of the State Council of the PRC. It is responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements.

IRELAND

The aircraft leasing is not a regulated industry in Ireland. For all Irish companies, including aircraft leasing companies, the principal legislation governing the incorporation of companies in Ireland is the Companies Acts, 1963 to 2013 (the "**Irish Companies Acts**"). The Irish Companies Acts provide for the incorporation and regulation of companies incorporated under the Irish Companies Acts.

The following principles are relevant to aircraft leasing companies in Ireland:–

- basic principles of Irish corporate law;
- Irish tax and stamp duty;
- Irish law insolvency procedures; and
- other Irish law issues.

Basic principles of Irish corporate law

Corporate structure

Each Irish subsidiary of our Group is established as a private limited liability company. A private limited liability company is a company which by its constitutional documents (known as its memorandum and articles of association) and is bound by the following restrictions:–

- (a) the right to transfer shares is restricted;
- (b) the number of shareholders is limited to 99; and
- (c) any invitation to the public to subscribe for shares or debentures in the company is prohibited.

APPLICABLE LAWS AND REGULATIONS

The primary characteristic of a company which is limited by shares is that the liability of the shareholders to contribute to the company's debts is limited to the amount (if any) which remains unpaid on their shares. Accordingly, therefore, if all of a company's issued shares are fully paid, the shareholders cannot be then held liable personally for the company's debts. There are certain limited circumstances where the Irish courts have indicated that they will disregard the separate corporate identity of a limited liability company and hold a shareholder liable for the actions of the company.

Share capital

There are no minimum share capital requirements for an Irish private limited company, although there must be at least one share in issue, i.e. only one shareholder is required.

The company's memorandum of association (the document outlining the company's business objects) must set out the total amount of the company's authorised share capital, i.e. the amount of share capital with which the company proposes to be registered and the division of this capital into shares of a designated amount. The authorised capital is the aggregate par value of the shares that a company has authority to issue to its members. The company may not issue shares greater than this authorised capital.

The authorised share capital can be denominated in any currency and can be as large or small as the company desires depending on how many shareholders are proposed. The shares' nominal value often bears little relationship to their actual worth.

Constitutional documents of an Irish company

An Irish company has two main constitutional documents, the memorandum of association and the articles of association, both of which must be submitted with the incorporation documents.

- (a) The memorandum of association sets out the purposes for which the company is being established and the parameters and boundaries of its corporate activity. The principal objects for which the company was formed are set out in the memorandum of association and the company is not empowered to do anything which is not in furtherance of its principal objects as stated in the memorandum of association.
- (b) The articles of association are the publicly registered rules of a company which govern its internal regulations. The articles establish how the business of the company will be carried on and deal with such matters, for example, as the directors' power to allot shares, the transfer of shares, the convening and holding of general meetings and shareholder regulation, appointment and remuneration of directors, the powers and duties of directors, proceedings of directors, dividends and notices.

APPLICABLE LAWS AND REGULATIONS

In addition, any Irish company will have a certificate of incorporation, which confirms the date on which the company was incorporated.

Irish tax and stamp duty

Ireland currently offers the following advantages to the aircraft leasing industry:–

- 12.5% corporation tax rate on trading income;
- extensive network of double taxation agreements;
- no withholding tax on lease rentals;
- a number of broad exemptions from withholding tax on interest. The main conditions that must be satisfied in order to qualify for the interest exemptions under current Irish tax legislation are as follows:–
 - (i) where interest is paid by an Irish company to persons resident in any member state of the European Union or any country with which Ireland has a double taxation treaty, and which imposes a tax that generally applies to interest receivable in that country by companies from sources outside that country; and the interest are not paid to the receiving company in connection with a trade or business carried on by it in Ireland through a branch or agency; or
 - (ii) where interest is paid on securities which are listed on a recognised stock exchange.
- no Irish Value Added Tax on lease rentals in most cross-border aircraft financing transactions;
- no stamp duty payable on instruments for the sale or transfer of aircraft or any interest therein; in addition no stamp duty is payable in respect of a lease. Security agreements which may be entered into in connection with a lease transaction is not subject to Irish stamp duty regardless of the location of the aircraft.

Irish law insolvency procedures

Liquidation

Liquidation is the statutory process by which an Irish company is dissolved. There are three methods of winding up a company by way of liquidation:–

- members voluntary winding up;
- creditors voluntary winding up; and
- compulsory court winding up.

Members' or creditors' voluntary winding up

In a members voluntary winding up and a creditors voluntary winding up the process is initiated by the directors and shareholders of the company. However, in order to initiate a members voluntary winding up the company must be solvent which means that it must be able to pay its debts in full within one year of the commencement of the winding up.

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Compulsory court winding up

A compulsory court winding up will arise where the High Court is petitioned by a creditor, contributor or the company itself to have the company compulsorily wound up. Where the court is of the view that the company should be wound up it will issue such an order and appoint a liquidator for the purposes of effecting the winding up and realising the assets. Under a compulsory court winding up the liquidator's powers are subject to the control of the court.

The role and function of a liquidator in both a voluntary and court winding up, is to realise or liquidate the assets of a company with a view to satisfying in whole or in part all creditors' claims and wind up the company. Following the accumulation of all the assets of the company in a winding up, the liquidator has a duty to ensure distribution of the assets of the company to its creditors. The order of payment is as follows:–

- (a) secured creditors pursuant to a fixed charge;
- (b) the liquidator's expenses of the winding up;
- (c) preferential creditors to include taxation/revenue payments and social payments due to employees;
- (d) secured creditors pursuant to a floating charge;
- (e) unsecured creditors;
- (f) subordinated creditors; and
- (g) shareholders.

In collecting in the assets of the insolvent company, the liquidator may invoke certain statutory provisions to have transactions entered into by the company set aside. Such provisions are broadly similar to those under English law and include:–

- the right to set aside contracts and other arrangements (including guarantees and security documents) where the effect of such arrangements is to prefer one creditor over the others. This right may only be exercised where the company is wound-up within six months of entering into the arrangements. This period is extended to two years for certain connected parties;
- the right to have arrangements entered into by the company set aside where they constitute a fraud on the company, its creditors or members. There are no time limits for the exercise of this power;
- the right to disclaim onerous property including unprofitable contracts. This right must be exercised within 12 months of the commencement of the liquidation proceedings or, if later, the date on which the liquidator becomes aware of the property; and
- the right to have a floating charge set aside if entered into within the 12 month period prior to the commencement of the liquidation if the company was insolvent at the time. Any invalidity of the charge will not extend to secured obligations which were advanced or paid on or after the charge.

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Examinership

Examinership is a bankruptcy process whose sole objective is to facilitate the survival of a company and the whole or any part of its undertaking through the appointment of an examiner and the formulation by the examiner of proposals for a compromise or scheme of arrangement. The process is similar to that of Chapter 11 in the United States. The examination process provides for an automatic stay or temporary relief from the claims of creditors including secured creditors. The examination process is a Court process rather than a voluntary process. It is initiated by a petition on the application of the company, the directors of the company, a creditor of the company or members of the company not having less than 1/10th of the paid up capital of the company having voting rights. In presenting the petition, it is necessary to show that the company is or is likely to be unable to pay its debts, no order has been made for the winding up of the company, and no resolution of the company has been passed to wind up the company.

The court will only make an order appointing an examiner if it is satisfied that there is a reasonable prospect of the survival of the company and the whole or any part of its undertaken as a growing concern. The petition to the High Court must be accompanied by a report on the company prepared by an independent accountant (the accountant can be either the auditor of the company or a person who is qualified to be appointed as an examiner of the company). The report must contain an opinion of the independent accountant as to the prospects for survival of the company and (if applicable) how its affairs can be restructured to ensure its survival.

When the court has appointed an examiner the company will be protected by the court for an initial period of 70 days. This may be extended by a further 30 days to facilitate the preparation of proposals for a compromise or scheme of arrangements by the examiner, and the period may be further extended if any proposed scheme were the subject of an appeal to the Irish Supreme Court. During this protection period no proceedings may be commenced against the company, no execution may be made against the company's assets and no secured creditor may enforce its rights under its security (any exercise of rights of set-off is permitted).

Other Irish law issues

Duties of directors

The duties of directors of an Irish company originate from case law, legislation and related rules and codes. Some of the principal duties of directors include:–

- To ensure that the company complies with the Irish Companies Acts;
- To act in good faith and honestly towards the company;
- To attend board meetings with reasonable regularity;
- To exercise such skill and care as could reasonably be expected of the director given his experience and the circumstances;
- To act in what the director genuinely and reasonably believes to be in the best interests of the company;

APPLICABLE LAWS AND REGULATIONS

- To avoid conflict with personal interests and to disclose any personal interest in any contract with the company and any shareholding hold in the company;
- To maintain proper books of accounts; and
- To account to the company for any profits arising out of the position as director.

Cape Town Convention

Ireland has ratified the Cape Town Convention on Interests in Mobile Equipment and Aviation Protocol (the “**Convention**”) and its terms have the force of law before the Irish courts. Accordingly, any security agreement constituting an international interest within the meaning of the Convention which has been created by an Irish mortgagor or created in respect of an Irish registered aircraft can be registered in the International Registry.

LABUAN, MALAYSIA

The main legislation, regulations and orders in force in Malaysia relevant to Labuan companies are: Labuan Companies Act 1990, Labuan Financial Services Authority Act 1996, Labuan Business Activity Tax Act 1990 and Labuan Financial Services and Securities Act 2010.

Under the Labuan Companies Act 1990, a Labuan company may be incorporated for any lawful purpose and subject to any other written laws on financial services applicable to Labuan, shall carry out business only in, from or through Labuan. Generally, where a Labuan company carries on a business with a Malaysian resident, the Labuan company shall notify the Labuan Financial Services Authority (the “**Labuan FSA**”) of any transactions between the Labuan company and the resident within ten working days of such transactions. However, a Labuan company is not required to notify the Labuan Financial Services Authority of transactions between the Labuan company and the Malaysian resident where the Labuan company acquires or holds any lease of any property for the purposes of its operation.

Basic principles of Labuan corporate law

Corporate structure

Each Labuan subsidiary of our Group is established as a company limited by shares. A company limited by shares means a company formed on the principle of having the liability of its members limited by its memorandum to the amount, if any, unpaid on the shares respectively held by them. Subject to the Labuan Companies Act 1990 and any written law in Labuan on financial services, a Labuan company shall have full capacity, rights, powers and privileges to carry on or undertake any business or activity, do any act, or enter into any transaction. The memorandum and articles of association of a Labuan company may contain a provision relating to the limited capacity, rights, powers or privileges of the company.

APPLICABLE LAWS AND REGULATIONS

No act or purported act of a Labuan company (including the entering into of an agreement by the company and including any act done on behalf of the company by an officer or agent of the company under any purported activity, whether express or implied, of the company) and no conveyance or transfer of property, whether real or personal, to or by a Labuan company shall be invalid by reason only of the fact that the company was without capacity or power to do the act or to execute or to take the conveyance or transfer. Notwithstanding this, any such lack of capacity or power may be asserted or relied upon only in:–

- (a) any proceedings against the Labuan company by any member of the company or, where the company has issued debentures secured by a floating charge over all or any of the company's property, by the holder of any of those debentures, or by a Labuan trust company acting as a trustee for the holders of any of those debentures, to restrain the doing of any act or the conveyance or transfer of any property to or by the company;
- (b) any proceedings by the company or by any member of the company against the present or former officers of the company; or
- (c) any petition by the Minister responsible for finance to wind up the company.

Corporate documents of a Labuan company

A Labuan company has two main corporate documents, the memorandum of association and the articles of association, both of which must be submitted with the incorporation documents.

- (a) The memorandum of association shall state the name of company, the objects of the company, the amount and the denomination of the currencies of the share capital with which it is proposed to be registered, the full name and address of each subscriber and that the subscriber(s) to the memorandum of association are desirous of being formed into a Labuan company in pursuance of the memorandum of association and respectively agree to take the number of shares in the capital of the company set out opposite their respective names.
- (b) The articles of association governs the company's internal regulations, for example, on share capital and variation of rights, transfer and transmission of shares, meeting of members, powers of directors and its proceedings, dividends and reserves, capitalisation of profits and notices.

Share capital

There is no minimum share capital requirements for a Labuan company limited by shares although there must be at least one share in issue i.e. only one shareholder is required. A Labuan company also has the power:–

- (a) to issue shares which may be divided into one or more classes, with such designations, preferences, limitations and relative rights as shall be stated or provided for in the articles, and all prices and values given in respect of the shares must be expressed in a currency other than Ringgit Malaysia; and

APPLICABLE LAWS AND REGULATIONS

- (b) subject to its articles of association, to issue fractions of its shares, and such fractional shares must have the corresponding fractional liabilities, limitations, preferences, privileges, qualifications, restrictions, rights and other attributes of a whole share of the same class or series of shares.

Notwithstanding the above, the articles of association may limit or deny voting rights of, or provide special voting rights for, the shares of any class or the shares within any class to any extent not inconsistent with the provisions of the Labuan Companies Act 1990 or the regulations.

HISTORY, DEVELOPMENT, AND REORGANISATION

BUSINESS DEVELOPMENT

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 CALC (BVI).
August 2007	Establishment of an offshore structure for China aircraft leasing business.
September 2007	Structured and completed our first aircraft sale and leaseback transaction with <i>China Southern Airlines</i> 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 <i>Chengdu Airlines</i> .
December 2010	CALC (Tianjin) was established as a wholly-foreign owned aircraft leasing company in <i>Tianjin Dongjiang Free Trade Zone</i> , the PRC.
January 2011	Our fleet size reached eight aircraft.
May 2011	CE Aerospace purchased 14,400,000 CALH Shares from FPAM, representing 48.0% of the then shares in issue of CALH, for a total purchase price of US\$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 <i>Shandong Airlines</i> for the delivery of a new B737-800 aircraft through our wholly-owned subsidiaries established in <i>Tianjin Dongjiang Free Trade Zone</i> .
January 2012	Our fleet size reached 10 aircraft.
April 2012	Structured and completed our first sale and leaseback transaction with <i>Air China</i> for the delivery of a new A330-200 widebody aircraft.

HISTORY, DEVELOPMENT, AND REORGANISATION

Month/Year	Development milestones
May 2012	Easy Smart subscribed for 26,280,000 new CALH Shares, 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 purchased 9,000,000 CALH Shares from FPAM, representing 2.38% of the then CALH Shares, for a total purchase price of HK\$54,000,000.
October 2012	Entered into the Aircraft Purchase Agreement 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 <i>Shenzhen Airlines</i> for the delivery of a new Airbus A320-214 aircraft.
May 2013	Structured and completed our first transaction with <i>China Eastern Airlines</i> , which involve 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 <i>China Eastern Airlines</i> to be delivered in 2014 under direct aircraft purchase and lease transaction structure. One aircraft was delivered in May 2014.
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.
Latest Practicable Date	Our fleet size reached 32 aircraft.

CORPORATE DEVELOPMENT

Our Company has a number of direct and indirect subsidiaries incorporated or established in the BVI, the Cayman Islands, Hong Kong, the PRC, Ireland, Labuan and the Netherlands. Further information of our major operating subsidiaries and their respective corporate history is set forth below. We underwent certain Reorganisation steps for the purpose of the Global Offering, further information of which is set forth in the paragraphs under “Reorganisation” below.

HISTORY, DEVELOPMENT, AND REORGANISATION

Our Company

Our Company was incorporated in the Cayman Islands as an investment holding company, further information on changes in its shareholding is set forth in the paragraphs under “A. Further information about our Group – 2. Changes in share capital of our Company” in Appendix IV to this prospectus.

Our principal operating subsidiaries

CALC (BVI)

CALC (BVI) is a major operating subsidiary of our Group and is authorised to issue a maximum of 30,000,000 shares of a single class each with a par value of US\$1.0. On 1 April 2006, one share of a par value of US\$1.0 was allotted and issued to Mr. POON at the subscription price of US\$1.0. Mr. POON used his savings and profit from other investments to finance the establishment of our business. On 1 May 2007, Mr. POON transferred his one share in CALC (BVI) to Alpha Pacific Investment Management Inc. (currently known as FPAM), a company incorporated in the BVI and owned as to 0.000001% by Ms. NG and 99.999999% by Capella, for the consideration of US\$1.0. On the same day, 29,999,999 shares were allotted and issued to Alpha Pacific Investment Management Inc (currently known as FPAM) at par. After the above transfer and allotment, CALC (BVI) was wholly-owned by Alpha Pacific Investment Management Inc (currently known as FPAM).

On 28 March 2008, Alpha Pacific Investment Management Inc. (currently known as FPAM) transferred its 30,000,000 shares in CALC (BVI) to China Aircraft Leasing Group Company Limited (currently known as China Group Finance Limited), a company incorporated in the BVI and owned as to 90% by FPAM and 10% by China Huatai Holdings Ltd, a company incorporated in the BVI, at the consideration of US\$30,000,000. Saved as the aforementioned shareholdings, China Huatai Holdings Ltd. is an Independent Third Party to our Group.

On 31 December 2010, China Aircraft Leasing Group Company Limited (currently known as China Group Finance Limited) transferred its 30,000,000 shares in CALC (BVI) to CALH for the consideration of US\$30,000,000. Such transfer was properly and legally completed and settled. We have obtained the necessary approvals from the relevant authorities for such transfer. On 15 June 2012, the authorised share capital of CALC (BVI) was increased to 100,000,000 shares of a single class each with a par value of US\$1.0. On the same day, 20,000,000 shares were allotted and issued to CALH at par. Since then, CALH was the sole shareholder of CALC (BVI) holding 50,000,000 shares, representing the then entire issued shares of CALC (BVI).

On 31 August 2012, 10,000,000 shares of CALC (BVI) with a par value of US\$1.0 each was issued to CALH. On 13 November 2012, 20,000,000 shares with a par value of US\$1.0 each was further issued to CALH. Since then, CALH held a total of 80,000,000 shares of CALC (BVI). On 21 December 2012 and 29 April 2013, as part of the Reorganisation, CALH transferred 30,000,000 shares of CALC (BVI) and 50,000,000 shares of CALC (BVI), together being the then entire issued share capital of CALC (BVI), to our Company, respectively. Following completion of such transfer, the entire issued share capital of CALC (BVI) was wholly and beneficially owned by our Company.

On 30 April 2013, 10,000,000 shares of CALC (BVI) with a par value of US\$1 each was allotted and issued to our Company for the consideration of HK\$78,000,000. 1,488,500 shares of CALC (BVI) with a par value of US\$1.0 each was further allotted and issued to our Company on 23 July 2013.

Currently, CALC (BVI) is an investment holding company and a wholly-owned subsidiary of our Company. It is also engaged in PDP financing and has provided corporate guarantee in favour of various banks in connection to the facilities granted to the companies within our Group.

HISTORY, DEVELOPMENT, AND REORGANISATION

As of the Latest Practicable Date, CALC (BVI) has 118 wholly-owned subsidiaries and two non wholly-owned subsidiaries incorporated or established in the BVI, the Cayman Islands, Hong Kong, the PRC, Ireland, Labuan, and the Netherlands. There are 30 subsidiaries operated as SPCs for aircraft financing and leasing businesses as of the date of this prospectus.

CALL

The entire issued share capital of CALL is owned by CALC (BVI). Currently, CALL is principally engaged in investment holding.

CALC (Tianjin)

The entire issued share capital of CALC (Tianjin) is owned by CALL, which is ultimately held by our Company. Currently, CALC (Tianjin) is principally engaged in investment holding. There are 53 wholly-owned subsidiaries established in the PRC directly held by CALC (Tianjin).

SPCs

In line with the industry practice of the aircraft leasing industry, SPCs are used by us as the registered owners of our aircraft. In most cases, shares of the SPCs are pledged as collaterals for the aircraft acquisition financing. Since its incorporation, CALC (BVI) has established 120 wholly-owned and non-wholly owned subsidiaries, 30 of which are operated as SPCs.

We primarily use the SPCs for owning and leasing aircraft and 30 of these SPCs have entered into an operating aircraft lease agreements with our airline customers. Each SPC is managed separately and usually corresponds to one aircraft leasing contract. As a result, the assets of each of the SPCs are insulated from all others' and the other assets of our Group.

Our PRC legal advisers confirm that the transfer of equity interest in our subsidiaries in China would not constitute a round-trip investment under the "Notice on Issues Relating to the Administration of Foreign Exchange in Fund Raising and Return Investment Activities of Domestic Residents Conducted through Offshore Special Purpose Vehicles".

Further information on these 120 subsidiaries of our Company is set forth in the paragraphs under "Notes to Financial Information – General Information, reorganisation and basis of presentation" in the Accountant's Report in Appendix I to this prospectus.

Entity disposed of by us during the Track Record Period

During the Track Record Period, we disposed of one subsidiary, China Aircraft Leasing (HK) Company Limited ("**CALHK**") (currently known as China Financial (HK) Company Limited). CALHK is a company incorporated in Hong Kong on 12 April 2006 and up to the date of disposal, the entire shareholding of which was beneficially owned by CALC (BVI). On 31 March 2011, we disposed of all issued shares in CALHK to Friedmann Pacific Asset Management (Hong Kong) Limited, a subsidiary of FPAM.

Our Directors confirm that that the disposal of issued shares of CALHK was principally due to the fact that most of our business activities were conducted through SPCs incorporated in offshore jurisdictions and China. Hence, CALHK was not used for engaging aircraft leasing business. On this basis, our Directors do not consider it appropriate to include CALHK as one of the members of our Group. Our Directors further confirm that CALHK is not subject to any material claims, proceedings, litigations or non-compliances prior to the date of disposal.

HISTORY, DEVELOPMENT, AND REORGANISATION

INVESTMENT BY CE AEROSPACE

CE Aerospace is one of our Controlling Shareholders. Pursuant to the CE Aerospace Agreement, CE Aerospace purchased from FPAM the CE Shares at the price of US\$17,292,000, which was paid by CE Aerospace to FPAM on 30 June 2011. Out of the amount of the purchase price, an amount of HK\$108,333,333 was transferred by FPAM on the same day to CALH by way of a shareholder's loan (the "**FPAM Loan**"). The sale and purchase under the CE Aerospace Agreement completed on the CE Completion Date. The CE Shares were transferred from FPAM to CE Aerospace on the CE Completion Date. The average cost of the CE Shares on a fully diluted basis is HK\$0.94 per CALH Share, representing 85.9% discount to the Offer Price based on the mid-point of the indicative range of the Offer Price of HK\$6.68.

In connection with the CE Aerospace Agreement, FPAM, CE Aerospace and CALH entered into a shareholders' loan agreement on 30 June 2011 for the provision of the FPAM Loan and HK\$100,000,000 by CE Aerospace (the "**CE Aerospace Loan**"), respectively, to CALH for a term of one year from 30 June 2011. CALH used the shareholders' loans for the general working capital of our Group. The shareholders' loans are interest free so long as FPAM and CE Aerospace are the shareholders of CALH. If there is any other investor invested in CALH, the balance of such shareholders' loans will be subject to the prime rate or one-year Hong Kong Interbank Offered Rate (HIBOR) plus a fixed percentage to be discussed between CE Aerospace and FPAM. On 31 May 2012 and 31 October 2012, the FPAM Loan and the CE Aerospace Loan were converted into 49,242,424 CALH Shares and 45,454,546 CALH Shares, respectively. Following such conversion, FPAM and CE Aerospace became interested in 45.72% and 44.13% of the then CALH Shares in issue before Reorganisation.

On 30 June 2011, the CALH Shareholders' Agreement was entered into among FPAM, CE Aerospace, and CALH in relation to certain corporate governance matters of CALH, including, inter alia, financing, intellectual property, non-competition, transfer restrictions and the management of CALH. The CALH Shareholders' Agreement contains various rights such as pre-emption rights, board nomination rights, information and inspection rights and certain reserved matters which require the prior written approval of FPAM. These rights will expire automatically upon the occurrence of a qualified initial public offering with the termination of the CALH Shareholders' Agreement. The CALH Shareholders' Agreement was terminated on the Reorganisation Date by Prosper Victory, Easy Smart, FPAM and CE Aerospace.

Pursuant to the CE Aerospace Agreement, FPAM has granted the CE Investment Option to CE Aerospace whereby CE Aerospace would be entitled to request FPAM to transfer 9,000,000 Shares of CALH (as adjusted following a share subdivision implemented by CALH on 7 October 2011) at any time following submission of an application for Listing unless it is otherwise restricted by the Listing Rules. The transfer price has been agreed to be US\$1.08 million plus an amount of interest accrued thereon at the annual compound rate of 15% from the CE Completion Date to the date of exercise of the CE Investment Option. The CE Investment Option has been cancelled since 28 January 2014. Our Directors confirm, with the advice from our legal advisers as to Hong Kong laws, that the cancellation of the CE Investment Option under the deed of cancellation does not constitute a new agreement among the parties to the CE Aerospace Agreement.

Pursuant to the CE Aerospace Agreement, if the Listing does not take place on or before 31 December 2013, CE Aerospace will be entitled to request FPAM to buy back all the CE Shares (or the Shares held by CE Aerospace following the Reorganisation, as the case may be) for an amount equivalent to the original investment amount plus (a) an amount of investment return based on an annual compound rate of 25% on the original investment amount minus (b) the amount of dividend received by CE Aerospace. This put option was cancelled by CE Aerospace for nil consolidation on the Reorganisation Date.

HISTORY, DEVELOPMENT, AND REORGANISATION

INVESTMENTS BY THE PRE-IPO INVESTORS

Subscription for new CALH Shares by Easy Smart

Pursuant to a subscription agreement (the “**Easy Smart Subscription Agreement**”) dated 31 March 2012 entered into between CALH and China Aerospace, China Aerospace agreed to subscribe for 26,280,000 new CALH Shares via its wholly-owned subsidiary, Easy Smart, (the “**Easy Smart Shares**”), representing 8.05% in the then number of the CALH Shares in issue for the purchase price of HK\$57,816,000 which was paid in full on 23 April 2012 (the “**Consideration Payment Date**”). The subscription was completed on 4 May 2012 and CALH allotted and issued the Easy Smart Shares to Easy Smart on the same day. The amount of investment was negotiated with China Aerospace on an arm’s length basis taking into consideration the then performance and the business prospects of our Group. The proceeds from the subscription of CALH Shares by Easy Smart have been fully utilised by us for aircraft acquisition.

The principal terms and conditions of the Easy Smart Subscription Agreement are as follows:–

Subscriber:	China Aerospace via Easy Smart
Number of shares:	26,280,000 CALH Shares
Consideration:	HK\$57,816,000, determined by the parties after arms’ length negotiations with reference to our business prospects.
Lock-up period:	China Aerospace has agreed and shall procure its affiliates not to dispose of the Easy Smart Shares (in whole or in part) for the period commencing from the Consideration Payment Date for a period of not less than 18 months and upon qualified IPO of CALH, such lock-up shall be extended to the first anniversary date of the listing of CALH.
Put option:	If the Listing does not take place before 31 December 2013, China Aerospace has the right to require CALH to repurchase its shareholding in CALH in whole, for an amount set forth in the Easy Smart Subscription Agreement. This option has been cancelled for nil consideration on the Reorganisation Date.

On 4 May 2012, a deed of adherence to the CALH Shareholders’ Agreement was entered into among Easy Smart, FPAM, CE Aerospace and CALH (the “**Easy Smart Deed of Adherence**”) in relation to the CALH Shares.

In connection with the Easy Smart Subscription Agreement, Easy Smart and CALH entered into a shareholder’s loan agreement on 4 May 2012 for the provision of a shareholder’s loan of HK\$18,250,000 to CALH (the “**Easy Smart Loan**”) for a term of one year from 4 May 2012. Advancement of the loan amount was made on 23 April 2012 and CALH used the sum advanced for the purpose of general working capital of CALH and its subsidiaries. The shareholder’s loan is interest-free so long as Easy Smart remains a shareholder of CALH. On 31 May 2012 and 31 October 2012, the Easy Smart Loan was converted into 8,295,454 CALH Shares. Following such conversion, Easy Smart became interested in 8.05% of the then number of the then CALH Shares in issue.

HISTORY, DEVELOPMENT, AND REORGANISATION

Easy Smart is a wholly-owned subsidiary of China Aerospace which is a non-wholly owned subsidiary of CASC, a State-owned enterprise in the PRC engaged in research, development and commercialisation of space technology and products. Our Directors believe that the investment made by Easy Smart strengthens the working relationship between CASC and us.

The average cost for each Share held by Easy Smart is HK\$2.2, representing 67.1% discount to the Offer Price based on the mid-point of the indicative range of the Offer Price of HK\$6.68 per Share.

Purchase of CALH Shares by Prosper Victory from FPAM

On 6 June 2012, FPAM and Prosper Victory entered into an agreement (the “**Prosper Victory Agreement**”) for the sale and purchase of 9,000,000 CALH Shares beneficially owned by FPAM for the purchase price of HK\$54,000,000. The amount of the purchase price was paid to FPAM in full on 27 June 2012. The amount of consideration was negotiated on an arm’s length basis for the purpose of attracting new investors for our business development. Prosper Victory is wholly-owned by Mr. WONG Kin Ting, an Independent Third Party, but Mr. WONG is also one of the investors of our proposed corporate jet business. The sale and purchase of CALH Shares under the Prosper Victory Agreement was completed on 27 June 2012. We have not received any proceeds in connection with the sale of CALH Shares since the CALH Shares currently held by Prosper Victory were sold by FPAM.

The principal terms and conditions of the Prosper Victory Agreement are as follows:–

Vendor:	FPAM
Purchaser:	Prosper Victory
Number of shares:	9,000,000 CALH Shares
Consideration:	HK\$54,000,000, determined by the parties after arms’ length negotiations with reference to our business prospects.
Conditions:	Completion of the sale and purchase under the Prosper Victory Agreement shall be subject to, among other things, appropriate corporate approvals and shareholders’ consent being obtained and the execution of a deed of adherence to the Shareholders’ Agreement by Prosper Victory.
Call option:	For consideration of HK\$1.00, FPAM granted to Prosper Victory the option (the “ PV Call Option ”) to purchase from FPAM on any business day during the period of 24 months commencing from the first day after the expiry of the lock-up period under which FPAM is prohibited from disposing any part of its Shareholdings upon Listing according the requirements of the Listing Rules (the “ PV Call Option Date ”), all or part of further 2,000,000 Shares (the “ PV Call Option Shares ”) beneficially owned by FPAM (subject to adjustment) for a purchase price of HK\$6.00 per Share (subject to adjustment) (the “ PV Exercise Price ”) multiplied by the number of PV Call Option Shares being sold to Prosper Victory on such PV Call Option Date. The exercise of the PV Call Option would lead to FPAM transferring to Prosper Victory the PV Call Option Shares.

HISTORY, DEVELOPMENT, AND REORGANISATION

The PV Call Option has been cancelled by Prosper Victory for nil consideration on the Reorganisation Date. Our Directors confirm, with the advice from our legal advisers as to Hong Kong laws, that the cancellation of PV Call Option under the deed of cancellation does not constitute a new agreement among the parties to the Prosper Victory Agreement in respect of the acquisition of shares in CALH by Prosper Victory from FPAM.

On 26 June 2012, a deed of adherence to the CALH Shareholders' Agreement was entered into among Prosper Victory, Easy Smart, FPAM, CE Aerospace and CALH (the "**PV Deed of Adherence**").

Before the Reorganisation, Prosper Victory held 2.10% of the number of CALH Shares in issue.

Prosper Victory will have an interest of 1.68% of the number of Shares in issue following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme, and any option that may be granted under the Post-IPO Share Option Scheme).

Subscription for the Exchangeable Note by Vandi Investments

The Exchangeable Note Agreement

On 10 April 2013, FPAM and Vandi Investments entered into the Exchangeable Note Agreement, pursuant to which Vandi Investments has agreed to subscribe for the Exchangeable Note in the principal amount of HK\$78.0 million. The Exchangeable Note allows Vandi Investments to request FPAM to exchange for the Exchangeable Shares. The Exchangeable Note was issued on 11 April 2013.

We have not received any proceeds from the subscription of the Exchangeable Note because the Exchangeable Note was issued by FPAM to Vandi Investments. The subscription price of HK\$78.0 million for the Exchangeable Note was paid to FPAM in full on 11 April 2013, of which HK\$72,558,140 were used by FPAM to subscribe for 18,139,535 CALH Shares and the remaining HK\$5,441,860 were advanced to CALH as an secured and interest free shareholder loan repayable on demand. Based on the subscription price of HK\$78.0 million, the subscription price for each Exchangeable Share would be HK\$4.30. The subscription price of HK\$78.0 million was determined by the parties after arm's length negotiations with reference to, among other things, the agreed price-to-earnings ratio and the estimated amount of net profit of our Group for 2013 and the expected growth of our business.

Vandi Investments confirms that the Exchangeable Note held by it will be terminated before Listing. Vandi Investments has indicated that it will exercise the rights under the Exchangeable Note in full within the last two Business Days before the Listing Date. The Exchangeable Shares will represent 3.10% of the number of Shares in issue following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme, and any options that may be granted under the Post-IPO Share Option Scheme).

HISTORY, DEVELOPMENT, AND REORGANISATION

In connection with the issuance of the Exchangeable Note, FPAM entered into a share mortgage in favour of Vandí Investments on 11 April 2013 over 77,269,036 CALH Shares which has been replaced by a mortgage (the “**FPAM Share Mortgage**”) of the same terms over 77,269,036 Shares created on the Reorganisation Date. The FPAM Share Mortgage will be released prior to Listing.

The principal terms of the Exchangeable Note are set forth in the section headed “Controlling Shareholders and Substantial Shareholders” of this prospectus.

Background of Vandí Investments

Vandí Investments, a wholly-owned subsidiary of CCBI Investments Limited, is an indirect wholly-owned subsidiary of China Construction Bank Corporation, a company established in the PRC with its H-shares listed on the Stock Exchange (stock code: 939). Except for the fact that Vandí Investments is a fellow subsidiary of CCBI, one of our Joint Sponsors, Vandí Investments is an Independent Third Party.

The primary objective for Vandí Investments to subscribe for the Exchangeable Note is to enhance our Shareholder base. In particular, China Construction Bank Corporation is a leading commercial bank in China providing a comprehensive range of commercial banking products and services. Prosper Victory will not be subject to any lock-up requirement after the Listing.

Save as disclosed above, there is no other pre-IPO investment arrangement. The Shares held by the Pre-IPO investors will be part of the public float for the purpose of Rule 8.08 of the Listing Rules. Our Company has confirmed that the Exchangeable Note follows the requirements under the HKEx Guidance Letters HKEx-GL43-12 and HKEx-GL44-12 and all the investments made by the Pre-IPO Investors and CE Aerospace comply with the HKEx Guidance Letter HKEx-GL29-12 of 16 January 2012 and HKEx Guidance Letter HKEx-GL43-12 (October 2012) (updated on July 2013).

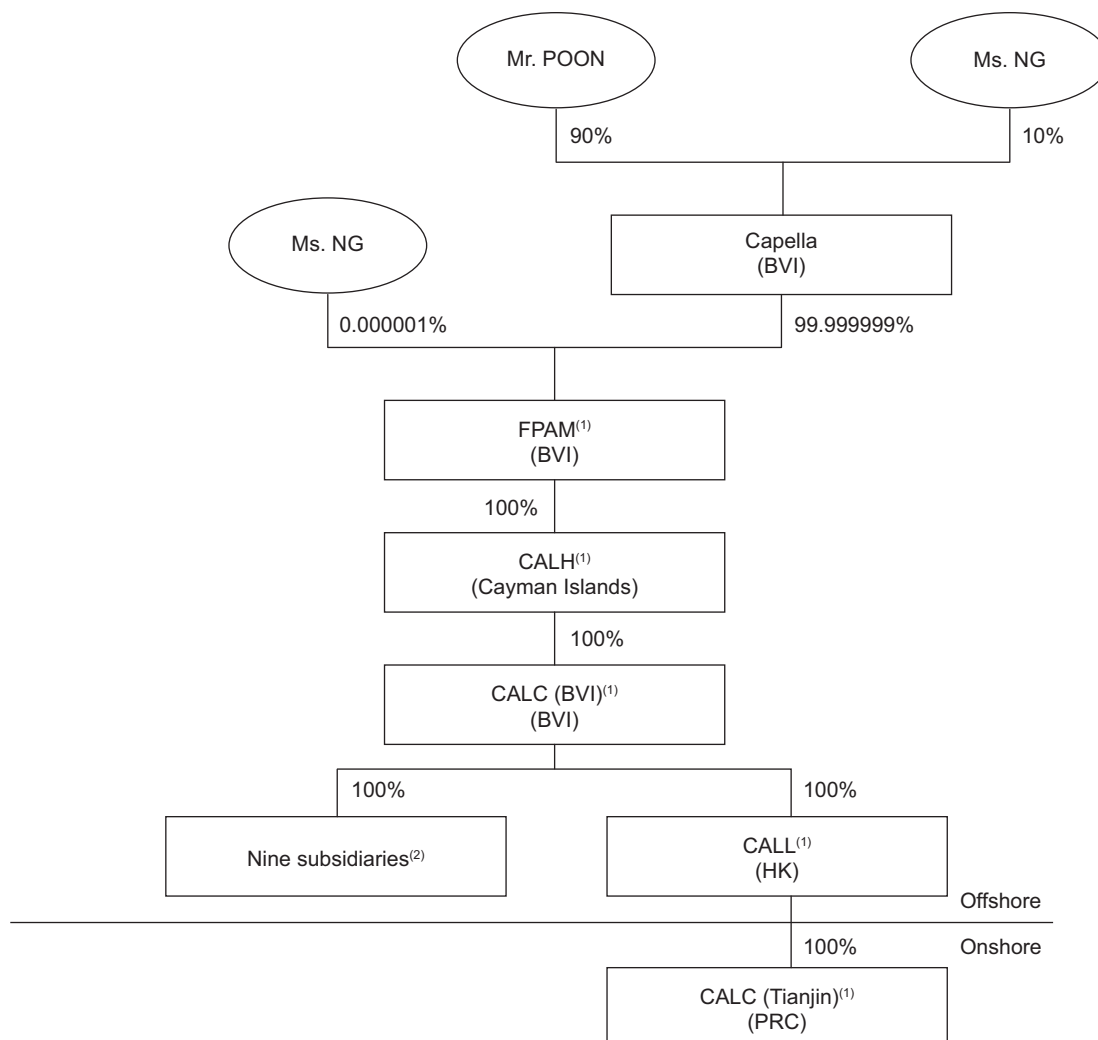
Joint Sponsors’ confirmation

The Joint Sponsors confirm that taking into account (a) the options granted to Prosper Victory and Easy Smart had been terminated before the Listing, and (b) Vandí Investments will exercise the exchange rights attached to the Exchangeable Note before the Listing, the Joint Sponsors consider that the material terms of the investments by the Pre-IPO Investors are of normal commercial terms and that the investments by the Pre-IPO Investors are made in compliance with the Guidance Letters HKEx-GL29-12 and HKEx-GL43-12 issued by the Stock Exchange on pre-IPO investments.

HISTORY, DEVELOPMENT, AND REORGANISATION

REORGANISATION

The following diagram illustrates our shareholding and corporate structure as of 1 January 2011 (being the commencement date of the Track Record Period):–



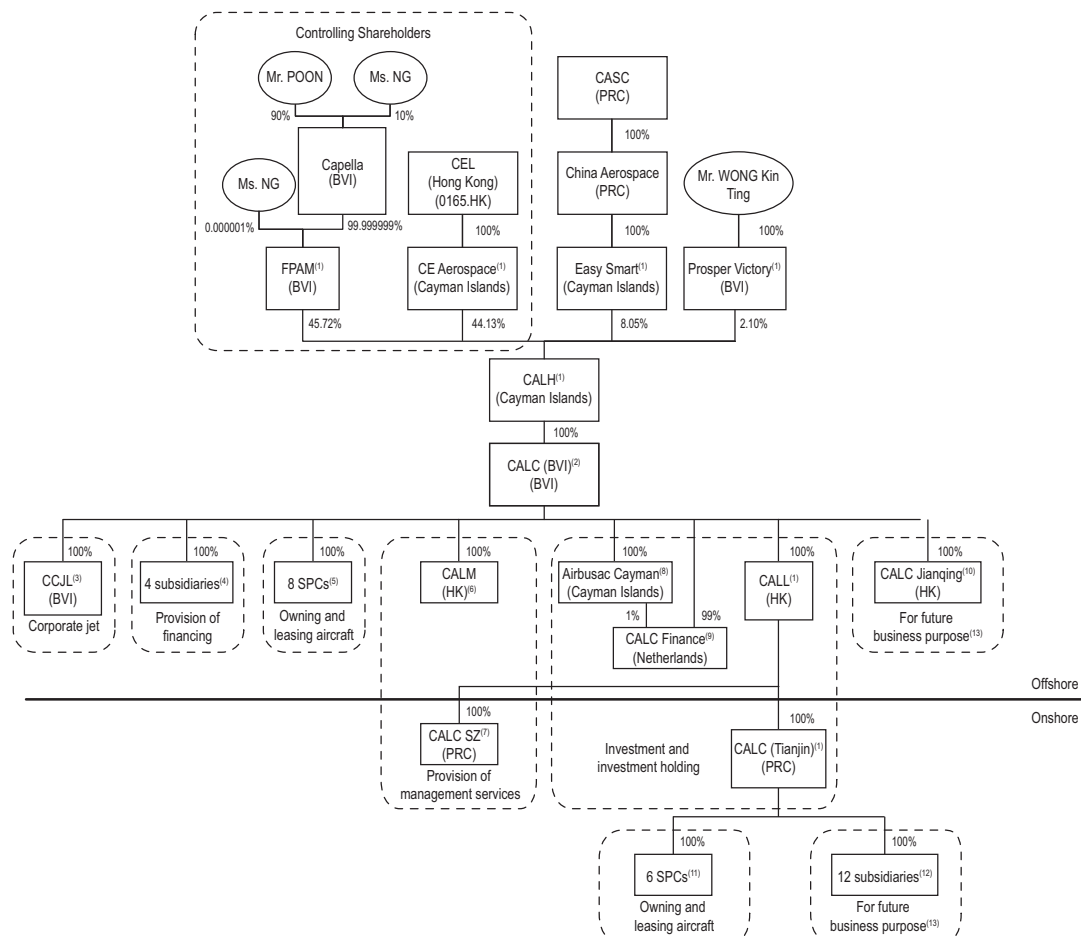
Notes:–

- (1) FPAM, CALH, CALC (BVI), CALL, and CALC (Tianjin) are all investment holding companies.
- (2) The nine subsidiaries are CALC 1 Limited, CALC 2 Limited, CALC 4 Limited, CALC 5 Limited, all of which are incorporated in the Cayman Islands, CALC 3-Aircraft Limited, CALC 6-Aircraft Limited and CALC 8-Aircraft Limited, all of which are incorporated in Ireland, 中機租投資諮詢(深圳)有限公司 (CALC (Shenzhen) Limited*) established in the PRC, and China Aircraft Leasing (HK) Company Limited (currently known as China Financial (HK) Company Limited) incorporated in Hong Kong. CALC 1 Limited, CALC 2 Limited, CALC 4 Limited and CALC 5 Limited are held by MaplesFS Limited as the bare trustee for CALC (BVI) pursuant to the respective bare trust agreements. The entire issued shares of CALC 3- Aircraft Limited, CALC 6-Aircraft Limited and CALC 8-Aircraft Limited are held by Deutsche International Finance (Ireland) Limited on trust for CALC (BVI) as the absolute beneficial owner pursuant to the respective declaration of trusts. On 1 April 2011, the entire share of China Aircraft Leasing (HK) Company Limited was transferred to Friedmann Pacific Asset Management (Hong Kong) Limited, a wholly-owned subsidiary of FPAM.

In preparation for the Listing, members of our Group have undergone certain restructuring steps whereby a coherent corporate structure of our Group has been established which is suitable for Listing.

HISTORY, DEVELOPMENT, AND REORGANISATION

The following diagram illustrates our shareholding and corporate structure as of 20 December 2012 (being the date before the date of the incorporation of our Company):–



Notes:–

- (1) FPAM, CE Aerospace, Easy Smart, Prosper Victory, CALH, CALL, and CALC (Tianjin) are all investment holding companies.
- (2) CALC (BVI) is an investment holding company and is also engaged in PDP financing.
- (3) China Corporate Jet Leasing Limited (“**CCJL**”) is incorporated in the BVI for the purpose of engaging in corporate jet business. There have not been any significant business activities since its incorporation.
- (4) These four subsidiaries are CALC AC Limited and CALC Asset Limited, both of which are incorporated in the Cayman Islands, Airbusac Limited incorporated in Hong Kong and China Aircraft Purchase Limited incorporated in the BVI. They are principally engaged in financing.
- (5) These eight SPCs are CALC 1 Limited, CALC 2 Limited, CALC 4 Limited and CALC 5 Limited, all of which are incorporated in the Cayman Islands, and CALC 3-Aircraft Limited, CALC 6-Aircraft Limited, CALC 8-Aircraft Limited and CALC 9-Aircraft Limited, all of which are incorporated in Ireland. The entire issued shares of CALC 3- Aircraft Limited, CALC 6-Aircraft Limited, CALC 8-Aircraft Limited and CALC 9-Aircraft Limited are held by Deutsche International Finance (Ireland) Limited on trust for CALC (BVI) as the absolute beneficial owner pursuant to the respective declaration of trusts. CALC 1 Limited, CALC 2 Limited, CALC 4 Limited and CALC 5 Limited are held by MaplesFS Limited as the bare trustee for CALC (BVI) pursuant to the respective bare trust agreements. They are used as SPCs for owning and leasing aircraft.
- (6) China Aircraft CALC Management Limited (“**CALM**”) is incorporated in Hong Kong and is principally engaged in the provision of management services. CALM has established a liaison office in Blagnac, France.

HISTORY, DEVELOPMENT, AND REORGANISATION

- (7) 中機租投資諮詢(深圳)有限公司 (CALC (Shenzhen) Limited*) (“**CALC SZ**”) is incorporated in the PRC and is principally engaged in the provision of management services. The entire shares of which was transferred to CALL on 9 June 2011.
- (8) Airbusac Limited (“**Airbusac Cayman**”) is incorporated in the Cayman Islands. It is principally engaged in investment and investment holding.
- (9) CALC Finance Cooperatief U.A. (“**CALC Finance**”) is established as a cooperative (with exclusion of liability for its members) under the laws of the Netherlands, and is owned as to 99% of its membership interest by CALC (BVI) and 1% of its membership interest by Airbusac Cayman. Since its incorporation, CALC Finance has not owned or leased any aircraft and has only entered into certain inter-company profit participation facility agreements with our Group companies.
- (10) CALC Jianqing Limited (“**CALC Jianqing**”) is incorporated in Hong Kong.
- (11) These six SPCs are 中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited*), 中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited*), 中飛建慶租賃(天津)有限公司 (CALC Jianqing Limited*), 中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited*), 中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited*) and 中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited*), all of which are incorporated in the PRC and are used as SPCs for owning and leasing aircraft.
- (12) These 12 subsidiaries are 中飛通天租賃(天津)有限公司 (CALC Tongtian Limited*), 中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited), 中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited*), 中飛調露租賃(天津)有限公司 (CALC Diaolu Limited*), 中飛干封租賃(天津)有限公司 (CALC Ganfeng Limited*), 中飛建德租賃(天津)有限公司 (CALC Jiande Limited*), 中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited*), 中飛開耀租賃(天津)有限公司 (CALC Kaiyao Limited*), 中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited*), 中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited*), 中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited*) and 中飛總章租賃(天津)有限公司 (CALC Zongzhang Limited*), all of which are incorporated in the PRC.
- (13) As of 20 December 2012, these subsidiaries were established for future business purpose.

We have obtained any necessary approvals from the relevant authorities for the Reorganisation, and the Reorganisation complies with the relevant laws and regulations. The Reorganisation involved the following principal steps:–

- (i) On 21 December 2012, our Company was incorporated in the Cayman Islands. Our Company allotted and issued one share of US\$1.0, credited as fully paid, to CALH.
- (ii) On 21 December 2012, CALH transferred 30,000,000 shares, being 37.5% of the entire issued share capital of CALC (BVI), to our Company in consideration of allotment and issue of nine shares of US\$1 each of our Company to CALH. Such nine shares of US\$1 each of our Company were allotted and issued to CALH on 21 January 2013.
- (iii) On 29 April 2013, CALH transferred 50,000,000 shares, being 62.5% of the entire issued capital of CALC (BVI), to our Company in consideration of allotment and issue of 10 shares of US\$1 each of our Company to CALH. Such 10 shares of US\$1 each of our Company were allotted and issued to CALH on 20 May 2013.
- (iv) On 3 June 2013, FPAM, CE Aerospace, Easy Smart and Prosper Victory subscribed for 18,139,535 CALH Shares, 17,512,102 CALH Shares, 3,195,959 CALH Shares, and 831,909 CALH Shares, respectively, at the total subscription price of HK\$72,558,140, HK\$70,048,409, HK\$12,783,834 and HK\$3,327,637, respectively.
- (v) On 23 July 2013, our Company issued and allotted 9,980 shares of US\$1 each to CALH at the subscription price of HK\$89,610,300 which was settled in cash.
- (vi) On 30 April 2013 and 9 July 2013, CALC (BVI) issued and allotted 10,000,000 shares and 1,488,500 shares to our Company at the subscription price of HK\$78,000,000 and HK\$11,610,300, respectively, which was settled in cash. The purpose of this step and step (v) is to increase the capitalisation of our Group.

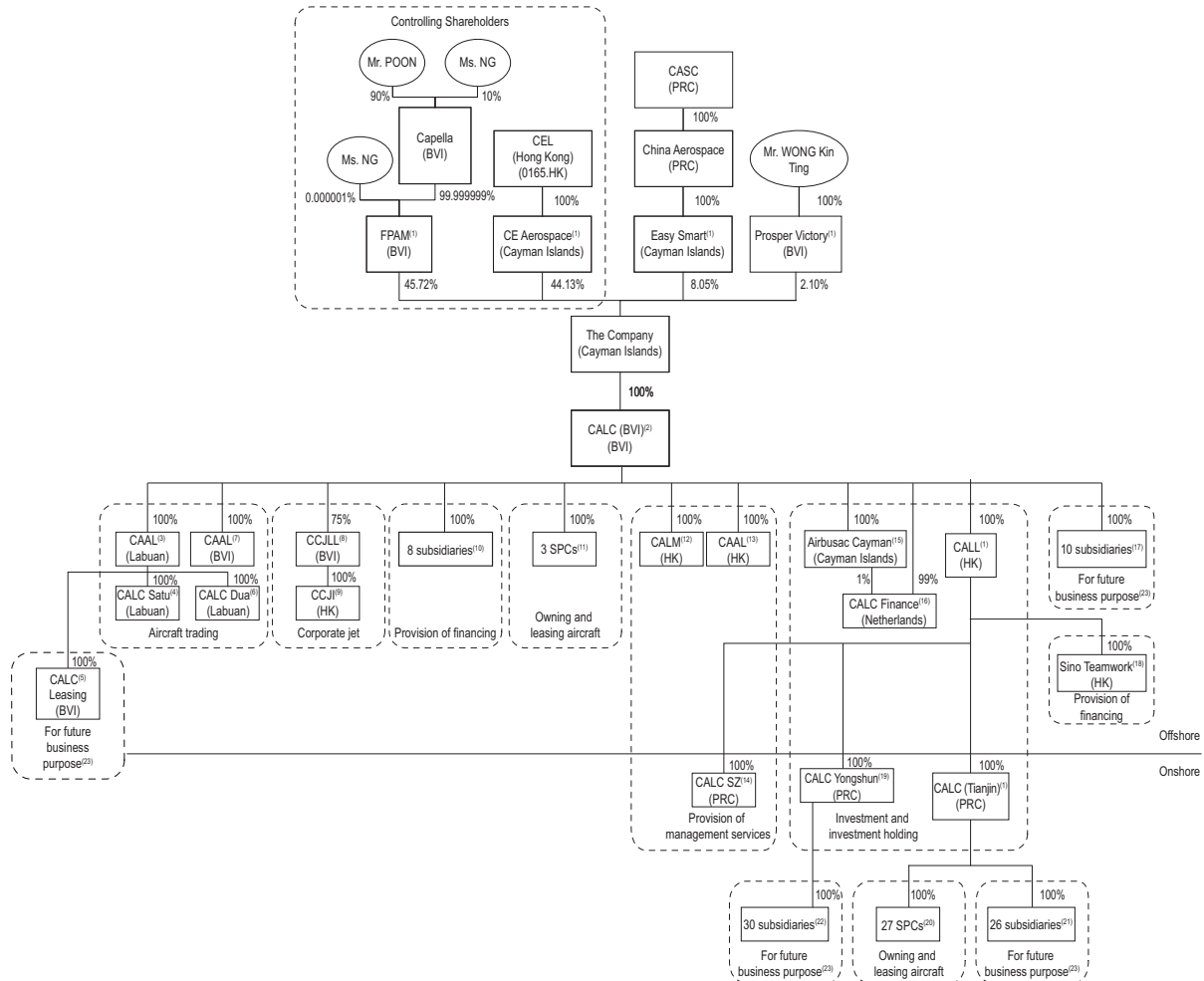
HISTORY, DEVELOPMENT, AND REORGANISATION

- (vii) On the Reorganisation Date, the following steps as part of the Reorganisation have been completed concurrently:–
- (a) The authorised share capital of our Company was increased by HK\$1,000,000,000 by the creation of 10,000,000,000 new Shares. Our Company repurchased from CALH all of the 10,000 shares of US\$1.0 each then in issue in the consideration of allotment and issue of 10,000 new Shares to CALH. Immediately thereafter, our Company then cancelled 50,000 shares of US\$1.0 each in the authorised capital of our Company. Immediately following such steps, the number of issued Shares and the number of authorised Shares (both then having a par value of HK\$0.10 each) in the share capital of our Company were 10,000 Shares and 10,000,000,000 Shares, respectively.
 - (b) CALH repurchased its 214,381,958 shares, 206,966,648 shares, 37,771,413 shares and 9,831,909 shares from FPAM, CE Aerospace, Easy Smart, and Prosper Victory respectively in consideration for (a) transferring of 10,000 Shares from CALH to FPAM and (b) procuring the allotment and issue of 214,371,959 Shares, 206,966,648 Shares, 37,771,413 Shares and 9,831,909 Shares by our Company (under the direction of CALH) to FPAM, CE Aerospace, Easy Smart, and Prosper Victory, respectively. After the Reorganisation, the entire issued share capital of CALH is one share of US\$0.10 which is wholly owned by FPAM and CALH becomes dormant.
 - (c) A termination deed was made by China Aerospace and Easy Smart in favour of CALH for the cancellation of the put option (under the Easy Smart Subscription Agreement) for nil consideration.
 - (d) A termination deed was made by CE Aerospace in favour of FPAM for the cancellation of the put option (under the CE Aerospace Agreement) for nil consideration.
 - (e) The entire assets and undertakings of CALH under the Pre-IPO Share Option Scheme adopted by CALH was migrated to our Company. Further information is set forth in the sub-section headed “E. Pre-IPO Share Option Scheme” under Appendix IV to this prospectus for further details.
 - (f) A termination deed was made by Prosper Victory in favour of FPAM for the cancellation of the PV Call Option (under the Prosper Victory Agreement) for nil consideration.
 - (g) A termination deed was made between Prosper Victory, Easy Smart, FPAM, CE Aerospace, and CALH for the termination of the CALH Shareholders’ Agreement as adhered to by the Easy Smart Deed of Adherence and the PV Deed of Adherence.

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SHAREHOLDING AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding and corporate structure upon completion of the Reorganisation:–



Notes:–

- (1) FPAM, CE Aerospace, Easy Smart, Prosper Victory, CALL and CALC (Tianjin) are investment holding companies.
- (2) CALC (BVI) is an investment holding company and is also engaged in PDP financing.
- (3) China Aircraft Assets Ltd (“**CAAL (Labuan)**”) is incorporated in Labuan, Malaysia and is principally engaged in aircraft trading.
- (4) CALC Satu Limited (“**CALC Satu**”) is incorporated in Labuan, Malaysia and is principally engaged in aircraft trading.
- (5) CALC Leasing Limited (“**CALC Leasing (BVI)**”) is incorporated in the BVI for future business purpose.
- (6) CALC Dua Limited (“**CALC Dua**”) is incorporated in Labuan, Malaysia and is principally engaged in aircraft trading.
- (7) China Aircraft Asset Limited (“**CAAL (BVI)**”) is incorporated in the BVI and is principally engaged in aircraft trading.
- (8) CCJLL is incorporated in the BVI for the purpose of engaging in corporate jet business and is owned as to 75% by CALC (BVI), 20% by Ever Fly Holdings Limited and 5% by King Dynasty Group Limited. There have not been any significant business activities since its incorporation.

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- (9) China Corporate Jet Investment Limited (“**CCJI**”) is incorporated in Hong Kong for the purpose of engaging in corporate jet business. There have not been any significant business activities since its incorporation.
- (10) These eight subsidiaries are CALC AC Limited, CALC Asset Limited, and CALC ENG Limited, all of which are incorporated in the Cayman Islands, Airbusac Limited and Airbusz Limited, both of which are incorporated in Hong Kong and China Aircraft Purchase Limited, CALC Manta Limited and CALC PDP Limited, all of which are incorporated in the BVI. They are principally engaged in provision of financing.
- (11) These three SPCs are CALC 5 Limited incorporated in the Cayman Islands, and , CALC 6-Aircraft Limited and CALC 9-Aircraft Limited, both of which are incorporated in Ireland. They are used as SPCs for owning and leasing aircraft. On 14 March 2013, CALC 2 Limited transferred an aircraft to 中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited*). On 5 August 2013, CALC 1 Limited transferred an aircraft to 中飛建德租賃(天津)有限公司 (CALC Jiande Limited*). On 21 September 2013, 14 November 2013 and 23 December 2013, CALC 3-Aircraft Limited, CALC 4 Limited and CALC 8-Aircraft Limited transferred an aircraft to 中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited*), 中飛干寧(天津)有限公司(CALC Ganning Limited*), and 中飛長慶租賃(天津)有限公司(CALC Changqing Limited*) respectively. Since then, CALC 1 Limited, CALC 2 Limited, CALC 3-Aircraft Limited, CALC 4 Limited and CALC 8-Aircraft Limited ceased to be an SPC owning and leasing aircraft. The entire issued shares of CALC 3-Aircraft Limited, CALC 6-Aircraft Limited, CALC 8-Aircraft Limited and CALC 9-Aircraft Limited are held by Deutsche International Finance (Ireland) Limited on trust for CALC (BVI) as the absolute beneficial owner pursuant to the respective declaration of trusts. CALC 1 Limited, CALC 2 Limited, CALC 4 Limited and CALC 5 Limited are held by MaplesFS Limited as the bare trustee for CALC (BVI) pursuant to the respective bare trust agreements.
- (12) CALM is incorporated in Hong Kong and is principally engaged in the provision of management services. CALM has established a liaison office in Blagnac, France.
- (13) China Aircraft Assets Limited (“**CAAL (HK)**”) is incorporated in Hong Kong and is principally engaged in the provision of management services.
- (14) CALC SZ is established in the PRC and is principally engaged in the provision of management services.
- (15) Airbusac Cayman is incorporated in the Cayman Islands. It is principally engaged in investment and investment holding.
- (16) CALC Finance is established as a cooperative (with exclusion of liability for its members) under the laws of the Netherlands and is owned as to 99% of its membership interest by CALC (BVI) and 1% of its membership interest by Airbusac Cayman. Since its incorporation, CALC Finance has not owned or leased any aircraft and has only entered into certain inter-company profit participation facility agreements with our Group companies.
- (17) These ten subsidiaries are CALC Jianqing Limited and China Aircraft Leasing Shanghai Limited, both of which are incorporated in Hong Kong, CALC 1 Limited, CALC 2 Limited, CALC 4 Limited and CALC Finance Limited, all of which are incorporated in the Cayman Islands, CALC Nemo Limited and CALC BFE Limited, both of which are incorporated in the BVI, CALC 3-Aircraft Limited and CALC 8-Aircraft Limited, both of which are incorporated in Ireland.
- (18) Sino Teamwork is principally engaged in provision of financing.
- (19) 中永順融資租賃(上海)有限公司 (CALC Yongshun Limited*) (“**CALC Yongshun**”) is established in the PRC and is an investment holding company.
- (20) These 27 SPCs are 中飛通天租賃(天津)有限公司 (CALC Tongtian Limited*), 中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited*), 中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited*), 中飛建慶租賃(天津)有限公司 (CALC Jianqing Limited*), 中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited*), 中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited*), 中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited*), 中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited), 中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited*), 中飛調露租賃(天津)有限公司 (CALC Diaolu Limited*), 中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited*), 中飛建德租賃(天津)有限公司 (CALC Jiande Limited*), 中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited*), 中飛永泰租賃(天津)有限公司 (CALC Yongtai Limited*), 中飛寶曆租賃(天津)有限公司 (CALC Baoli Limited*), 中飛干寧(天津)有限公司 (CALC Ganning Limited*), 中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited*), 中飛總章租賃(天津)有限公司(CALC Zongzhang Limited*), 中飛干封租賃(天津)有限公司(CALC Ganfeng Limited*), 中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited*), 中飛長慶租賃(天津)有限公司(CALC Changqing Limited*), 中飛廣明租賃(天津)有限公司(CALC Guangming Limited*), 中飛龍紀租賃(天津)有限公司(CALC Longji Limited*), 中飛天寶租賃(天津)有限公司 (CALC Tianbao Limited*), 中飛弘道租賃(上海)有限公司 (CALC Hongdao Limited*), 中飛至德租賃(天津)有限公司 (CALC Zhide Limited*) and 中飛大順租賃(天津)有限公司 (CALC Dashun Limited*), all of which are incorporated in the PRC and are used as SPCs for owning and leasing aircraft.

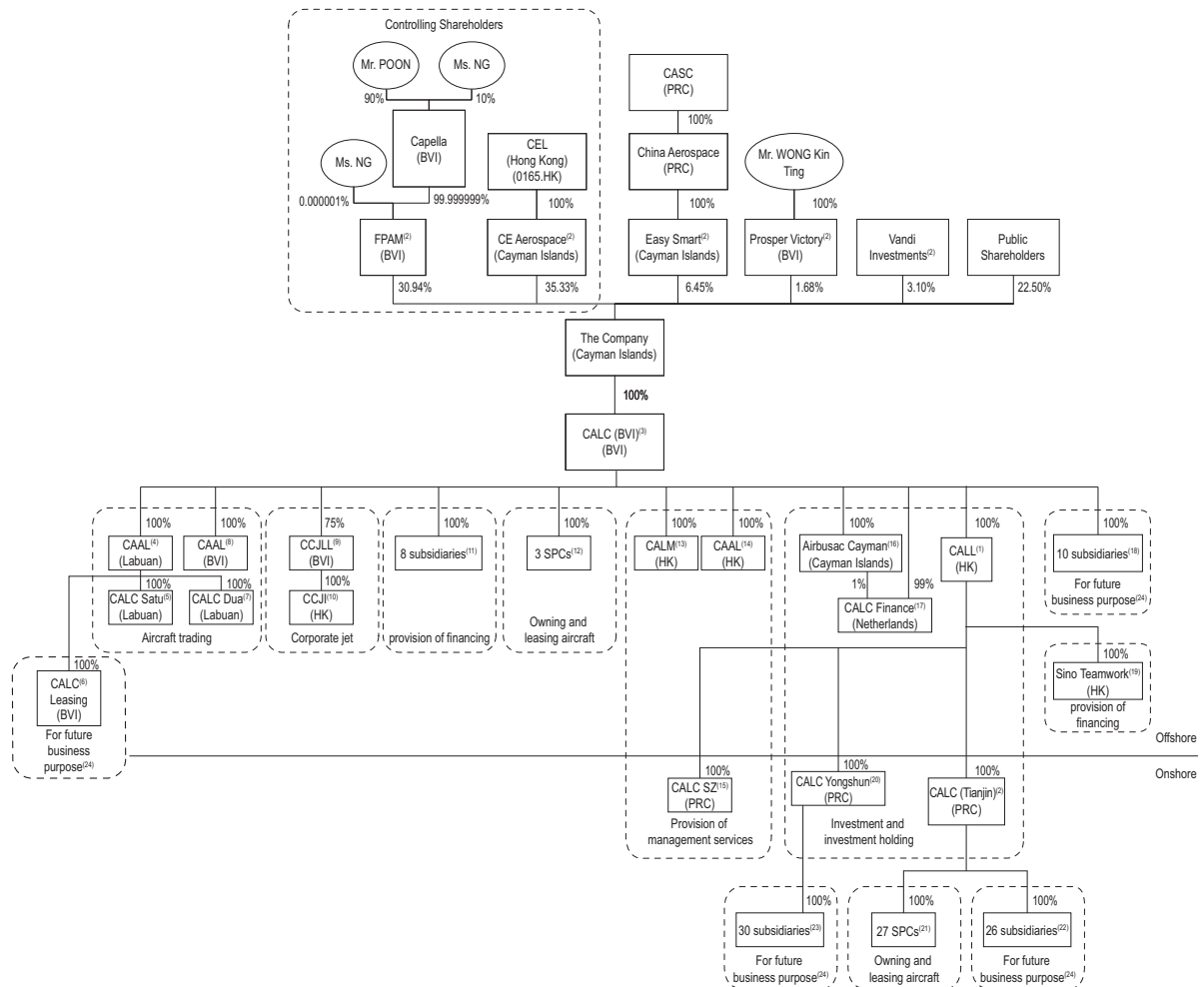
HISTORY, DEVELOPMENT, AND REORGANISATION

- (21) These 26 subsidiaries are 中飛開耀租賃(天津)有限公司 (CALC Kaiyao Limited*), 中飛永徽租賃(天津)有限公司 (CALC Yonghui Limited*), 中飛龍朔租賃(天津)有限公司 (CALC Longshuo Limited*), 中飛麟德租賃(天津)有限公司 (CALC Linde Limited*), 中飛永昌租賃(天津)有限公司 (CALC Yongchang Limited*), 中飛長安租賃(天津)有限公司 (CALC Changan Limited*), 中飛神龍租賃(天津)有限公司 (CALC Shenlong Limited*), 中飛廣德租賃(天津)有限公司 (CALC Guangde Limited*), 中飛元和租賃(天津)有限公司 (CALC Yuanhe Limited*), 中飛咸通租賃(天津)有限公司 (CALC Xiantong Limited*), 中飛文德租賃(天津)有限公司 (CALC Wende Limited*), 中飛景福租賃(天津)有限公司 (CALC Jingfu Limited*), 中飛景龍租賃(上海)有限公司 (CALC Jinglong Limited*), 中飛景雲租賃(上海)有限公司 (CALC Jingyun Limited*), 中飛如意租賃(天津)有限公司 (CALC Ruyi Limited*), 中飛唐隆租賃(天津)有限公司 (CALC Tanglong Limited*), 中飛文明租賃(天津)有限公司 (CALC Wenming Limited*), 中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited*), 中飛聖曆租賃(天津)有限公司 (CALC Shengli Limited*), 中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited*), 中飛天佑租賃(天津)有限公司 (CALC Tianyou Limited*), 中飛太和租賃(天津)有限公司 (CALC Taihe Limited*), 中飛登封租賃(天津)有限公司 (CALC Dengfeng Limited*), 中飛興元租賃(天津)有限公司 (CALC Xingyuan Limited*), 中飛建炎租賃(天津)有限公司 (CALC Jianyan Limited*) and 中飛隆興租賃(天津)有限公司 (CALC Longxing Limited*), all of which are incorporated in the PRC.
- (22) These 30 subsidiaries are 中永崇寧融資租賃(上海)有限公司 (CALC Chongning Limited*), 中永熙寧融資租賃(上海)有限公司 (CALC Xining Limited*), 中永熙雍融資租賃(上海)有限公司 (CALC Xiyong Limited*), 中永紹熙融資租賃(上海)有限公司 (CALC Shaoxi Limited*), 中永紹定融資租賃(上海)有限公司 (CALC Shaoding Limited*), 中永聖紹融資租賃(上海)有限公司 (CALC Shengshao Limited*), 中永平咸融資租賃(上海)有限公司 (CALC Pingxian Limited*), 中永咸淳融資租賃(上海)有限公司 (CALC Xianchun Limited*), 中永淳佑融資租賃(上海)有限公司 (CALC Chunyou Limited*), 中永淳化融資租賃(上海)有限公司 (CALC Chunhua Limited*), 中永洪化融資租賃(上海)有限公司 (CALC Honghua Limited*), 中永成化融資租賃(上海)有限公司 (CALC Chenghua Limited*), 中永聰天融資租賃(上海)有限公司 (CALC Congtian Limited*), 中永定天融資租賃(上海)有限公司 (CALC Dingtian Limited*), 中永興重融資租賃(上海)有限公司 (CALC Xingchong Limited*), 中永重和融資租賃(上海)有限公司 (CALC Chonghe Limited*), 中永宣和融資租賃(上海)有限公司 (CALC Xuanhe Limited*), 中永得宣融資租賃(上海)有限公司 (CALC Dexuan Limited*), 中永定景融資租賃(上海)有限公司 (CALC Dingjing Limited*), 中永佑景融資租賃(上海)有限公司 (CALC Youjing Limited*), 中永佑皇融資租賃(上海)有限公司 (CALC Youhuang Limited*), 中永佑寶融資租賃(上海)有限公司 (CALC Youbao Limited*), 中永曆永融資租賃(上海)有限公司 (CALC Liyong Limited*), 中永曆慶融資租賃(上海)有限公司 (CALC Liqing Limited*), 中永慶開融資租賃(上海)有限公司 (CALC Qingkai Limited*), 中永武昭融資租賃(上海)有限公司 (CALC Wuzhao Limited*), 中永炎建融資租賃(上海)有限公司 (CALC Yanjian Limited*), 中永道至融資租賃(上海)有限公司 (CALC Daozhi Limited*), 中永元符融資租賃(上海)有限公司 (CALC Yuanrong Limited*) and 中永明受融資租賃(上海)有限公司 (CALC Mingshou Limited*), all of which are incorporated in the PRC.
- (23) As of the Latest Practicable Date, these subsidiaries were established for future business purpose.

Following the full exercise by Vandi Investments of the exchange right pursuant to the Exchangeable Note Agreement prior to the Global Offering, our corporate structure will not be affected. Vandi Investments will be interested in 3.87% of the then number of Shares in issue and the shareholding percentage of FPAM will decrease to 41.85%.

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The following diagram illustrates our corporate structure upon the full exercise of the exchange right of the Exchangeable Note Agreement by Vandi Investments pursuant to the Exchangeable Note Agreement and completion of the Global Offering (without taking into account the Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option and the options have been granted under the Pre-IPO Share Option Scheme, and any option may be granted under the Post-IPO Share Option Scheme):—



Notes:—

- (1) If the Over-allotment Option is exercised in full, the shareholding of FPAM, CE Aerospace, Easy Smart, Prosper Victory, Vandi Investments and the public Shareholders will be 30.03%, 34.29%, 6.26%, 1.63%, 3.01% and 24.78%, respectively.
- (2) FPAM, CE Aerospace, Easy Smart, Prosper Victory, Vandi Investments, CALL, and CALC (Tianjin) are all investment holding companies.
- (3) CALC (BVI) is an investment holding company and is also engaged in PDP financing.
- (4) CAAL (Labuan) is incorporated in Labuan, Malaysia and is principally engaged in aircraft trading.
- (5) CALC Satu is incorporated in Labuan, Malaysia and is principally engaged in aircraft trading.
- (6) CALC Leasing (BVI) is incorporated in the BVI for future business purpose.
- (7) CALC (Dua) is incorporated in Labuan, Malaysia and is principally engaged in aircraft trading.

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- (8) CAAL (BVI) is incorporated in the BVI and is principally engaged in aircraft trading.
- (9) CCJLL is incorporated in the BVI for the purpose of engaging in corporate jet business and is owned as to 75% by CALC (BVI), 20% by Ever Fly Holdings Limited and 5% by King Dynasty Group Limited. There have not been any significant business activities since its incorporation.
- (10) CCJI is incorporated in Hong Kong for the purpose of engaging in corporate jet business. There have not been any significant business activities since its incorporation.
- (11) These eight subsidiaries are CALC AC Limited, CALC Asset Limited and CALC ENG Limited, all of which are incorporated in the Cayman Islands, Airbusac Limited and Airbusz Limited, both of which are incorporated in Hong Kong, China Aircraft Purchase Limited, CALC Manta Limited and CALC PDP Limited, all of which are incorporated in the BVI. They are principally engaged in provision of financing.
- (12) These three SPCs are CALC 5 Limited incorporated in the Cayman Islands, and CALC 6-Aircraft Limited and CALC 9-Aircraft Limited, both of which are incorporated in Ireland. The entire issued shares of CALC 6-Aircraft Limited and CALC 9-Aircraft Limited are held by Deutsche International Finance (Ireland) Limited on trust for CALC (BVI) as the absolute beneficial owner pursuant to the respective declaration of trusts. They are used as SPCs for owning and leasing aircraft. The entire issued shares of CALC 5 Limited is held by MaplesFS Limited as bare trustee for CALC (BVI) pursuant to the bare trust agreement.
- (13) CALM is incorporated in Hong Kong and is principally engaged in the provision of management services. CALM has established a liaison office in Blagnac, France.
- (14) China Aircraft Assets Limited (“CAAL (HK)”) is incorporated in Hong Kong and is principally engaged in the provision of management services.
- (15) CALC SZ is established in the PRC and is principally engaged in the provision of management services.
- (16) Airbusac Cayman is incorporated in the Cayman Islands. It is mainly engaged in investment and investment holding.
- (17) CALC Finance is established as a cooperative (with exclusion of liability for its members) under the laws of the Netherlands and is owned as to 99% of its membership interest by CALC (BVI) and as to 1% of its membership interest by Airbusac Cayman. Since its incorporation, CALC Finance has not owned or leased any aircraft and has only entered into certain inter-company profit participation facility agreements with our Group companies.
- (18) These ten subsidiaries are CALC Jianqing Limited and China Aircraft Leasing Shanghai Limited, both of which are incorporated in Hong Kong, CALC 1 Limited, CALC 2 Limited, CALC 4 Limited and CALC Finance Limited, all of which are incorporated in the Cayman Islands, CALC Nemo Limited and CALC BFE Limited, both of which are incorporated in the BVI, CALC 3-Aircraft Limited and CALC 8-Aircraft Limited, both of which are incorporated in Ireland. The entire issued shares of CALC 3-Aircraft Limited and CALC 8-Aircraft Limited are held by Deutsche International Finance (Ireland) Limited on trust for CALC (BVI) as the absolute beneficial owner pursuant to the respective declaration of trusts. The entire issued shares of CALC 1 Limited, CALC 2 Limited and CALC 4 Limited are held by MaplesFS Limited as bare trustee for CALC (BVI) pursuant to the respective bare trust agreement.
- (19) Sino Teamwork is incorporated in Hong Kong and is principally engaged in provision of financing.
- (20) CALC Yongshun is established in the PRC and is an investment holding company.
- (21) These 27 SPCs are 中飛通天租賃(天津)有限公司 (CALC Tongtian Limited*), 中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited*), 中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited*), 中飛建慶租賃(天津)有限公司 (CALC Jianqing Limited*), 中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited*), 中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited*), 中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited*), 中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited*), 中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited*), 中飛調露租賃(天津)有限公司 (CALC Diaolu Limited*), 中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited*), 中飛建德租賃(天津)有限公司 (CALC Jiande Limited*), 中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited*), and 中飛永泰租賃(天津)有限公司 (CALC Yongtai Limited*), 中飛寶曆租賃(天津)有限公司 (CALC Baoli Limited*), 中飛干寧(天津)有限公司 (CALC Ganning Limited*), 中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited*), 中飛總章租賃(天津)有限公司 (CALC Zongzhang Limited*), 中飛干封租賃(天津)有限公司 (CALC Ganfeng Limited*), 中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited*), 中飛長慶租賃(天津)有限公司 (CALC Changqing Limited*), 中飛廣明租賃(天津)有限公司 (CALC Guangming Limited*), 中飛龍紀租賃(天津)有限公司 (CALC Longji Limited*), 中飛天寶租賃(天津)有限公司 (CALC Tianbao Limited*), 中飛弘道租賃(上海)有限公司 (CALC Hongdao Limited*), 中飛至德租賃(天津)有限公司 (CALC Zhide Limited*) and 中飛大順租賃(天津)有限公司 (CALC Dashun Limited*), all of which are incorporated in the PRC and are used as SPCs for owning and leasing aircraft.

HISTORY, DEVELOPMENT, AND REORGANISATION

- (22) These 26 subsidiaries are 中飛開耀租賃(天津)有限公司 (CALC Kaiyao Limited*), 中飛永徽租賃(天津)有限公司 (CALC Yonghui Limited*), 中飛龍朔租賃(天津)有限公司 (CALC Longshuo Limited*), 中飛麟德租賃(天津)有限公司 (CALC Linde Limited*), 中飛永昌租賃(天津)有限公司 (CALC Yongchang Limited*), 中飛長安租賃(天津)有限公司 (CALC Chang'an Limited*), 中飛神龍租賃(天津)有限公司 (CALC Shenlong Limited*), 中飛廣德租賃(天津)有限公司 (CALC Guangde Limited*), 中飛元和租賃(天津)有限公司 (CALC Yuanhe Limited*), 中飛咸通租賃(天津)有限公司 (CALC Xiantong Limited*), 中飛文德租賃(天津)有限公司 (CALC Wende Limited*), 中飛景福租賃(天津)有限公司 (CALC Jingfu Limited*), 中飛景龍租賃(上海)有限公司 (CALC Jinglong Limited*), 中飛景雲租賃(上海)有限公司 (CALC Jingyun Limited*), 中飛如意租賃(天津)有限公司 (CALC Ruyi Limited*), 中飛唐隆租賃(天津)有限公司 (CALC Tanglong Limited*), 中飛文明租賃(天津)有限公司 (CALC Wenming Limited*), 中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited*), 中飛聖曆租賃(天津)有限公司 (CALC Shengli Limited*), 中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited*), 中飛天佑租賃(天津)有限公司 (CALC Tianyou Limited*), 中飛太和租賃(天津)有限公司 (CALC Taihe Limited*), 中飛登封租賃(天津)有限公司 (CALC Dengfeng Limited*), 中飛興元租賃(天津)有限公司 (CALC Xingyuan Limited*), 中飛建炎租賃(天津)有限公司 (CALC Jianyan Limited*) and 中飛隆興租賃(天津)有限公司 (CALC Longxing Limited*), all of which are incorporated in the PRC.
- (23) These 30 subsidiaries are 中永崇寧融資租賃(上海)有限公司 (CALC Chongning Limited*), 中永熙寧融資租賃(上海)有限公司 (CALC Xining Limited*), 中永熙雍融資租賃(上海)有限公司 (CALC Xiyong Limited*), 中永紹熙融資租賃(上海)有限公司 (CALC Shaoxi Limited*), 中永紹定融資租賃(上海)有限公司 (CALC Shaoding Limited*), 中永聖紹融資租賃(上海)有限公司 (CALC Shengshao Limited*), 中永平咸融資租賃(上海)有限公司 (CALC Pingxian Limited*), 中永咸淳融資租賃(上海)有限公司 (CALC Xianchun Limited*), 中永淳佑融資租賃(上海)有限公司 (CALC Chunyou Limited*), 中永淳化融資租賃(上海)有限公司 (CALC Chunhua Limited*), 中永洪化融資租賃(上海)有限公司 (CALC Honghua Limited*), 中永成化融資租賃(上海)有限公司 (CALC Chenghua Limited*), 中永聰天融資租賃(上海)有限公司 (CALC Congtian Limited*), 中永定天融資租賃(上海)有限公司 (CALC Dingtian Limited*), 中永興重融資租賃(上海)有限公司 (CALC Xingchong Limited*), 中永重和融資租賃(上海)有限公司 (CALC Chonghe Limited*), 中永宣和融資租賃(上海)有限公司 (CALC Xuanhe Limited*), 中永得宣融資租賃(上海)有限公司 (CALC Dexuan Limited*), 中永定景融資租賃(上海)有限公司 (CALC Dingjing Limited*), 中永佑景融資租賃(上海)有限公司 (CALC Youjing Limited*), 中永佑皇融資租賃(上海)有限公司 (CALC Youhuang Limited*), 中永佑寶融資租賃(上海)有限公司 (CALC Youbao Limited*), 中永曆永融資租賃(上海)有限公司 (CALC Liyong Limited*), 中永曆慶融資租賃(上海)有限公司 (CALC Liqing Limited*), 中永慶開融資租賃(上海)有限公司 (CALC Qingkai Limited*), 中永武昭融資租賃(上海)有限公司 (CALC Wuzhao Limited*), 中永炎建融資租賃(上海)有限公司 (CALC Yanjian Limited*), 中永道至融資租賃(上海)有限公司 (CALC Daozhi Limited*), 中永元符融資租賃(上海)有限公司 (CALC Yuanrong Limited*) and 中永明受融資租賃(上海)有限公司 (CALC Mingshou Limited*), all of which are incorporated in the PRC.
- (24) As of the Latest Practicable Date, these subsidiaries were established for future business purpose.

* For identification only

OVERVIEW

We are an independent aircraft leasing company focusing on China aircraft leasing market. According to the Ascend Report, as of 31 December 2013, we were the largest independent aircraft lessor in China and the ninth largest aircraft lessor in China in terms of the total number of aircraft in service and on order. Our market share in the China aircraft leasing industry was 3.1% as of 31 December 2013. As of 31 May 2014, we ranked the third among the aircraft leasing companies in China in terms of the total number of aircraft that have been delivered in 2014 and scheduled to be delivered in 2014.

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 entered into five lease agreements for five aircraft to be leased and delivered to an airline operator in Asia. Our business model allows us to provide different aircraft leasing transaction structures through our SPCs established in China and overseas. 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 long-term bank borrowings for aircraft acquisition. In addition to aircraft leasing, we also provide our airline customers with value-adding services including trading and marketing of used aircraft and other advisory services on fleet management, which distinguish us from other established aircraft leasing companies in China.

Because of our distinctive business model and the growing airline customer base, our lease income grew at the CAGR of 67.1% during the three years ended 31 December 2013, from HK\$223.1 million in 2011, to HK\$447.6 million in 2012, and further to HK\$623.3 million in 2013. Our fleet size has reached 32 aircraft as of the Latest Practicable Date.

Our business primarily focuses on the aircraft leasing market in China. China is a fast growing market for aircraft leasing industry in the world as a result of various factors, including the rapid development of the airline industry, the continuous economic development, and the relatively low market penetration of aircraft leasing business as compared with other developed countries. During the period from 2003 to 2013, China's real GDP has grown at the average rate of 10.2%, China's air passengers have grown from 87.6 million to 354.0 million at the CAGR of 15.0%, and China's RPK has also grown from 101.5 billion kilometres to 455.8 billion kilometres at the CAGR of 16.2%. In line with the development of airline industry, the number of commercial aircraft operated by China's airlines has grown significantly from 635 in 2003 to 2,080 in 2013 at the CAGR of 12.6%. Amid the expansion environment of the China airline industry, aircraft leasing is attractive to many airline operators as it can reduce their financial commitment in outright aircraft ownership and provide fleet planning flexibility with relatively low initial capital commitments. *Ascend* forecasts that by 2018, approximately 40% of the commercial aircraft operated by the Chinese airlines are expected to be under aircraft leasing.

We use SPCs established in China and overseas to enter into aircraft lease agreements with airline operators. The lease term of our long-term aircraft lease agreements is sufficiently long to cover the repayment term of our long-term bank borrowings. 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 of 31 December 2013, our aircraft lease agreements were of an average term of around 12 years.

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Pursuant to the aircraft lease agreements, our airline lessees enjoy the exclusive right to use the leased aircraft during the term of the 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 operate.

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, we have started using our SPCs in *Tianjin Dongjiang Free Trade Port Zone* as the 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*. 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 the value-adding services, provides incentive to our existing and potential airline customers in China to use our aircraft leasing services.

We lease and deliver our aircraft to the leading airlines in China, such as *Air China*, *China Southern Airlines*, *Chengdu Airlines*, *Shandong Airlines*, *Shenzhen Airlines*, *Sichuan Airlines*, *China Eastern Airlines*, and *Qingdao Airlines*. Our airline customers also include airline operators to which we provide value-adding services, such as *China Eastern Airlines*, and we sell 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 has reached 32 aircraft as of the Latest Practicable Date. Our aircraft fleet includes 28 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 3.3 years as of 31 December 2013. The average age of our aircraft is 3.8 years as of the Latest Practicable Date taking into consideration the two used aircraft acquired by us in March 2014.

As of the Latest Practicable Date, all our aircraft are leased and delivered to eight airline operators in China with an average lease term of around 12 years, except for the two short-term aircraft lease agreements, i.e. for the lease term of less than six years, entered into in March 2014. Our Directors confirm that the reason for entering into the short-term aircraft lease agreements in respect of the two aircraft was primarily due to the fact that the aircraft are used aircraft with an average age of 15 years. Our Directors further confirm that these two transactions are expected to provide us with comparable investment return as that of the long-term lease transactions entered into by us. These transactions would not change our business model which focuses on entering into long-term aircraft lease agreements with airline operators.

We currently plan to grow our fleet to 40 aircraft before the end of 2014 and to 64 aircraft before the end of 2016 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. As of the Latest Practicable Date, out of the 64 aircraft, 32 aircraft have been leased and delivered to our airline customers and 32 aircraft are committed to be purchased by us. Among which, two aircraft are committed under aircraft sale and leaseback transactions to be delivered in 2014 and 30 aircraft are committed to be purchased and delivered to us under the Aircraft Purchase Agreement before the end of 2016. As of the Latest Practicable Date, the amount of outstanding

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aircraft purchase commitment under the Aircraft Purchase Agreement is HK\$7,834.0 million and the commitment under the two aircraft sale and leaseback transactions is HK\$297.4 million.

In addition, we are one of the launching customers of COMAC and entered into a preliminary non-binding agreement with COMAC in December 2011 for the purchase from COMAC of 20 C919 commercial aircraft, among which 10 C919 commercial aircraft would be purchased by way of confirmation order and another 10 C919 commercial aircraft would be purchased by way of selection order. As the delivery and the payment schedules of the aircraft manufactured by COMAC have yet to be determined, we do not include this aircraft purchase in our aircraft purchase commitment. We will discuss with COMAC on the final price and the delivery of aircraft and will enter into a formal aircraft purchase agreement following 30 business days after the maiden flight of C919 commercial aircraft as agreed under the preliminary non-binding agreement.

In light of the above, we believe that we are one of the forerunners in the China aircraft leasing industry and are well-positioned to capitalise on the growing opportunities in the high-growth China aircraft leasing industry.

OUR COMPETITIVE STRENGTHS

Our Directors 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. Our Directors believe that we have the following competitive strengths:—

We are one of the forerunners in the high-growth China aircraft leasing industry with a distinctive business model and proven successful operating track record.

China 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 involves relatively low initial capital investment and fleet planning flexibility. Our Directors 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 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. According to the Ascend Report, we are one of the very few Chinese lessors that have placed direct purchase orders of aircraft with international aircraft manufacturers. 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 of the Latest Practicable Date, we commit to purchase 30 aircraft under the Aircraft Purchase Agreement which are currently planned to be delivered before the end of 2016.

We have established SPCs in *Tianjin Dongjiang Free Trade Port Zone*, and they are our wholly-owned subsidiaries in China. These SPCs can import aircraft to China at the concessionary

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rate of 5.0% on the net purchase price of the aircraft. This concessionary 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.

Aircraft acquisition financing

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 long-term bank borrowings, PDP financing, and debt and equity financing. In April 2012, we structured an aircraft lease transaction for a leading Chinese airline with cross-border financing secured from a commercial bank outside China. With the long-term lease agreements with our airline customers, we are able to secure long-term bank borrowings from commercial banks for aircraft acquisition, 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 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 CALC (Tianjin) 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.

Following the implementation of the PRC VAT Pilot Programme, we have completed the novation of five aircraft leases from our subsidiaries in overseas acting as the lessors to our SPCs in China, so that our airline customers under those leases will be subject to PRC VAT and will be entitled to have the input PRC VAT deducted against their output PRC VAT.

Our aircraft leasing business grows with our growing airline customer base, value-adding services, and strong aircraft pipeline.

We have a high-quality and growing airline customer base for aircraft leasing services. In 2011, 2012, and 2013, we had three, four, and six airline customers, respectively. As of the Latest Practicable Date, we lease and deliver our aircraft to eight airline operators in China. Our existing airline customers to which we lease and deliver our aircraft include *Air China*, *China Southern Airlines*, *Shenzhen Airlines*, *Chengdu Airlines*, *Shandong Airlines*, *Sichuan Airlines*, *China Eastern Airlines*, and *Qingdao Airlines*. We have business relationship with our airline customers for a

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longest period of six years. Most of our existing airline customers are repeating customers which we believe that we can retain them because of our favourable lease terms and our value-adding services. In 2014, we have leased and delivered five aircraft out of the lease commitment from our airline customers for all the 11 aircraft under direct aircraft purchase and lease transactions in 2014. In 2014, we have also delivered two aircraft under aircraft sale and lease back transactions. As of the Latest Practicable Date, we have secured, by way of letters of intent and lease agreements, the lease of 17 aircraft scheduled to be delivered in 2014 and 2015 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. Our Directors 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 the 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 of the Latest Practicable Date, we commit to purchase 30 aircraft under the Aircraft Purchase Agreement. Out of these committed new aircraft, we have secured, by way of letters of intent and lease agreements, the lease of 17 aircraft scheduled to be delivered in 2014 and 2015. We have yet to secure the lease commitment for 13 aircraft as there are more than 12 months prior to the proposal aircraft delivery dates. Our Directors are satisfied on the percentage of lease commitment which 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.

We benefit from our independent status from major commercial banks, aircraft manufacturers, and airline operators.

We are an independent aircraft leasing company focusing on China 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 in China. Although one of our Controlling Shareholders is an affiliate of China Everbright Bank Co., Ltd. (Hong Kong Branch), we are independent from and are not required to obtain our financing exclusively or on any preferential basis from China Everbright Bank Co., Ltd. (Hong Kong Branch) in 2011, 2012, and 2013. We did not obtain any aircraft acquisition financing from China Everbright Bank Co., Ltd. (Hong Kong Branch) in 2011, 2012 and 2013. Instead, we obtained aircraft financing from three, four, and six commercial banks, respectively and all of them are Independent Third Parties.

According to the Ascend Report, we are the largest independent aircraft lessor in China and the ninth largest aircraft lessor in China in terms of the total number of aircraft in service and on order as of 31 December 2013. Our market share in the China aircraft leasing industry was 3.1% as of 31 December 2013. As of 31 May 2014, we ranked the third among the aircraft leasing companies in China in terms of the total number of aircraft that have been delivered in 2014 and scheduled to be delivered in 2014.

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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.

We benefit from our young and modern fleet.

As of the Latest Practicable Date, our aircraft fleet includes 28 narrowbody aircraft and four widebody aircraft. The average age of our aircraft fleet was 3.3 years as of 31 December 2013. The average age of our aircraft is 3.8 years as of the Latest Practicable Date taking into consideration the two used aircraft acquired by us in March 2014. As of the Latest Practicable Date, we commit to purchase 30 aircraft under the Aircraft Purchase Agreement. According to the Ascend Report, the A320 family aircraft (and its modified versions) is the most popular narrowbody aircraft in service leasing to airlines in China. Our Directors 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 would generally lead to a better lease out percentage with relatively high level of lease income. Young and modern fleet is expected to have 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.

We have strong financing capability to support our business development.

In 2011, 2012, and 2013, we used long-term bank borrowings and PDP financing to support our aircraft acquisition. As of 31 December 2013, the percentage of our bank borrowings for aircraft acquisition and PDP financing represented 79.3% and 15.7% of our total source of financing, respectively. Since the inception of our business, we aim to develop established business relationships with different commercial banks for the long-term bank borrowings required by us. As of 31 December 2013, we had balance of bank borrowings of HK\$11,436.4 million, of which the balance of long-term bank borrowings has the original repayment term of more than 12 years. The PDP financing is of a relatively short term, but will be repaid in full through arrangement of long-term bank borrowings upon delivery of the relevant aircraft. The long-term bank borrowings were obtained from four banks in China and Hong Kong as of 31 December 2013, and the increase in the amount of the long-term bank borrowings is commensurate with the continuous increase in our fleet size. This level of financing, together with our completed realisation of finance lease receivable, demonstrates our capability to implement our business model using long-term bank borrowings and PDP financing to support our business expansion.

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Our management team has the proven capability in leasing new and used aircraft.

We are led by experienced professionals with extensive experience in aircraft asset management and aircraft leasing industries in China. Mr. POON, our Chief Executive Officer and executive Director, and Ms. LIU Wanting, our executive Director, have more than seven years of experience in the aircraft leasing industries in China. Our senior management teams include Mr. DUAN Xiaoge who has more than 12 years of experience in technical aspect of aircraft operations. 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. Further information on our executive Directors and senior management team is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus.

Our business operations are managed collaboratively by our sale and marketing team and technical supports team. We have established a liaison office in France led by Mr. DUNKER, and which provides access to potential aircraft acquisition and marketing opportunities. Our sale and marketing team focuses on maintaining close contact with the airlines in China and developing transaction structures in line with their business needs and the latest market and regulatory environment. Our technical supports team 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 in China under different market conditions.

OUR GROWTH STRATEGIES

Our Directors believe that the increasing demand for air traffic in China, together with the fleet expansion and increasing use of aircraft lease financing amongst airline operators in China, 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 in China.

We anticipate that the China airline industry will continue to grow over the coming years because of the continuous economic growth in China. According to the Ascend Report, the number of commercial passenger aircraft operated by airlines in China will reach 3,381 by 2021 with the CAGR of 6.9% from 2013 to 2021 and is expected to reach 5,387 by 2031 with the CAGR of 5.7% from 2013 to 2031. *Ascend* forecasts that by 2018, a total of 3,027 commercial aircraft are expected to be operated by the Chinese airlines and approximately 40% of them will be under aircraft leasing. In addition, *Ascend* forecasts that approximately 50.0% of the current aircraft in service in China will be replaced by 2031. We therefore intend to continue to focus on the China aircraft leasing market by actively leasing out our fleet to airlines in China. 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 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.

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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 40 aircraft before the end of 2014 and to 64 aircraft before the end of 2016 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. 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 in China. 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 in China. Our Directors believe that this fleet composition is generally suitable for the requirements of the airlines in China.

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 long-term bank borrowings and PDP financing to support our aircraft acquisition. Through the use of project financing techniques, we match our regular loan repayments for the long-term bank borrowings 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 December 2013, we expanded our financing source through the realisation of our finance lease receivable in respect of one aircraft. Apart from the net proceeds from the Global Offering, we may consider to raise fund from the capital markets, which we believe would further diversify our financing source.

Developing our corporate jet leasing business.

We believe that the demand for corporate jets in China will continue to increase as a result of economic growth in China and increase in the number of large-scale private enterprises and affluent families and individuals. To tap into the emerging opportunities in the corporate jet leasing market we established China Corporate Jet Leasing Limited (“**CCJLL**”), a company incorporated in the BVI on 6 July 2012 which in turn owns China Corporate Jet Investment Limited (“**CCJI**”), a company incorporated in Hong Kong on 22 May 2013. We confirm that CCJI has yet to commence business. Our Directors confirm that as our corporate jet business is still under feasibility study, the expected payback period and commencement date of business, and the business and the revenue models of the corporate jet leasing business have yet to be determined by us.

On 13 November 2013, CCJLL entered into a consultancy agreement (the “**Consultancy Agreement**”) with Good Power International Limited (“**Good Power**”), a company incorporated in the BVI and co-owned by Mr. TSE On Kin and Mr. YU Hua Guo, both Independent Third Parties, for liaising and negotiating with the Zhuhai local government for the establishment of an operating vehicle by CCJLL for leasing and financing of corporate jet business. Pursuant to the Consultancy Agreement, for the consideration of HK\$2.0 million, Good Power is responsible for the liaison with the Zhuhai local government to coordinate and promote the corporate jet business; assist CCJLL with the establishment of a related operation vehicle and to obtain the relevant approval, consent and licence; provide CCJLL with proposals and consultancy services in relation to its Zhuhai corporate jet business and other related consultancy services. Upon signing of the Consultancy Agreement, a deposit of HK\$1.0 million has been paid to Good Power and the balance of another HK\$1.0 million is due within 14 days upon the Zhuhai local government approves and the operation vehicle in the PRC is established. The Consultancy Agreement will expire on 12 November 2014 (the “**Expiration Date**”). In the event that the operation vehicle is not approved and cannot be established, the deposit of HK\$1.0 million paid by CCJLL to Good Power will be returned to CCJLL within 14 business days of the Expiration Date or the date of written notice issued by CCJLL.

On 12 December 2013, a shareholders’ agreement was entered into by CALC (BVI), CCJLL, Ever Fly Holdings Limited (“**Ever Fly**”), and King Dynasty Group Limited (“**King Dynasty**”) in respect of CCJLL (the “**CCJLL Shareholders’ Agreement**”). Ever Fly is a company incorporated in the BVI and is principally engaged in investment holding and wholly-owned by Mr. WONG Kin Ting, an Independent Third Party and one of the Pre-IPO Investors. King Dynasty is a company incorporated in the BVI and is principally engaged in investment holding and owned as to 20% by Fortune Financial (Holdings) Limited which is in turn owned by China Fortune Financial Group Limited (a company listed on the Stock Exchange under stock code 290) and as to 80% by Castle Treasure International Limited which in turn is wholly-owned by Mr. LIN Hoi Kwong, an Independent Third Party. Since its incorporation, CCJLL has not conducted any business activity other than entering into the Consultancy Agreement. Our Directors confirm that the following sets forth the principal terms of the CCJLL Shareholders’ Agreement:–

- US\$7.5 million, US\$2.0 million, and US\$500,000 have been injected into CCJLL by us, Ever Fly, and King Dynasty for 75%, 20%, and 5% interests in CCJLL, respectively.
- The parties agreed that the business of CCJLL would be leasing and financing of corporate jets and any business in connection therewith.

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- CALC (BVI) will be responsible for the day-to-day operations of CCJLL.
- When CCJLL requires further capital and financing, each of CALC (BVI), Ever Fly and King Dynasty will, subject to compliance with applicable laws and regulations, provide financing to CCJLL in proportion to their shareholding percentages by way of shareholders' loans or such other forms of financing as the shareholders may agree, or for CCJLL to approve raising further equity or debt financing from external sources to the satisfaction of the board of directors of CCJLL.

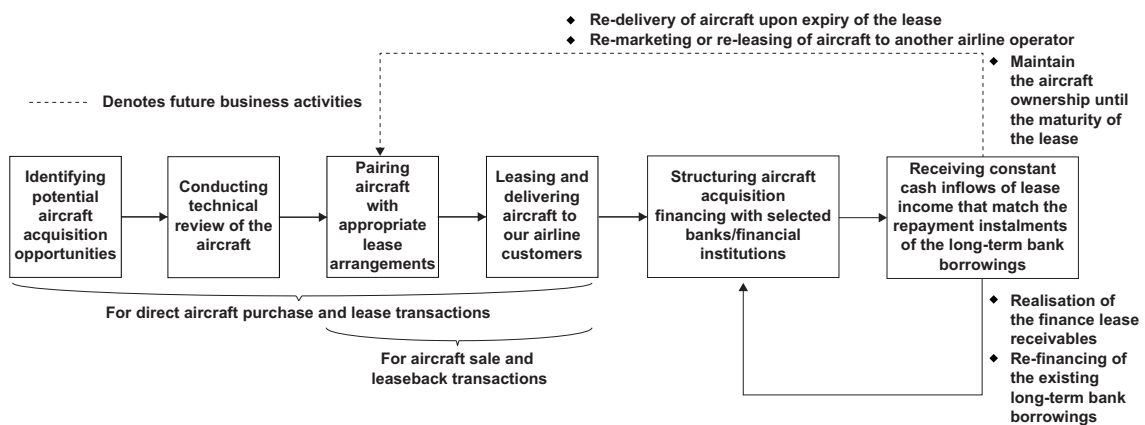
OUR BUSINESS MODEL

Overview

We conduct the aircraft leasing business through our SPCs established in China and overseas. Under a direct aircraft purchase and lease transaction, we place the aircraft purchase orders with the aircraft manufacturers, such as *Airbus* under the Aircraft Purchase Agreement, and identify the appropriate airline lessees for leasing 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, 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 long-term bank borrowings.

Since the inception of our business, we focus on aircraft leasing business. The following diagram illustrates the principal features of our business model:–



In addition to the aircraft leasing transactions which form part our core business, we completed in December 2013 a realisation transaction of our investment in the finance lease receivable of one aircraft. The transaction further demonstrates not only our business innovation capability, but also our sustainable and expandable business model in the future.

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. 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 conditions 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, both are under long-term leases and using SPCs in both China and overseas. We structure the detailed terms of each lease on a case-by-case basis.

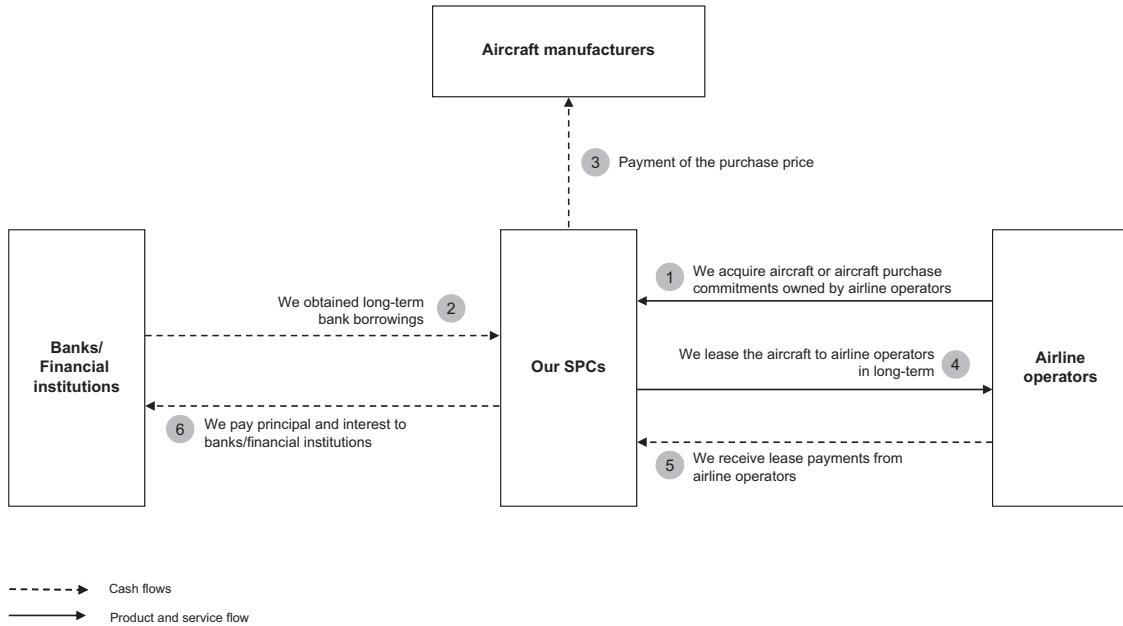
We may or may not secure lease placements at the time of confirming our aircraft acquisition commitments. We will assess the market condition and the likely demand for the relevant aircraft model. If we have not entered into any leasing letter of intent, we will identify prospective lessees based on 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. Further information on our leasing procedures and the related risk management measures is set forth in the paragraphs under "Our business operations" in aircraft leasing business below and the section headed "Risk Management" of this prospectus.

BUSINESS

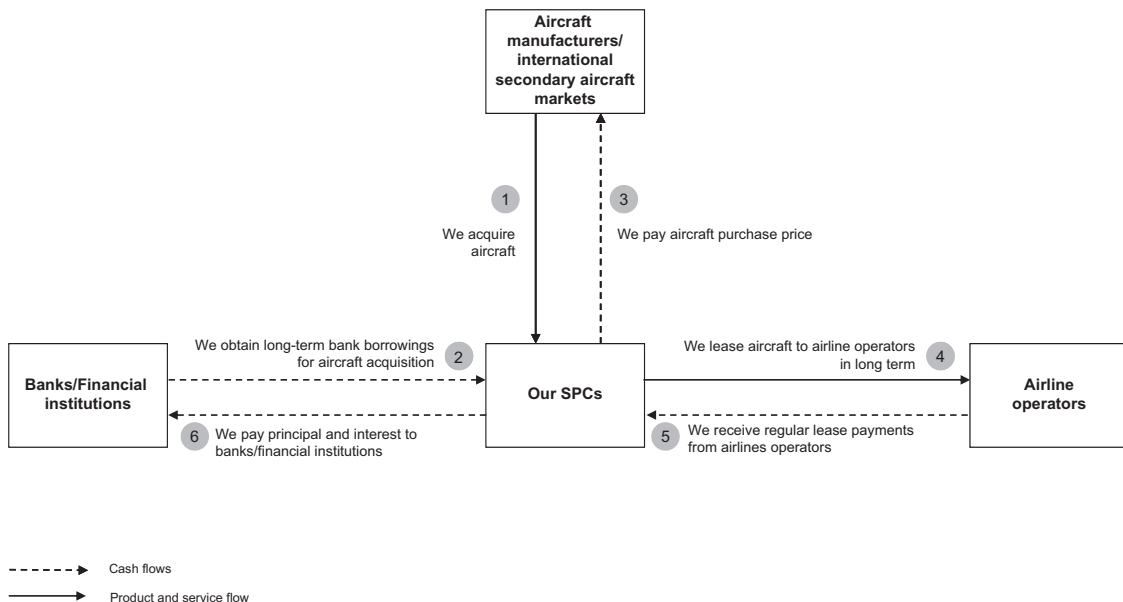
Aircraft sale and leaseback transactions

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. The following diagram illustrates a simplified structure of an aircraft sale and leaseback transaction engaged by us:–



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. The following diagram illustrates a simplified structure of a direct aircraft purchase and lease transaction engaged by us:–



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 weeks and the delivery of the aircraft will be taken place at such place as requested by the relevant airline operator.

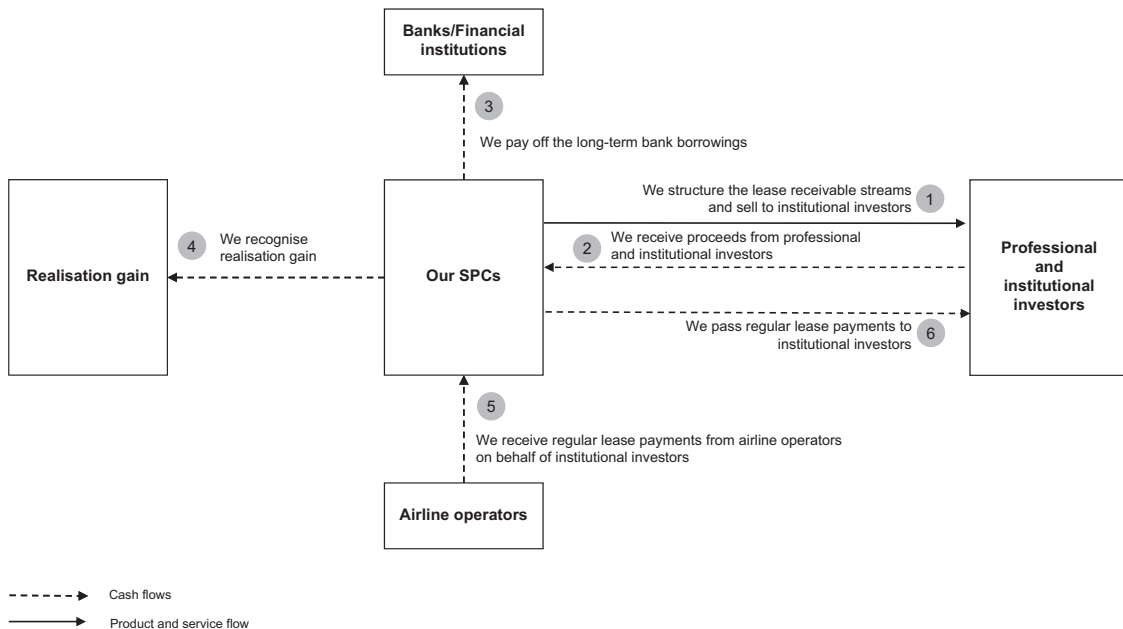
We will monitor the delivery schedule of the aircraft. If there is any delay, we will further discuss with our airline customers and the relevant banks on the terms and the commencement date of the related leasing and financing arrangements.

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 receivable

The realisation of finance lease receivable 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. The following diagram illustrates the structure of the transaction:—



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Further information on the transaction structure of the realisation of finance lease receivable is set forth in the paragraphs under “Realisation of finance lease receivables” below.

OUR VALUE-ADDING (USED AIRCRAFT TRADING AND TRADING) 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. We do not charge separately for these value-adding services because these services are part of the services provided to our airline customers. Our Directors 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.

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 during the Track Record Period, demonstrate our aircraft marketing capability.

The following diagram illustrates the transaction structure in respect of the disposal of an used aircraft for an airline operator in China:–



We distinguish 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. Our Directors 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.

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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 has reached 32 aircraft as of the Latest Practicable Date. Our aircraft fleet includes 28 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 3.3 years as of 31 December 2013. The average age of our aircraft is 3.8 years as of the Latest Practicable Date taking into consideration the two used aircraft acquired by us in March 2014.

The following table sets forth the age of our fleet as of the Latest Practicable Date:–

Aircraft type	Number of used aircraft (age)	Number of new aircraft	Total
Airbus A319	–	1	1
Airbus A320	7 (4 years, 4 years, 4 years, 5 years, 1 year, 16 years, 15 years)	10	17
Airbus A321	–	5	5
Airbus A330	–	4	4
Boeing B737 NG	–	5	5
Total	<u>7</u>	<u>25</u>	<u>32</u>

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The following table sets forth the scheduled lease expiration years by aircraft type as part of our fleet as of the Latest Practicable Date:–

Aircraft type	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Airbus A319							1				1
Airbus A320	2			2	1	1	3	5	2	1	17
Airbus A321	2	1								2	5
Airbus A330						2	2				4
Boeing B737 NG							1	4			5
Total	<u>4</u>	<u>1</u>	<u>–</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>7</u>	<u>9</u>	<u>2</u>	<u>3⁽¹⁾</u>	<u>32</u>

Note:–

(1) The aircraft lease agreements of three aircraft will expire in 2022, the second aircraft lease agreements to commence thereafter for not more than six years.

There was no aircraft being sub-leased under the aircraft lease agreements during the Track Record Period.

As of the Latest Practicable Date, all our aircraft are leased and delivered to eight airline operators in China with an average lease term of around 12 years, except for the two short-term aircraft lease agreements, i.e. for the lease term of less than six years, entered into in March 2014. Our Directors confirm that the reason for entering into the short-term aircraft lease agreements in respect of the two aircraft was primarily due to the fact that these two aircraft are used aircraft with an average age of 15 years. Our Directors further confirm that these two transactions are expected to provide us with comparable investment return as that of the long-term lease transactions entered into by us. These transactions would not change our business model which focuses on entering into long-term aircraft lease agreements with airline operators.

Lease rates of our fleet of aircraft

The lease rate for each of our 31 aircraft, excluding the realisation of finance lease receivables in respect of one A330 aircraft, is equal to the annual lease amount divided by the total cost of the aircraft. Hence, the lease rates will not change once the aircraft lease agreements have been entered into, and they were in the range between 8.6% and 21.6% during the Track Record Period. The differences are due to arm's length negotiations between us and the relevant airline lessees taking into consideration (a) the then prevailing lease rates of similar aircraft, (b) the total cost of the aircraft, and (c) the interest rates for the applicable long-term bank borrowings. For aircraft sale and leaseback transactions, the lease rates would be generally lower than direct aircraft purchase and lease transactions as we have no control on the total cost of the aircraft. The lease rates would be generally higher for direct aircraft purchase and lease transactions as we have control on the cost of the aircraft and the selection of the appropriate airline lessees who are willing to pay higher lease amount.

Warranties given by us in respect of our leased aircraft

Our Directors confirm that the apparent defects in aircraft (including the airframe and any proprietary component, equipment, accessory or part installed on the aircraft manufactured by *Airbus* and bears its part number) and in installation of buyer furnished equipment and propulsion systems and any defect inherent in *Airbus'* design of the installation of such items which impairs

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use are warranted by *Airbus* for a certain number of years from the date of delivery and thereafter, no further warranties by *Airbus*. 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 teams 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 40 aircraft before the end of 2014 and to 64 aircraft before the end of 2016 through direct aircraft purchase and lease transactions and aircraft sale and leaseback transactions. As of the Latest Practicable Date, out of the 64 aircraft, 32 aircraft have been leased and delivered to our airline customers and 32 aircraft are committed to be purchased by us. Among which, two aircraft are committed under aircraft sale and leaseback transactions will be delivered in 2014 and 30 aircraft are committed to be purchased and delivered to us under the Aircraft Purchase Agreement will be delivered before the end of 2016. As of the Latest Practicable Date, the amount of outstanding aircraft purchase commitment under the Aircraft Purchase Agreement is HK\$7,834.0 million and the commitment under the two aircraft sale and leaseback transactions is HK\$297.4 million.

In addition, we are one of the launching customers of COMAC and entered into a preliminary non-binding agreement with COMAC in December 2011 for the purchase from COMAC of 20 C919 commercial aircraft, among which 10 C919 commercial aircraft would be purchased by way of confirmation order and another 10 C919 commercial aircraft would be purchased by way of selection order. As the delivery and the payment schedules of the aircraft manufactured by COMAC have yet to be determined, we do not include this aircraft purchase in our aircraft purchase commitment. We will discuss with COMAC on the final price and the delivery of aircraft and will enter into a formal aircraft purchase agreement following 30 business days after the maiden flight of C919 commercial aircraft as agreed under the preliminary non-binding agreement.

The amount of aircraft purchase commitment of HK\$7,834.0 million under the Aircraft Purchase Agreement as of the Latest Practicable Date represents our estimate of the total purchase price of the aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement. The price is not fixed at the time of entering into the relevant agreement and can only be determined upon the determination of the final specifications of the aircraft to be delivered. The final purchase price paid by us will be lower than the listed price because of different aircraft specifications and various price concessions, credits or discounts that may be provided by the aircraft manufacturer. These concessions will take the form of credit memoranda, which we may apply towards the purchase of goods and services. These credit memoranda are generally incorporated into the final aircraft invoices and thus reduce the amount to be paid by us for each aircraft. As a result, the final total purchase prices of the aircraft purchased by us are expected to be substantially less than the manufacturer's listed prices.

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The amount of aircraft purchase commitment of HK\$297.4 million under the aircraft sale and leaseback transactions as of the Latest Practicable Date represents the amount expected to be paid by us to the relevant aircraft manufacturers transferred from our lessee customers.

Amount of aircraft purchase commitment and its financing

Our Directors confirm that the aircraft purchase commitment of HK\$7,834.0 million under the Aircraft Purchase Agreement as of the Latest Practicable Date is expected to be financed by (a) PDP financing, (b) long-term bank borrowings, and (c) the net proceeds from the Global Offering, and the commitment of HK\$297.4 million under the two aircraft sale and leaseback transactions is expected to be financed by long-term bank borrowing. We may also receive additional financial resources from the possible realisation of our investment in finance lease receivables in the future. Our Directors intend that the following allocation of financial resources to fund our aircraft purchase commitment:—

Description	Amount (HK\$ million)	%
PDP financing	1,166.4	14.3
Long-term bank borrowings	6,735.9	82.9
Net proceeds from the Global Offering	229.1	2.8
Total	<u>8,131.4</u>	<u>100.0</u>

As of the Latest Practicable Date, the PDPs for four aircraft in the amount of HK\$494.1 million have yet to be secured by PDP financing. Our Directors confirm that the PDP financing for two aircraft is expected to be available in July 2014 and for the remaining two aircraft by the end of 2014. China Everbright Bank Co., Ltd. (Hong Kong Branch), and China Development Bank, Hong Kong branch, are the two commercial banks in discussion with our Group for the PDP financing.

With the PDPs expected to be settled in full, we would continue to secure additional lease commitment for the aircraft at the best possible rates. The long-term bank borrowing will then be available after confirming the lease commitment. Our Directors are confident that we will be able to obtain the required PDP financing, the relevant lease commitment, and the appropriate long-term bank borrowings for the aircraft committed to be purchased under the Aircraft Purchase Agreement. If all of the planned PDP financing for the four aircraft is not available, our Directors intend to use the internal financial resources for settlement of the PDPs.

We will not need to arrange for the long-term bank borrowing for an aircraft until there is a lease commitment with the delivery date of the aircraft having been agreed with the relevant airline customer. In any event, the delivery schedule set forth in the Aircraft Purchase Agreement may change or the delivery slot can be transferred to third parties as confirmed by our Directors as well as evidenced by the reported cases in the global market. Hence, our Directors are of the view that we would be able to secure sufficient financing to fulfil the capital commitment or in any event of whatever reasons failed to secure lease commitment, we will be able to manage with alternative plan without causing us falling into liquidity problem.

AIRCRAFT PURCHASE AGREEMENT AND THE PURCHASE COMMITMENT

Overview

Our Directors confirm that we are subject to a confidentiality obligation under which none of the terms of the Aircraft Purchase Agreement can be disclosed to any third party unless with the written consent of *Airbus*. The Joint Sponsors have been given such written consent, but further disclosure of (a) any additional information (other than the information in public domain, such as the date, the parties, and the subject matter of the Aircraft Purchase Agreement) or (b) the information disclosed to the Joint Sponsors to any third party and in this prospectus has been rejected by *Airbus*. Our Directors consider that this is consistent with *Airbus*' policy and the industry practice. One of the principal reasons for the non-disclosure, as confirmed by our Directors, is that the purchase price of each aircraft is commercial secret which is subject to a number of factors, such as the technical specifications, the number of aircraft ordered, the agreed delivery schedule, and the background of the purchaser of the aircraft. The actual price of an aircraft may be lower than the listed price, and the amount and the items to be deducted are subject to confidential negotiations between the relevant purchaser and *Airbus*.

As confirmed by our Directors, the Aircraft Purchase Agreement includes a delivery schedule for each of the 36 aircraft and that *Airbus* shall be entitled to terminate the Aircraft Purchase Agreement if we fail to take delivery of the aircraft and to retain the PDP (if paid) and to seek damages. Based on the experience of our Directors and the publicly available information, *Airbus* would not initiate any claim through legal proceedings against its customers for the failure to take aircraft delivery, except where the relevant customer is in bankruptcy or other analogous proceedings, provided that the customer discusses with *Airbus* in advance of the scheduled delivery date. Our Directors confirm that this is primarily because of the high level of demand for aircraft produced by *Airbus* which is significantly more than the production capacity of *Airbus*. Hence, if for whatever reason, we are not able to secure the lease of the remaining 13 aircraft under the Aircraft Purchase Agreement, we may, subject to the consent of *Airbus*, re-schedule the delivery dates or transfer the designated aircraft to other aircraft lessors or aircraft operators. In such event, we would not be required to take delivery of the aircraft according to the original schedule in the Aircraft Purchase Agreement.

Disclosure of the terms of the aircraft purchase commitment by other listed companies in Hong Kong

The Directors and the Joint Sponsors understand the confidentiality nature of certain information in the Aircraft Purchase Agreement, which is part of the proprietary information of *Airbus*. The disclosure of such information in this prospectus could result in us to be in breach of the confidentiality obligation. The disclosure would also affect our business relationship with *Airbus* and the future price negotiation process for aircraft acquisition, under the Aircraft Purchase Agreement, none of which is in our best interest and the interest of our Shareholders as a whole. Based on the review of the public disclosure of airline operators listed in Hong Kong and aircraft leasing companies listed on other overseas stock exchanges, the Directors and the Joint Sponsors notice that *Airbus* has consistently applied the same level of confidentiality obligation to all of its customers around the world, including airline operators and aircraft leasing companies like our Group. From the reviewed public disclosure, the Directors and the Joint Sponsors further notice that the following basic information has been permitted by *Airbus* to be disclosed in public documents:—

- (1) the date of the purchase agreement and the number of aircraft agreed to be purchased under the purchase agreement;

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- (2) the type of aircraft to be purchased;
- (3) the time period during which the aircraft are scheduled to be delivered to the buyer; and
- (4) the aggregate amount of the listed prices or catalogue prices of the aircraft agreed to be purchased.

The above information has been disclosed by airline operators listed on the Stock Exchange in their respective previous acquisitions of aircraft from *Airbus* which constituted discloseable or major transactions (as defined in the Listing Rules) for these listed companies. In each of these cases and in recognising the confidentiality nature of the information, the Stock Exchange has granted a waiver to these companies from strict compliance with the disclosure requirements under the Listing Rules. A confirmation from the directors of these companies was included in the announcements and shareholders' circulars that the maximum amount of the actual purchase prices will not be more than the listed prices or catalogue prices of the aircraft agreed to be purchased.

Disclosure of the material terms of the Aircraft Purchase Agreement

Having considered the confidentiality obligation to which we are subject and the level of information disclosure of similar transactions by other listed issuers (airline operators) in Hong Kong, the following information is disclosed in this prospectus:–

- (1) the Aircraft Purchase Agreement was entered into between CALC (BVI) and *Airbus* on 23 October 2012 (supplemented by letter agreements and amendments) for the delivery of 36 Airbus A320 family aircraft;
- (2) the 36 Airbus A320 family aircraft are scheduled to be delivered to us during the period from the end of 2013 to end of 2016; and
- (3) the aggregate amount of the listed price of the 36 Airbus A320 family aircraft under the Aircraft Purchase Agreement is US\$3.0 billion.

Our Directors confirm that:–

- (a) the actual purchase price of the aircraft will not be more than the listed price of the aircraft under the Aircraft Purchase Agreement;
- (b) we are not in breach of any term and condition of the Aircraft Purchase Agreement that results in *Airbus* to exercise its rights of termination or defer the delivery schedule under the Aircraft Purchase Agreement, other than the breach which has been waived by *Airbus* in respect of our net asset value as of 31 December;
- (c) we have no dispute with *Airbus* which gives rise to any claim that may be initiated by *Airbus*;
- (d) we will use (a) internal resources; (b) arrange PDP financing and long-term bank borrowings; and (c) the net proceeds from the Global Offering to finance aircraft acquisition under the Aircraft Purchase Agreement; and
- (e) there is no material change to the information disclosed under (1), (2), and (3) as of the date of this prospectus.

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In light of the foregoing, our Directors consider that our financial exposure relating to our aircraft purchase commitment would not be as much as the aggregated purchase prices set forth in the Aircraft Purchase Agreement of US\$3.0 billion.

Our Directors and the Joint Sponsors believe that the above information disclosure is consistent with similar disclosure of similar transactions by other companies listed on the Stock Exchange and the requirements under Guidance Letter GL21-10. On this basis, our Directors confirm, and the Joint Sponsors concur with the view of our Directors, that there will be no omission of any material information that may render the contents of this prospectus misleading under Rule 2.13 of the Listing Rules.

Leasing commitment for the aircraft committed to be purchased by us

As of the Latest Practicable Date, we have delivered six aircraft out of the 36 aircraft under the Aircraft Purchase Agreement. As of the Latest Practicable Date, for the 30 aircraft to be purchased and delivered to us under the Aircraft Purchase Agreement by the end of 2016, we have secured, by way of letters of intent and lease agreements, the lease of 17 aircraft scheduled to be delivered in 2014 and 2015. We have secured the aircraft leases for more than a year prior to the delivery date primarily due to our effective marketing efforts.

As of the Latest Practicable Date, we have yet to secure the lease commitment for 13 aircraft scheduled to be delivered in 2015 and 2016, as there are more than 12 months prior to the proposed aircraft delivery date. Our Directors believe that it is an industry practice that aircraft lease arrangements would only be entered into about 12 months prior to the proposed aircraft delivery date.

Due to our good relationship with the major airlines in China, we have secured letters of intent before entering into the final aircraft lease agreements. As confirmed by *Ascend*, the letters of intent are not the industry practice adopted by most international airline operators before entering into the aircraft lease agreements. In most cases, we entered into letters of intent not more than 12 months before the scheduled date of delivery of the aircraft and the lease agreements would be entered into not more than three months before the scheduled date of delivery of the aircraft.

The following table sets forth a summary of the lease commitment from our airline customers as of the Latest Practicable Date:–

	Total number of aircraft with aircraft lease agreement secured	Total number of aircraft with letter of intent secured	Total number of aircraft with no lease commitment	Total number of aircraft to be delivered
2014	8	0	0	8
2015	9	2	1	12
2016	0	0	12	12
Total	<u>17</u>	<u>2</u>	<u>13</u>	<u>32</u>

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We will continue to focus on the airline operators in China and have commenced our aircraft leasing business with airline operators in other Asian countries. Our Directors believe that our existing business network and the high demand for aircraft in China will continue to facilitate the entering into the new leases of our committed aircraft.

Contingency plans in the event of no lease commitment for the aircraft to be purchased under the Aircraft Purchase Agreement

As of the Latest Practicable Date, we have secured the lease commitment, by way of letters of intent or lease agreements, in respect of 17 aircraft out of the 30 aircraft committed to be purchased by us pursuant to the Aircraft Purchase Agreement. We have yet to secure any lease commitment for the remaining 13 aircraft under the Aircraft Purchase Agreement. In the event that we fail to secure additional lease commitment from airline operators, we have formulated a series of contingency plans which include three commercially viable options.

Transfer the aircraft delivery slot to a third party through Airbus

The annual demand for aircraft from *Airbus* far exceeded the annual production capacity during the last decade. This results in a significant number of aircraft order backlog, i.e. an accumulation over time of production orders to be fulfilled by *Airbus*. *Airbus* is therefore prepared to permit the transfer of aircraft delivery slot if a customer is for any reason unable to take a scheduled aircraft delivery slot. Upon completion of such transfer, the transferee will take delivery of aircraft direct from *Airbus*. The increased backlog situation has not changed even though there was economic downturn in 2007 and 2008. On this basis, our Directors believe that it is a commercially viable option for us to transfer the aircraft delivery slot (under the Aircraft Purchase Agreement) to a third party if we cannot secure the lease commitment on acceptable terms. Our Directors confirm that the secondary market for transferring aircraft delivery slot exists in the industry.

Deferred delivery of aircraft with Airbus

Alternatively, we may discuss with *Airbus* for deferred delivery of the relevant aircraft. Our Directors confirm that there were many cases in which the aircraft manufacturers, i.e. *Airbus* and *Boeing*, would accept deferred delivery of committed aircraft requested by other aircraft leasing companies.

Transfer the aircraft delivery slot through broking agents

We may also engage aircraft broking agents to transfer the aircraft delivery slot in relation to 13 aircraft which are not secured with lease commitment.

As demonstrated in the sections headed “Industry Overview – Global aircraft leasing industry” and “Industry Overview – Aircraft leasing industry in China”, our Directors consider that our contingency plans are commercially feasible and consistent with the market practice. In addition, given the high demand for A320 family aircraft, our Directors are of the view that we should experience less difficulty in placing an aircraft during normal and favourable economic environments and the losses may not be a factor.

Our Directors are aware that there are reported cases in the global market that airlines deferred or cancelled their aircraft delivery with *Airbus* and *Boeing*. Although we have never encountered a situation in which an aircraft to be delivered to us has no lease commitment, we have indeed acquired three aircraft from two different vendors who had sold to us their committed purchase of *Airbus* aircraft at prices very close to the aircraft acquisition costs that we would otherwise be

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required to pay to *Airbus* for new aircraft. These transactions demonstrate that because of the high demand for aircraft and the popularity of the aircraft models committed to be purchased by us, we would be able to identify a willing purchaser to take up an aircraft delivery at reasonable prices would be commercially feasible and consistent with the market practice.

OUR AIRLINE CUSTOMERS

In 2011, 2012, and 2013, 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 three, four, and six airline operators in China in 2011, 2012, and 2013, respectively. As of the Latest Practicable Date, we leased and delivered our aircraft to eight airline operators in China. Our existing airline customers to which we leased and delivered our aircraft include *Air China*, *China Southern Airlines*, *Shenzhen Airlines*, *Chengdu Airlines*, *Shandong Airlines*, *Sichuan Airlines*, *China Eastern Airlines*, and *Qingdao Airlines*. All our customers are Independent Third Parties.

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

Out of the eight airline customers, our largest lessee customer has leased from us nine aircraft and our second largest lessee customer leased from us six aircraft. We have business relationship with our airline customers for a longest period of six years. All our airline customers are Independent Third Parties.

The following table sets forth the number of our airline customers and the number of aircraft leased and delivered by us, together with the relevant expiry years, as of the Latest Practicable Date:—

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Airline customer A	2	1					2	2		2	9
Airline customer B				2	1	1	1			1	6
Airline customer C							1	4			5
Airline customer D						2	2				4
Airline customer E									2		2
Airline customer F	2						1				3
Airline customer G								2			2
Airline customer H								1			1
Total	<u>4</u>	<u>1</u>	<u>—</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>7</u>	<u>9</u>	<u>2</u>	<u>3⁽¹⁾</u>	<u>32</u>

Note:—

(1) The aircraft lease agreements of three aircraft will expire in 2022, the second aircraft lease agreements to commence thereafter for not more than six years.

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We set forth below the number of leased aircraft and the amount and the percentage of our lease income attributable to our airline customers during the three years ended 31 December 2013:–

	Year ended 31 December								
	2011			2012			2013		
	Number of aircraft leased as of 31 December			Number of aircraft leased as of 31 December			Number of aircraft leased as of 31 December		
		Lease income			Lease income			Lease income	
	HK\$'000	%		HK\$'000	%		HK\$'000	%	
Airline customer A . . .	5	144,699	64.9	5	141,206	31.5	7	153,511	24.6
Airline customer B . . .	4	67,156	30.1	5	117,832	26.3	6	124,403	20.0
Airline customer C . . .	1	11,220	5.0	4	104,689	23.4	5	127,654	20.4
Airline customer D . . .	–	–		2	83,840	18.8	4	192,333	30.9
Airline customer E . . .	–	–		–	–		2	23,165	3.7
Airline customer F . . .	–	–		–	–		1	2,259	0.4
Total	10	223,075	100.0	16	447,567	100.0	25	623,325	100.0

We have business relationship with our airline customers for a longest period of six years. During the Track Record Period and up to the Latest Practicable Date, none of our Directors and their respective associates and Shareholders holding five per cent. or more of any interest in our aircraft customers.

The following sets forth further information on the transactions between our customers and us during the three years ended 31 December 2013:–

- *Air China* – we purchased from *Airbus* four widebody aircraft which were leased and delivered to *Air China* in 2012 and 2013 under long-term aircraft lease agreements.
- *China Southern Airlines* – we have arranged for sale and leaseback of five narrowbody aircraft for *China Southern Airlines* during the period between September 2007 and October 2008. We leased and delivered two additional aircraft in 2013 under long-term aircraft lease agreements.
- *Shenzhen Airlines* – we leased and delivered two aircraft to *Shenzhen Airlines* in 2013.
- *Chengdu Airlines* – we leased and delivered six aircraft to *Chengdu Airlines*, three in 2010, one in 2011, one in 2012 and one in 2013 under long-term aircraft lease agreements.
- *Shandong Airlines* – we leased and delivered one B737 NG aircraft in 2011, three B737 NG aircraft in 2012, and one B737 NG aircraft in June 2013 under long-term aircraft lease agreements using our onshore leasing platform in the PRC, through which we structured the first leasing transaction with full exemption of the withholding tax granted to the leasing companies established in *Tianjin Dongjiang Free Trade Zone* following the approval granted by the State Council in December 2010.
- *Sichuan Airlines* – we leased and delivered an aircraft to *Sichuan Airlines* in November 2013.

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PRINCIPAL TERMS OF OUR AIRCRAFT LEASE AGREEMENTS

We work closely with our airline customers and structure the aircraft lease agreements to address the specific needs of our airline customers. As of 31 December 2013, we have entered into 25 long-term aircraft lease agreements, and the following table sets forth a summary of the lease agreement in different transaction structures as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
Direct aircraft purchase and lease transactions . . .	4	5	9
Aircraft sale and leaseback transactions	6	11	16
Total	<u>10</u>	<u>16</u>	<u>25</u>

As of the Latest Practicable Date, we have entered into 30 long-term aircraft lease agreements and four short-term aircraft lease agreements with eight airline customers in respect of 32 aircraft owned by us and two aircraft to be delivered to our airline customers after the Latest Practicable Date. Out of the 32 aircraft owned by us, 18 lease agreements were under aircraft sale and leaseback transactions and 14 lease agreements were direct aircraft purchase and lease transactions. Our Directors confirm that the reason for entering into the short-term aircraft lease agreements, i.e. for lease term of less than six years, in March 2014 in respect of the two aircraft was primarily due to the fact that the two aircraft are used aircraft with an average age of 15 years. Our Directors further confirm that these two transactions are expected to provide us with comparable investment return as that of the long-term lease transactions entered into by us. These transactions would not change our business model which focuses on entering into long-term aircraft lease agreements with airline operators.

The principal terms and conditions of the long-term lease agreements for direct aircraft purchase and lease transactions and aircraft sale and lease back transactions are very similar, and we prefer to adopt same principal terms and conditions for these two transaction structures. The following sets forth the principal terms and conditions of our aircraft lease agreements:–

Lease term and lease rate

All our aircraft lease agreements are for fixed term and in some cases, the airline lessee may have extension rights. All of our aircraft lease agreements do not have early termination rights. There is a protective provision in five aircraft lease agreements which provides that if the aircraft is unable to be operated for reasons other than the use by the airline lessee, the airline lessee may request that the aircraft lease agreement be terminated. Most of our aircraft lease agreements do not contain purchase option except for two aircraft lease agreements under which an purchase option has been granted to the lessee and the purchase price of which will take into account of the then fair value of the aircraft or be agreed between us and the lessee. Most of our aircraft lease agreements are subject to fixed amount of lease payments.

Security deposit

All our aircraft lease agreements provide for security deposit for lessees' performance of obligations under the aircraft lease agreements and the condition of the aircraft upon return. We may withdraw the security deposit when our airline customer is in default under the relevant aircraft lease agreement. During the lease term, our airline customers are required to maintain a security deposit with us in the form of cash deposit or irrevocable letter of credit upon such terms and conditions acceptable to us in an amount equivalent to three months' basic lease payments. In

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addition, we also receive security deposits in respect of the future lease transactions that we have entered into leasing letters of intent. The total amount of security deposit as of 31 December 2013 amounts to HK\$90.3 million. The letters of credit are kept by us in our custody and hence, the amount is not recorded in our financial information.

Operating costs and expenses

Our aircraft lease agreements require the lessees to be responsible for all operating costs and expenses, which include fuel, maintenance, crews, airport and navigation charges, licences, aircraft registration, taxes and insurance premiums. In some cases, we may bear the ownership and encumbrance registration fees, but the amount of which are minimal.

Absolute and unconditional payment obligations

Our aircraft lease agreements generally provide that lessee's payment obligations are absolute and unconditional under any and all circumstances pursuant to which lessee is required to make payment without deduction on account of any amounts that we may owe to the lessee or any claims that the lessee may have against us. The payments may be on a monthly or quarterly basis depending on the negotiations with the relevant lessee.

Withholding tax

Our aircraft lease agreements generally require lessees to gross up lease payments to cover tax withholdings or other tax obligations, except for tax withholdings that arise out of transfers of the aircraft to or by us.

Indemnities for tax liabilities

Our aircraft lease agreements generally require that lessees to indemnify us for certain other tax liabilities, relating to the leases and the aircraft, including, in most cases, value-added tax and stamp duties.

Maintenance obligations

Under our aircraft lease agreements, the lessees are responsible for maintenance and repairs, airframe and engine overhauls of the leased aircraft in accordance with the maintenance programme approved by the aviation authorities and consistent with the airframe and engine manufacturers' guidelines. We have the right to inspect the leased aircraft within reasonable time and at the location to be mutually agreed between our airline customer and us. All lease aircraft are required to return to us in prescribed condition upon the expiry of the relevant lease term.

Maintenance reserve and letter of credit

Depending on the creditworthiness of our airline customers, we may require our airline customers to maintain with us an amount of maintenance reserve or arrange with a commercial bank acceptable to us to issue a standby letter of credit in our favour. As of the Latest Practicable Date, there are eight aircraft lease agreements entered into with our airline customers pursuant to which the relevant airline customers are required to provide to us letters of credit in the form to our satisfaction. The letters of credit are used as security for the obligation of our airline customers to maintain the leased aircraft in the prescribed condition. The amount of the maintenance reserve payment and the amount of the letters of credit are determined with reference to the utilisation of the leased aircraft measured by the hours flown. As of the Latest Practicable Date, the amount of the letters of credit kept by us was HK\$159.1 million. The letters of credit are kept by us in our custody and hence, the amount is not recorded in our financial information.

Return compensation

Our aircraft lease agreements provide for return compensation, being payment which is determined with the reference to the level of usage of the aircraft during the lease term and its actual condition upon return.

Airworthiness directive cost sharing

We are required to reimburse the actual costs which our airline customers have incurred for the compliance with the airworthiness directives issued by the US Federal Aviation Administration or the European Aviation Safety Agency if the cost exceed the stipulated threshold in the aircraft lease agreements.

Sub-leases

Some of our aircraft lease agreements permit the lessees to enter into sub-leases of the aircraft with affiliated airline operators with our prior consent.

Compliance with laws and regulations

The lessee is responsible for compliance with all applicable laws and regulations with respect to the operation of the aircraft. We generally require our lessees to comply with the standards of airworthiness directives issued by the aviation authority, airworthiness certificates, licences and registration relative to the aircraft. The lessee is required to ensure that the aircraft shall at all times during the lease term be registered with the applicable civil aviation authority in the country of the lessee. The registration certificate shall record the names of our SPC as the owner of the aircraft, the lessee as the lessee, the airline, and the relevant mortgagee. The lessee also undertakes to have the interests of the lessor under the aircraft lease agreement and the mortgages be registered in accordance with the applicable international convention and may provide us with an irrevocable de-registration and export request authorisation, authorising us to deregister the leased aircraft on the expiry of the aircraft lease agreement.

Re-delivery condition

Our aircraft long-term lease agreements have provisions specifying the re-delivery conditions of the leased aircraft including the flight hours and the time remaining from the last maintenance in respect of the engines, landing gear, auxiliary power units, and other components as well as the overall airworthiness of the leased aircraft. "Re-delivery" means the aircraft is to be returned to us upon the expiry of the aircraft long-term lease agreements. The lessee is generally required to deliver the aircraft to us in its full-life condition, i.e. it is required to maintain the leased aircraft in accordance with the maintenance programmes approved by the aviation authorities and consistent with the airframe and engine manufacturers' recommendation, or such other condition as stipulated in the relevant lease agreement. The aircraft shall be in compliance with all airworthiness directives on re-delivery. The lessee is also required to ensure that a valid export certificate of airworthiness will be issued by the air authority at the time of re-delivery the aircraft to us. There are also provisions on re-delivery compensation to be paid by the lessee at the end of the lease term subject to, inter alia, the utilisation levels of the airframe and the engines and the flight hours of the leased aircraft. The leased aircraft must be in a condition qualifying for immediate operations in accordance with the European Aviation Safety Agency Standards.

Remedies and rights in case of lessee default

Our leases contain provisions on our rights and remedies in case of default by the lessees and provisions on the return condition of the aircraft.

Lease restructuring

Following discussion with the lessee, we may restructure the lease for our own benefit. The various restructuring steps may involve voluntary termination of the lease prior to the expiry date, sub-lease to another airline operator, reduction of the lease obligations, and extension of the lease term and rescheduling of the lease payment schedules.

Repossession of aircraft

If restructuring is not an option in the circumstances, we will seek to terminate the lease take repossession of the aircraft and re-market the aircraft. Under most circumstances, the repossessions will be conducted through negotiations with lessee. In the event that the lessee is uncooperative, we may have to take legal action for the repossession, which would cause some delay. We may also be required to pay certain outstanding charges in relation to aircraft for the use of airport, mechanics, navigation services and also liens on the repossessed aircraft. We may also incur substantial amount of additional costs for maintenance and refurbishment in connection with the repossessed aircraft.

We determine the lease term of each aircraft lease agreement on a case-by-case basis with reference to the current aircraft leasing market conditions, the demand and supply condition of the relevant aircraft, and the creditworthiness and the business history of the relevant airline operator. The lease term and the total amount of lease payments are negotiated on a confidential basis with reference to in the prevailing market conditions at the time of entering into the aircraft lease agreement, and the lease term and the lease payments for same aircraft type may also be different from time to time. Out of the 32 aircraft lease agreements entered into by us as of the Latest Practicable Date, the amount of the lease payments under 30 aircraft lease agreements are fixed throughout the term of the lease agreements. The amount of the lease payments for the remaining two lease agreements may be adjusted conditionally from time to time with reference to the US\$ LIBOR.

LEASE COMMITMENT FROM OUR AIRLINE CUSTOMERS

We actively seek and confirm lease commitment for the aircraft that are currently planned to be delivered before the end of 2016. 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 period from 1 January 2014 to the Latest Practicable Date, we have delivered five aircraft under direct aircraft purchase and lease transactions out of the lease commitment from our airline customers for all the 11 aircraft under direct aircraft purchase and lease transactions in 2014. For the period from 1 January 2014 to the Latest Practicable Date, we have also delivered two aircraft under aircraft sale and leaseback transactions.

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As of the Latest Practicable Date, we have secured the lease commitment by way of aircraft lease agreements for six aircraft to be delivered under direct aircraft purchase and lease transactions in 2014. We have entered into four aircraft lease agreements for four aircraft to be delivered to airline operators in China in 2015. In addition, we have entered into five lease agreements for five aircraft to be leased and delivered to an airline operator in Asia and one letter of intent for two aircraft to be delivered in 2015. The letter of intent for two aircraft entered into with *Sichuan Airlines* is legally binding as advised by our PRC legal advisers.

OUR SALES AND MARKETING

Our sales and marketing activities focus on strengthening the business relationship with airline operators, airline manufacturers, and commercial banks.

We prepare on a regular basis and for our internal use estimated aircraft demand of our existing airline customers and prospective airline customers for the next six to 12 months. These internal reports are used by us for assessment of the future business opportunities. We also participate in major industry promotional events, trade fairs, seminars, and exhibitions, such as 14th Annual Asia Pacific Airfinance Conference and ISTAT Europe 2013 for the purpose of enhancing our industry recognition and identifying prospective customers and future business opportunities.

OUR FINANCING STRATEGIES

Source of financing

In 2011, 2012, and 2013, we primarily relied on long-term bank borrowings and PDP financing to support our aircraft acquisition. The long-term bank borrowings would be arranged for each aircraft purchased by us, and the PDP financing is used for the settlement of PDPs under the Aircraft Purchase Agreement. We also obtained short-term borrowings from time to time from CE Finance for bridging finance purpose. We also use our cash inflows of lease income generated from the aircraft lease agreement. We are mindful on the liquidity risk. As our lease agreements are expected to generate 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 long-term bank borrowings 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 illustrated in the cash position of our aircraft in operation during the three years ended 31 December 2013 in the section headed “Financial Information – Liquidity and capital resources – Cash flows” of this prospectus. As of 31 December 2011, 2012, and 2013, our bank borrowings for aircraft acquisition amounted to HK\$2,622.8 million, HK\$5,536.1 million, and HK\$9,195.7 million, respectively.

In addition to the long-term bank borrowings for aircraft acquisition 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. We do not have any PDP financing in 2011 because the Aircraft Purchase Agreement was only entered into in October 2012. As of 31 December 2012 and 2013, the balances of our PDP financing were HK\$551.0 million and HK\$1,820.1 million, respectively.

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The following table illustrates the financing status of the aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement as of the Latest Practicable Date:–

	Total number of aircraft to be delivered under the Aircraft Purchase Agreement	Total number of aircraft that have secured PDP financing	Total amount of PDP financing secured	Total number of aircraft that have secured long-term bank borrowings	Total amount of long-term bank borrowings secured
			<i>(HK\$'million)</i>		<i>(HK\$'million)</i>
2014	6	6	680.7	5	1,702.4
2015	12	12	1,287.7	–	–
2016	12	8 ⁽¹⁾	901.6	–	–
Total	<u>30</u>	<u>26</u>	<u>2,870.0</u>	<u>5</u>	<u>1,702.4</u>

Note:–

- (1) The PDPs for four aircraft in the amount of HK\$494.1 million have yet to be secured by PDP financing. Our Directors confirm that the PDP financing for two aircraft is expected to be available in July 2014 and for the remaining two aircraft by the end of 2014. China Everbright Bank Co., Ltd. (Hong Kong Branch), and China Development Bank, Hong Kong branch, are the two commercial banks in discussion with us for the PDP financing.

We use short-term borrowings from related parties for bridging finance purpose. These borrowings are interest bearing at the rate of 5.0% to 12.0%. In 2011 and 2012, we obtained from CE Finance financing in the amount of HK\$234.0 million and HK\$663.0 million, respectively, the latter of which was withdrawn separately in January and March 2012 of HK\$312.0 million and HK\$351.0 million after the repayment of the preceding financing. In 2013, we obtained from CE Finance and FPAM financing in the amount of HK\$73.3 million and HK\$46.8 million, respectively. All of these borrowings from CE Finance and FPAM have been fully settled by us as of the date of this prospectus. The maximum balance of the financing obtained by us from CE Finance and FPAM during the Track Record Period did not exceed HK\$351.0 million and HK\$46.8 million, respectively.

In 2011, 2012, and 2013 and up to the Latest Practicable Date, we did not experience any significant reduction, cancellation or withdrawal of the bank borrowings by our lenders or that we were not able to settle our bank borrowings as part of our ordinary course of business.

Long-term bank borrowings

Since the inception of our business, we finance our aircraft acquisition by way of a combination of PDP financing and long-term bank borrowings. As of the Latest Practicable Date, we have entered into 30 long-term bank borrowing agreements for 32 aircraft owned by us. Out of the 30 long-term bank borrowings agreements, the interest rate per annum is in the range between 3.0% and 6.5% as of the Latest Practicable Date, and the interest rate for a majority of the long-term bank borrowings 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.

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Before entering into any long-term bank borrowing transaction, we will review the terms in details and will ensure that the expected cash inflows of lease income over the entire lease term from the aircraft match the repayment instalments under the long-term bank borrowings. We will only secure and confirm the long-term bank borrowings for aircraft acquisition 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. In 2011, 2012, and 2013 and up to the date of this prospectus, we have never experienced any situation in which we are not able to obtain long-term bank borrowings for the leased aircraft. With the lease commitment in place, our Directors are confident that we would be able to obtain the outstanding long-term bank borrowings for aircraft acquisition.

The long-term bank borrowings for aircraft acquisition is 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 CALC (BVI), and pledge of bank deposits amounting to HK\$7.6 million, HK\$46.6 million, and HK\$70.6 million as of 31 December 2011, 2012, and 2013, respectively. There are other undertakings and covenants included in the relevant long-term bank borrowings agreements, which principally include:–

- there will be no material change to the shareholding structure of the relevant SPCs which are the borrowers in the relevant long-term bank borrowings transaction;
- there will be no additional financing from third parties for the relevant leased aircraft without the prior approval of the relevant banks; and
- full compliance with certain financial thresholds set forth in our bank borrowings agreements, including the gearing ratio, the amount of our net assets, the aggregate of the non-current borrowings, and the equity divided by the finance lease receivable, net.

In 2011, 2012, and 2013 we incurred HK\$124.3 million, HK\$249.9 million, and HK\$329.9 million, respectively, on interest expense. We have adopted various measures to reduce our exposure in such regard. Further information on our measures is set forth in the section headed “Risk Management” of this prospectus.

Further information on the financial covenants is set forth in the section headed “Financial Information – Material covenants in financing and asset purchase arrangements” of this prospectus.

As of the Latest Practicable Date, we have not received any notification from our lenders of any breach of any undertakings and covenants in the facility agreements for our bank borrowings that could constitute an event of default.

PDP financing

Pursuant to the Aircraft Purchase Agreement, we need to pay PDPs for the 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 obtain PDP financing from commercial banks and as of 31 December 2012 and 2013, we obtained from two and four commercial banks PDP financing in the amount of HK\$551.0 million and HK\$1,820.1 million, respectively. Subsequent to 31 December 2013, we entered into three additional agreements for PDP financing for eight aircraft. The PDPs for four aircraft in the amount of HK\$494.1 million have yet to be secured by PDP financing. Our Directors confirm that the PDP financing for two aircraft is expected to be available in July 2014 and for the remaining two aircraft by the end of 2014. China Everbright Bank Co., Ltd.

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(Hong Kong Branch), and China Development Bank Co., Ltd. (Hong Kong Branch) are the two commercial banks in discussion with our Group for the PDP financing. 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 other receivables. The amount of interest will then be re-classified to property, plant, and equipment under operating leases or finance lease receivable under financial leases.

The amount of interest incurred and capitalised in 2012 and 2013 amounted to HK\$4.9 million and HK\$46.4 million, respectively.

Short-term borrowings from related parties

We obtained short-term borrowings from CE Finance for bridging finance purpose. There were two borrowings separately obtained from CE Finance in January and March 2012 in the amount of HK\$312.0 million and HK\$351.0 million, which were full settled in March and April 2012, respectively. During the period from 1 January 2013 to 30 September 2013, we obtained from CE Finance and FPAM financing in the total amount of HK\$73.3 million and HK\$46.8 million, respectively. All of these short-term borrowings have been fully settled by us.

Realisation of finance leases receivable

We completed in December 2013 a realisation of the finance lease receivable in respect of one aircraft by way of sales of the finance lease receivable to an Independent Third Party. 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.

Further information on the structure of the realisation transaction of finance lease receivable is set forth in the paragraphs below under “Realisation of finance lease receivable” below.

Financing channels

Because of our independence status, we can select different banks to provide us with long-term bank borrowings and PDP financing based on a number of factors such as the interest rate, percentage of the aircraft purchase price covered, and the collaterals required. In 2011, 2012, and 2013, we obtained aircraft acquisition financing (including long-term bank borrowings and PDP financing) from three, four, and six commercial banks, respectively, and all of them are Independent Third Parties. In 2011, 2012, and 2013, we did not have any experience in any situation where we were not able to obtain long-term banking borrowings or PDP financing for our aircraft acquisition.

We will also consider re-financing as and when appropriate to enhance our interest margin in light of the changing interest-rate environment. In March 2013, we successfully completed a re-financing transaction which has reduced the interest rate in the relevant long-term bank borrowings by more than 2.0% per annum.

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

Hedging transactions

In 2011, 2012, and 2013, our long-term bank borrowings subject to floating interest rate represented 52.1%, 62.4%, and 62.7%, respectively, of the balance of our total long-term bank borrowings. We expect that most of our bank borrowings will continue to be subject to floating interest rates in the future.

BUSINESS

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 long-term bank borrowings to interest rate fluctuations. As of the Latest Practicable Date, we maintain eight interest rate swap contracts for nine aircraft outstanding. Our Directors believe that the interest rate swap contracts, pursuant to which part of our interest rate exposure is fixed at an agreed level, are beneficial to us.

The current eight interest rate swap contracts entered into by us are of similar terms and entered into by us in 2012 and 2013 with an investment bank which is an Independent Third Party. The duration of the interest swap contracts is commensurate with the hedged long-term bank borrowings agreements. Under each of the five agreements as of 31 December 2013, a fixed interest rate is offered by the counterparty for the floating interest rates multiplied by the related amounts of principal. The first payment date of the contracts will commence during the period from September 2014 to December 2014. One interest rate swap contracts will expire on 19 September 2019, three interest rate swap contracts will expire on 21 September 2018, and the remaining one interest rate contract will expire on 21 March 2024.

The current eight interest rate swap contracts are implemented to exchange the floating interest rates with reference to three-month and six-month US\$ LIBOR into fixed interest rates in the range between 1.55% and 2.15%. As of 31 December 2012, the two contracts are secured by pledged deposits of HK\$5.7 million. No deposit was required as of 31 December 2013.

Our Directors confirm that our hedge ratio, based on the balance of the hedged floating interest rate aircraft bank borrowings relative to the balance of the total floating interest rate aircraft bank borrowings of our Group for the three years ended 31 December 2013, was nil, 22%, and 23%, respectively. We are not engaged in any interest hedging activity for the PDP financing and working capital facilities as PDP financing is of short term of approximately two years.

Our strategy on hedging focuses on reducing our exposure to interest rate fluctuations because of a significant portion of our long-term bank borrowings are subject to floating interest rates with reference to three-month and six-month LIBOR. In addition to our close monitoring of the interest rate movements and sensitivity analyses on the interest margin and profitability prior to closing of each aircraft leasing and financing transaction, we have entered into two interest rate swap contracts in 2012, in respect such amount representing 17.8% of the long-term bank borrowings subject to floating interest rates. We have not been involved in any speculative activities during the Track Record Period, and the interest rate swap contracts entered into by us cover the remaining terms of the hedged long-term bank borrowings agreements from the commencement dates of the interest rate swap contracts and are account for under hedging accounting policies. Our Directors confirm that we plan to hold and continue to maintain the hedging position until the extinguishment of the hedged floating interest risk exposure.

As of 31 December 2012, we recognised a negative net effect of HK\$6.4 million which was recorded in our cash flow hedge reserves in our statements of comprehensive income. The effect was principally due to the decrease in the US\$ LIBOR as of 31 December 2012. As of 31 December 2013, we recorded a positive net effect of HK\$28.7 million which was also recorded in our cash flow hedge reserves in our statement of comprehensive income. The positive impact was due to the increasing trend of the US\$ LIBOR in 2013.

BUSINESS

The previous interest rate swap transactions were approved by the Investment Committee. In September 2013, the Strategy Committee was established for the purpose of, amongst other things, considering and approving any hedging activities conducted by us. The Strategy Committee have replaced the functions of the Investment Committee following the Reorganisation Date. Further information on our hedging policy is set forth in the section headed “Risk Management” of this prospectus. Further information on the strategy committee and the policies adopted by it is set forth in the section headed “Risk Management” of this prospectus.

Managing our liquidity risk

As of 31 December 2011, 2012, and 2013, our gearing ratio was 93.0%, 89.9%, and 92.5%, respectively. Most of our liabilities are long-term bank borrowings incurred by us for aircraft acquisition. As the bank-borrowings are repaid according to fixed repayment schedules on a monthly or quarterly basis that match with our cash inflow of lease income, our Directors believe that we have implemented effective measure to limit our liquidity risk. We are also subject to credit risk, and further information of which is set forth in the section headed “Financial Information – Disclosure on financial risks and financial instruments” of this prospectus.

In December 2013, we realised the finance lease receivable in respect of an aircraft, which not only reduces our long-term bank borrowings incurred for the acquisition, but also results in a gain of disposal of HK\$57.1 million. The realisation transaction represents a new financing source to us.

We will continue to explore further financing options both within and outside China by leveraging any financing opportunities then arise.

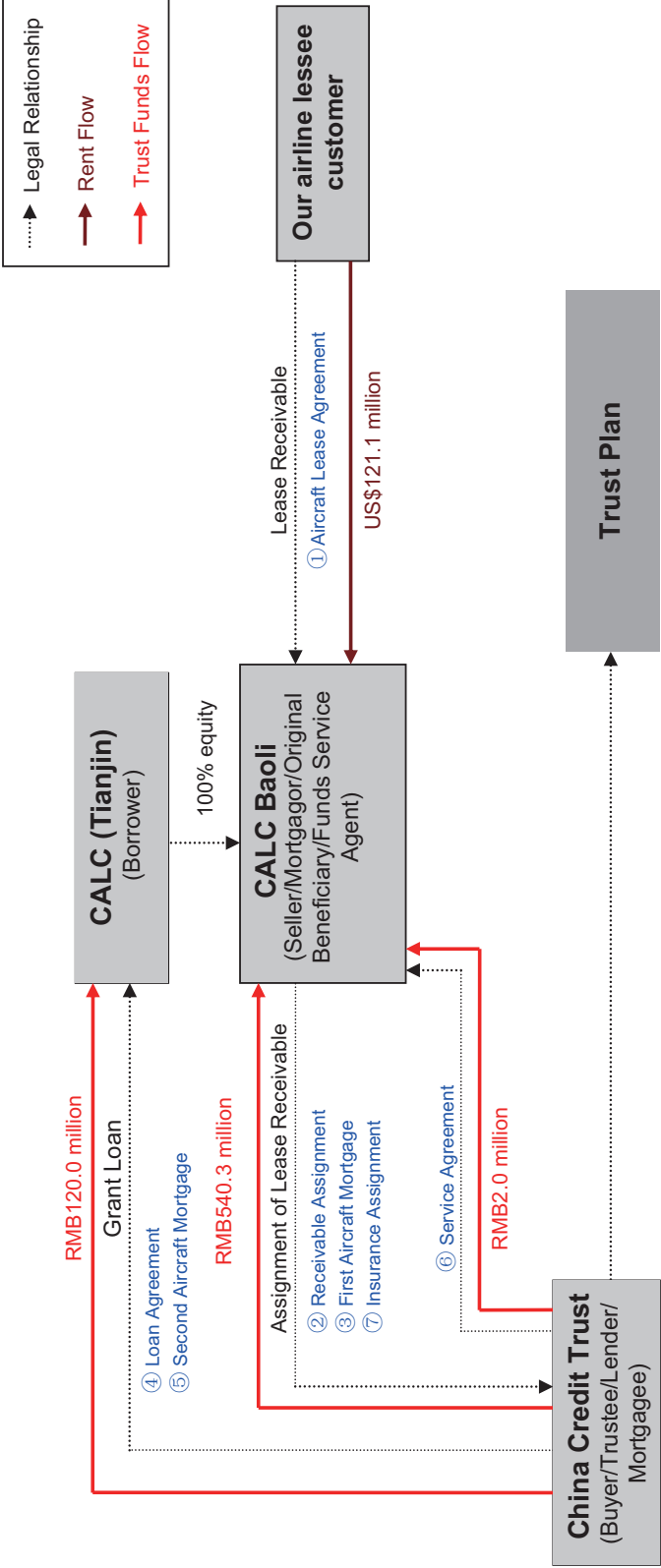
REALISATION OF FINANCE LEASE RECEIVABLES

We completed our first realisation of finance lease receivable in December 2013. Pursuant to the transaction, we sold the finance lease receivable for a total consideration of RMB540.3 million. The lease receivable is related to an A330 aircraft that we lease to our airline customer. The lease term is 12 years and the outstanding lease receivable as of 27 December 2013 was US\$121.1 million. As part of the transaction, we borrowed RMB122 million (equivalent to HK\$155.2 million) from an Independent Third Party to repay the full amount of the long-term bank borrowings for acquisition of the aircraft. The lender of this long-term borrowing is the buyer of our finance lease receivable. As a result of the transaction, on our balance sheet as of 31 December 2013, we de-recognised HK\$615.0 million finance lease receivable, net. The corresponding long-term bank borrowings in the amount of HK\$769.1 million was repaid in January 2014. On our income statement in 2013, we recognised HK\$57.1 million as other income determined by comparing the net proceeds with the carrying amount of the finance lease receivable de-recognised, less transaction costs and PRC BT incurred.

Our Directors believe that the transaction demonstrates not only our business innovation capability, but also our sustainable and expandable business model. The transaction improved our profitability and enhanced our financial resources by realising the un-earned finance income. The transaction also lowered our financial leverage and accelerated our asset rotation by de-recognising the asset and liability. More importantly, the transaction extends our business model much further from aircraft leasing to financial products development. We plan to make the similar transactions regularly on every year.

Overview

The following diagram illustrates the transaction structure of the realisation transaction of finance lease receivable completed by us in December 2013:—



BUSINESS

Realisation of lease receivable

CALC Baoli is the registered owner of an A330-243 aircraft (the “**Relevant Aircraft**”). On 23 August 2013, CALC Baoli entered into a long-term aircraft lease agreement with one of our airline lessee customers. Pursuant to the long-term aircraft lease agreement, we have agreed to lease the Relevant Aircraft to the airline lessee customer for a period of 12 years commenced from 4 September 2013 to 27 May 2025 for a total amount of lease payment of US\$124.3 million (equivalent to HK\$969.5 million). As of 27 December 2013, the outstanding lease payment amounted to US\$121.1 million (equivalent to HK\$944.6 million).

As part of the realisation transaction, on 30 December 2013, CALC Baoli entered into a lease receivable assignment (the “**Lease Receivable Assignment**”) with China Credit Trust Co., Limited (“**China Credit Trust**”) as the buyer and trustee to “*China Credit Trust & CALC Pooled Investment Funds Trust Plan of 2013*” (the “**Trust Plan**”) established by China Credit Trust for the benefit of China Taiping Insurance Group Company (“**Taiping Insurance**”) in China. Taiping Insurance is the settlor of the Trust Plan. The Trust Plan, which is not established by us and on which we have no control, constitutes a “Pooled Funds Trust” business (集合資金信託業務) under the applicable PRC laws and regulations. The consideration for the assignment is RMB540.3 million (equivalent to HK\$687.2 million). Pursuant to the Lease Receivable Assignment, we assign all rights and benefits of the lease payment in the total amount of US\$121.1 million (equivalent to HK\$944.6 million) to China Credit Trust. These rights include the rights of claim of the lease payments and the default interest in the event of overdue payment by our airline lessee customer.

Following completion of the transaction under the Lease Receivable Assignment, China Credit Trust will, with the security provided by CALC Baoli as described below, bear all the risks (which include, but without limitation to, credit risk, market risk, and exchange rate risk arising from the lease receivables. Our PRC legal advisers confirm that all such risks will not be borne by us from 30 December 2013, being the completion date under the Lease Receivable Assignment, except for exchange rate risk on future lease payments received during the period from 27 February 2024 to 27 May 2025.

Arrangements between China Credit Trust and us

As security for the payment of the lease by our airline lessee customer in accordance with the original long-term aircraft lease agreement, CALC Baoli has provided the following security for the benefit of China Credit Trust:–

- (a) First mortgage of the Relevant Aircraft to China Credit Trust with a value of US\$129.5 million (equivalent to HK\$1,010.1 million). If there is any default under the Lease Receivable Assignment, change in the ownership in CALC Baoli without the prior consent of China Credit Trust, bankruptcy or analogous proceeding initiated against CALC Baoli or any other event which would materially and adversely affect the rights of China Credit Trust under the mortgage, China Credit Trust will be entitled to dispose of the Relevant Aircraft for the amount due under the Lease Receivable Assignment.
- (b) Assignment of all rights and benefits in respect of the insurance proceeds and relevant income under prevailing insurance policies over the Relevant Aircraft and under the circumstance of total loss currently relating to the Relevant Aircraft.

BUSINESS

Lease payment collection service undertaken by CALC Baoli pursuant to a service agreement (the “**Service Agreement**”) entered into in December 2013. Pursuant to the Service Agreement, China Credit Trust has appointed CALC Baoli as the funds service agent to collect the lease payments received from our airline lessee customer. A service fee of RMB2.0 million (equivalent to HK\$2.5 million) was paid by China Credit to us on 31 December 2013. Under the term of the Service Agreement, we will convert each future lease payments received on behalf of China Credit Trust during the period from 27 February 2024 to 27 May 2025 from US\$ into RMB at a pre-determined exchange rate. This arrangement constitutes a derivative-currency swap contract. Therefore, we will bear the risks arising from the fluctuation of the exchange rate.

Long-term borrowing provided to us by China Credit Trust

As part of the realisation transaction, we obtained from China Credit Trust a long-term borrowing in the amount of RMB122.0 million (equivalent to HK\$155.2 million). We used this amount, together with the proceeds received under the Lease Receivable Assignment, for the repayment of the long-term bank borrowing incurred for the acquisition of the Relevant Aircraft. The term of the loan commenced from 30 December 2013 to 4 September 2025. The principal and the interest of the loan shall be paid on a bi-annual basis and the payment date is the second business day following each of 27 May and 27 November of every year until the full repayment of the loan. The annual interest rate applying on the loan is fixed at 6.43%.

As security for the performance of the long-term loan, CALC Baoli has provided a second mortgage over the Relevant Aircraft in the mutually agreed amount of US\$129.5 million. If there is any default under the repayment of the long-term borrowing, change in the ownership in CALC Baoli without the prior consent of China Credit Trust, bankruptcy or analogous proceeding initiated against CALC Baoli or any other event which would affect the rights of China Credit Trust under the mortgage, China Credit Trust will be entitled to dispose of the Relevant Aircraft for repayment of the long-term borrowing and all amount due to China Credit Trust.

Source of the funding for the Lease Receivable Assignment and the long-term borrowing provided to us

We confirm that the source of funding under the Lease Receivable Assignment and the long-term borrowing is coming from the proceeds of the Trust Plan. Our legal advisers to the PRC law confirm that the Trust Plan is not established by us and we have no control of the Trust Plan. Our legal advisers to the PRC law further confirm if China Credit Trust is bankrupt, dismissed or loses legal qualification, the Trust Plan will not be affected directly, and the trustee of the Trust Plan will also be changed by the plenary session of all the beneficiaries of the Trust Plan accordingly then.

Principal risks faced by us

Our Directors believe that we face the following risks as a result of completion of the realisation transaction:—

- (a) The transaction described above does not involve the transfer of the ownership of the Relevant Aircraft. Hence, we will continue to be the registered owner of the Relevant Aircraft and will continue to be subject to the residual value risk of the Relevant Aircraft.

BUSINESS

- (b) Under the Lease Receivable Assignment, we will be liable if there is any breach of representation, warranty or undertakings made by us. In addition, we will also be liable if we fail to transfer any payment to China Credit Trust to which it is entitled. We will not be liable even though our airline lessee customer fails to make the regular lease payment, but China Credit Trust shall be entitled to exercise the first mortgage over the Relevant Aircraft.
- (c) According to the Service Agreement, if our airline lessee customer fails to make the lease payments on time, we will not be subject to any responsibility. However, if we fail to transfer the payment on time pursuant to the Service Agreement following the receipt from our airline lessee customer, China Credit Trust may terminate the appointment and we will then be liable for any loss that China Credit Trust or the Trust Plan suffers.
- (d) We are required to make regular repayment of the long-term borrowing, failing which we may be required to pay additional interest. China Credit Trust may also request immediate repayment of the long-term borrowing.
- (e) We will bear exchange rate risk on lease payment received during the period from 27 February 2024 to 27 May 2025.

Accounting treatment of the realisation transaction

The following sets forth the accounting treatment of the realisation transaction:–

- (a) We have transferred substantially all the risks and rewards of ownerships on the lease payments to the buyer of the finance lease receivable and hence, the finance lease receivable relating to lease payments is de-recognised.
- (b) The total consideration for disposal of the finance lease receivable of RMB540.3 million (equivalent to HK\$687.2 million) was received by us in cash on 30 December 2013. A gain of HK\$57.1 million was recorded under “Other income” in our profit and loss. The amount represents the difference between the amount of the net proceeds received by us and the carrying amount of the finance lease receivable de-recognised, less the transaction costs and the business tax incurred. We still retain the risk and rewards of ownerships relating to the residual value of the aircraft and hence, the finance lease receivable relating to residual value of the aircraft is not de-recognised.
- (c) There will cease to have any future lease receivable due and payable arising from the relevant aircraft in the amount of US\$121.1 million (equivalent to HK\$944.6 million) for the remaining lease period.
- (d) We have repaid the balance of the long-term bank borrowings of US\$98.6 million (equivalent to HK\$769.1 million) incurred for the acquisition of the Relevant Aircraft using the proceeds received from the realisation of the finance lease receivable. A long-term borrowing of RMB122.0 million (equivalent to HK\$155.2 million) has been provided by the buyer of the finance lease receivable to us for a term from 30 December 2013 to 4 September 2025. The purpose of the loan is to provide funding to us for the repayment of part of the long-term bank borrowings incurred by us for the acquisition of the Relevant Aircraft.
- (e) In respect of the realisation of the finance lease receivable, a tax provision for PRC BT and PRC CIT amounting to HK\$16.9 million has been made.

OUR FUNDING SUPPLIERS

As an aircraft leasing company, our suppliers are commercial banks that provide us with aircraft acquisition financing in the form of long-term bank borrowings and PDP financing. The long-term bank borrowings would be arranged for each aircraft purchased by us, and the PDP financing is used for the settlement of the PDPs under the Aircraft Purchase Agreement. The major component of our cost is the interest expense paid to our lenders.

In 2011, 2012, and 2013, we obtained aircraft acquisition financing (including the long-term bank borrowings and the PDP financing) from three, four, and six commercial banks, respectively, and all of them are Independent Third Parties. Our interest expense incurred amounted to HK\$124.3 million, HK\$249.9 million, and HK\$329.9 million, respectively, during the three years ended 31 December 2013.

In 2011, 2012, and 2013, our largest supplier for funding accounted for 47.9%, 41.4%, and 43.0% of our total aircraft acquisition financing (including the long-term bank borrowings and the PDP financing), respectively. In 2013, our five largest suppliers for funding accounted for 98.6% of our total aircraft acquisition financing (including the long-term bank borrowings and the PDP financing). We have business relationship with our suppliers for an average of four years. All our suppliers are Independent Third Parties.

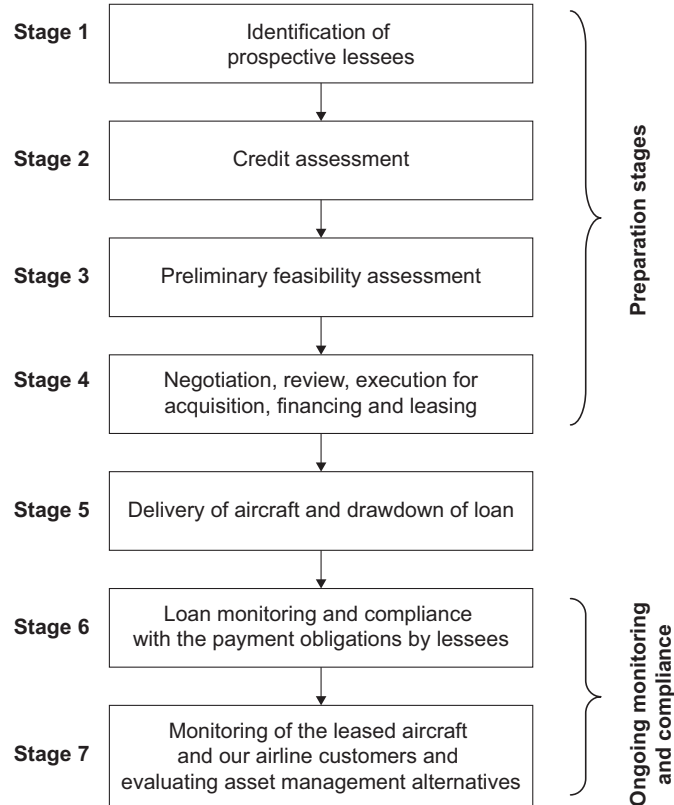
During the Track Record Period and up to the Latest Practicable Date, none of our Directors and their respective associates and Shareholders holding five per cent. or more of any interest in our suppliers for funding.

The determination of the interest rates for our long-term bank borrowings and PDP financing are based on commercial negotiations between us and the relevant banks and financial institutions and are generally 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. A sensitivity analysis of the interest rates on our operating profit before taxation in 2011, 2012, and 2013 is set forth in the section headed “Financial Information – Significant factors affecting our operating results and financial condition” of this prospectus.

BUSINESS

OUR BUSINESS OPERATIONS IN AIRCRAFT LEASING BUSINESS

We have a clear segregation of business departments with clearly 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 our 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.

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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 long-term bank borrowings. 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 long-term bank borrowings 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 in China. Pursuant to the report issued by our industry consultant, *Ascend*, we are the ninth largest aircraft lessor and the largest independent Chinese lessor in terms of the total number of aircraft in service and on order as of 31 December 2013. Our market share in the China aircraft leasing industry was 3.1% in 2013, according to the Ascend Report. According to the Ascend Report, as of 31 December 2013, there were 13 Chinese aircraft lessors. These aircraft leasing companies include domestic and foreign lessors. The China 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 China 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 ICBC Leasing Co. and CDB Leasing Company and international leasing companies, such as GE Capital Aviation Services and AerCap Holdings N.V. Bank-affiliated aircraft leasing companies generally have a customer base that focus on and build upon their bank network. 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. Competitions 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. Competitions 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.

Further information on our competitive strengths is set forth in the paragraphs under “Our Competitive strengths” above.

INSURANCE

Overview

In 2011, 2012, and 2013, we maintained different types of insurance which we believe are customary for companies in the aircraft leasing business.

In addition, one of the common terms of our operating leases, we require our airline customers, which are lessees of our aircraft, to maintain insurance coverage with insurers acceptable to us on the possible damages to the leased aircraft and more importantly, all-liability insurance. The insurance coverage includes comprehensive liability insurance, aircraft all-risk hull insurance, and the insurance coverage required to be maintained by the government agencies. We are named as one of the beneficiaries under these insurance policies and would not be subject to any claim from any third party for damages, fines, penalties or levies charged in the course of operation of the aircraft. We, as the lessor, shall be named as the loss payee under the all-risk hull insurance in the event of total loss. In 2011, 2012, and 2013 and up to the Latest Practicable Date, we did not receive any amount under insurance policies maintained by our airline customers on the aircraft leased to them.

We also require the insurance companies engaged by our airline customers to provide us with a certificate of insurance prior to aircraft delivery. The lessee is responsible for paying the insurance premiums.

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 19 of our leased aircraft as of the Latest Practicable Date. 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. The residual value insurance is also one of the factors in determining whether a lease is considered as an operating lease or a finance lease from the accounting perspective. Further information on our accounting policies and our accounting judgements are set forth in the sections headed "Financial Information – Our critical accounting policies" and "Financial Information – Our significant accounting judgements and accounting estimates" of this prospectus.

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Our residual value insurance is subject to (a) our appointment of an independent qualified inspector to produce a report on the appraised value of the insured aircraft, (b) we or an aircraft re-marketing agent having used commercially reasonable efforts to sell the aircraft during the marketing period prior to the lease expiry date, (c) the compliance of the insured aircraft with the requirements of the return condition, and (d) the insured aircraft shall not suffer loss or damage prior to or on the authorised sale date to such extent as to allow a termination of the lease of such aircraft. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice in line with our needs and with industry practice in China and other jurisdictions, if appropriate.

According to the residual value insurance policies, insurance premium is required to be paid by us in instalments for a time period up to 10 years. In 2011, 2012, and 2013, we paid HK\$1.5 million, HK\$4.4 million and HK\$13.2 million, respectively, for the residual value insurance of aircraft.

As of 31 December 2013, we maintained residual value insurance on 16 aircraft. As of the Latest Practicable Date, out of the 32 aircraft owned by us, we have arranged for residual value insurance to be maintained on 19 aircraft upon requested by the banks or after consideration of various factors by us.

In compliance with the applicable laws and regulations, we also carry occupational injury, medical insurance, and other State-mandated insurance for our employees.

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. Further information on our registered trademarks and trademark applications in China and elsewhere which are material to our business operations are set forth in the section headed “Intellectual Properties” in Appendix IV to this prospectus.

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.

PROPERTIES

As of the Latest Practicable Date, we do not own any property for investment purpose. In 2011, 2012, and 2013 we incurred HK\$1.3 million, HK\$3.4 million, and HK\$7.1 million, respectively, as rental payments.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32I of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Miscellaneous Provisions) Ordinance which require a valuation report with respect to all our Group’s interests in land or buildings, for the reason that, as of 31 December 2013, none of our properties has a carrying amount of 15% or more of our consolidated total assets.

We lease two properties in Hong Kong for our office and warehouse purposes. Our Directors confirm, with the advice from our Hong Kong legal advisers, that the lease agreements on the Hong Kong leased properties are legally binding between us and the lessors.

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We also lease one office premises in Beijing, one office unit in Shenzhen, thirty six (36) properties in Shanghai as our offices within and outside the bond area, and 54 leased properties in Tianjin as our offices within and outside *Tianjin Dongjiang Free Trade Port Zone*. We have entered into 93 lease agreements, of which two lease agreements are for leased properties in Hong Kong and 91 lease agreements are for leased properties in China. Except for the office lease transaction set forth in the section headed “Continuing Connected Transactions” of this prospectus, all other leases are entered into with Independent Third Parties.

Out of the 91 leases entered into by us in respect of the leased properties in China, 54 lease agreements have not been registered with the relevant government authorities in China as of the Latest Practicable Date. These properties are located in two cities in China and have an aggregate gross floor area of approximately 780.09 sq.m. All the leased properties under the 54 leases are used for the purpose of office premises.

As advised by our PRC legal advisers, under the PRC laws, an executed lease agreement must be registered and filed with the relevant land and real estate administration bureau. Pursuant to our PRC legal advisers, failure to register an executed lease agreement will not invalidate the lease agreement, and the above 54 lease agreements will not become invalid due to such non-registration.

Our human resources personnel are in process of the registration of the lease agreement for the one leased property in Shanghai.

The two lessors to a leased property in Beijing and a property in Tianjin are reluctant to conduct the registration of the lease agreements for both of the leased properties. As registration of lease agreements would need to be conducted jointly by both the lessors and lessees of the lease agreements under the relevant PRC laws and regulations, we could only complete the registration with the assistance from the lessors. Our Directors confirm that we had used our best efforts to follow up with the lessors to complete the registration of the lease agreements, however, despite our repeated demands and requests, the lessors refused to assist us in completing the filing and registration procedures, the registration of these lease agreements have not been completed as of the Latest Practicable Date.

We have not completed the registration of the lease agreements for 50 of the leased properties in *Tianjin Dongjiang Free Trade Port Zone*. According to the documents issued by authorised real estate administration, all lessors in respect of the 50 leased properties have legal ownership in the leased properties, but the lessors have not yet obtained the official property ownership certificate issued by the authorised real estate government as of the Latest Practicable Date. As registration of lease agreements would need the official property ownership certificate under the relevant PRC laws and regulations, the registration of these 50 lease agreements have not been completed as of the Latest Practicable Date.

We have been advised by our PRC legal advisers that, in respect of the lease agreements that have not been registered, we, as the lessee, may be subject to penalty of not more than RMB218,000 for the failure to file and register the lease agreements under the relevant PRC laws and regulations. However, as advised by our PRC legal advisers, the non-registration will not affect the validity of the lease agreements entered for the leased properties.

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The following table sets forth further information on our leased properties in different locations:–

Cities/Locations	Usages	Gross floor area (sq.m.)	Lessees	Earliest expiry dates	
Hong Kong	Unit C 28th Floor Far East Finance Centre 16 Harcourt Road Hong Kong	Office	334.45 m ²	China Aircraft Leasing Limited	2015.8.9
	Room Y 10th Floor Kin Teck Industrial Building 26 Wong Chuk Hang Road Aberdeen Hong Kong	Warehouse	11.89 m ²	China Aircraft Leasing Limited	2015.1.31
Beijing	China World Trade Centre, Chaoyang District	2 years	245.79 m ²	China Asset Leasing Company Limited ("CALC Limited")/ CALC Beijing Mechanical Equipment Leasing Branch	2015.2.22
Shenzhen	Xinxing Square, Luohu District	3 years	130.62 m ²	CALC (Shenzhen) Limited	2015.10.9
Shanghai	21st Century Centre Building, Pudong New District	1 year	62.51 m ²	CALC Yongchun Limited	2015.12.31
	Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Yongchun Limited	2014.7.19
	Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Hongdao Limited	2015.1.31
	Wen Ju Road, Pudong Airpore Free Trade Zone	1 years	20 m ²	CALC Yongshun Limited	2014.11.14
	Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Jinglong Limited	2015.5.31
Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Jingyun Limited	2015.5.31	

BUSINESS

Cities/Locations	Usages	Gross floor area (sq.m.)	Lessees	Earliest expiry dates	
	Wen Ju Road, Pudong Airport Free Trade Zone	1 years	600 m ² ⁽¹⁾	CALC Chongning Limited CALC Xining Limited CALC Xiyong Limited CALC Shaoxi Limited CALC Shaoding Limited CALC Shengshao Limited CALC Pingxian Limited CALC Xianchun Limited CALC Chunyou Limited CALC Chunhua Limited CALC Honghua Limited CALC Chenghua Limited CALC Congtian Limited CALC Dingtian Limited CALC Xingchong Limited CALC Chonghe Limited CALC Xuanhe Limited CALC Dexuan Limited CALC Dingjing Limited CALC Youjing Limited CALC Youhuang Limited CALC Youbao Limited CALC Liyong Limited CALC Liqing Limited CALC Qingkai Limited CALC Wuzhao Limited CALC Yanjian Limited CALC Daozhi Limited CALC Yuanrong Limited CALC Mingshou Limited	2015.2.19
Beijing	China World Trade Center, Chaoyang District	2 years	245.79 m ²	China Asset Leasing Company Limited ("CALC Limited")/CALC Beijing Mechanical Equipment Leasing Branch	2015.2.22
Shenzhen	Xinxing Square, Luohu District	3 years	130.62 m ²	CALC (Shenzhen) Limited	2015.10.9
Shanghai	21st Century Center Building, Pudong New District	1 year	62.51 m ²	CALC Yongchun Limited	2015.12.31
	Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Yongchun Limited	2014.7.19

BUSINESS

Cities/Locations	Usages	Gross floor area (sq.m.)	Lessees	Earliest expiry dates
Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Hongdao Limited	2015.1.31
Wen Ju Road, Pudong Airpore Free Trade Zone	1 years	20 m ²	CALC Yongshun Limited	2014.11.14
Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Jinglong Limited	2015.5.31
Wen Ju Road, Pudong Airpore Free Trade Zone	2 years	30 m ²	CALC Jingyun Limited	2015.5.31
Wen Ju Road, Pudong Airpore Free Trade Zone	1 years	600 m ² ⁽¹⁾	CALC Chongning Limited CALC Xining Limited CALC Xiyong Limited CALC Shaoxi Limited CALC Shaoding Limited CALC Shengshao Limited CALC Pingxian Limited CALC Xianchun Limited CALC Chunyou Limited CALC Chunhua Limited CALC Honghua Limited CALC Chenghua Limited CALC Congtian Limited CALC Dingtian Limited CALC Xingchong Limited CALC Chonghe Limited CALC Xuanhe Limited CALC Dexuan Limited CALC Dingjing Limited CALC Youjing Limited CALC Youhuang Limited CALC Youbao Limited CALC Liyong Limited CALC Liqing Limited CALC Qingkai Limited CALC Wuzhao Limited CALC Yanjian Limited CALC Daozhi Limited CALC Yuanrong Limited CALC Mingshou Limited	2015.2.19

BUSINESS

Cities/Locations	Usages	Gross floor area (sq.m.)	Lessees	Earliest expiry dates	
Tianjin.	Tianjin International Building, He Ping district	3 years	299 m ²	CALC Limited	2015.5.31
	Tianjin Economic-Technological Development Area	1 year	52.34 m ²	CALC Limited	2014.8.9
	Combination Exam Service Centre, Dongjiang Free Trade Port Zone Of Tianjin	1 year	5 m ² 5 m ²	CALC Limited CALC Jianzhao Limited	2014.11.25 2015.6.27
	Financial & Trade Service Center, Dongjiang Free Trade Port Zone Of Tianjin	3 years	25 m ² (2)	CALC Jianfeng Limited CALC Jianqing Limited CALC Jianxiang Limited CALC Jianzhang Limited CALC Jianyuan Limited	2015.11.6
		1 year	5 m ² 70 m ² (2)	CALC Xianqing Limited CALC Kaiyao Limited CALC Shangyuan Limited CALC Diaolu Limited CALC Xianheng Limited CALC Tongtian Limited CALC Yonglong Limited CALC Ganfeng Limited CALC Zongzhang Limited CALC Yifeng Limited CALC Jiande Limited CALC Yonghui Limited CALC Longshuo Limited CALC Lingde Limited CALC Yongchang Limited CALC Changan Limited CALC Shenlong Limited CALC Baoli Limited CALC Changqing Limited CALC Xiantong Limited CALC Tianbao Limited CALC Guangde Limited CALC Yongtai Limited CALC Zhide Limited CALC Yuanhe Limited	2015.12.25 2015.10.13 2015.6.23

BUSINESS

Cities/Locations	Usages	Gross floor area (sq.m.)	Lessees	Earliest expiry dates
	1 year	30 m ² (2)	CALC Guangming Limited CALC Wende Limited CALC Ganning Limited CALC Jingfu Limited CALC Longji Limited CALC Dashun Limited	2014.7.17
	1 year	50 m ² (2)	CALC Ruyi Limited CALC Tanglong Limited CALC Wenming Limited CALC Sisheng Limited CALC Shengli Limited CALC Kaicheng Limited CALC Tianyou Limited CALC Taihe Limited CALC Dengfeng Limited CALC Xingyuan Limited	2014.11.18
	1 year	10 m ² (2)	CALC Jianyan Limited CALC Longxing Limited	2015.5.3
Total		<u>2,126.6 m²</u>		

Notes:—

- (1) Each subsidiary of CALC Yongshun established in Shanghai has leased 20 square metres within the areas.
- (2) Each subsidiary of CALC (Tianjin) established in Tianjin has leased 5 square metres within the areas.

EMPLOYEES

As of 31 December 2013, we had a total of 64 employees. All of our employees are employed on a full-time basis. The following table sets forth the number of our employees based on their respective roles:—

Functions/Teams	Number of employees
Executive Directors	2
Senior management	5
Commercial	13
Aircraft trading	3
Technical and asset management	6
Legal and transaction support	6
Finance, accounting, and company secretary	17
Human resources, and office administration	11
Risk management	1
Total	<u>64</u>

Our Directors believe that our senior management team is specialised in the aircraft leasing industry with the required skills, experience, and technical knowledge.

BUSINESS

Our Directors 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. As of the Latest Practicable Date, we have 32 employees who have obtained a bachelor's degree and 17 employees who have obtained a master's degree. Our staff members did not participate in any trade union during the Track Record Period. We had no strike or labour dispute with our employees during the Track Record Period.

We provide regular training to our staff members to keep them informed of the latest information on the market and industry. We maintain good working relationship with our staff members during the Track Record Period. We recruit such number of staff based on our business development. Our recruitment process begins when an individual department determines that it has a specific personnel requirement after reviewing its business requirements. We recruit employees from a number of sources, including universities, internal referral, and career fairs and advertising. Candidates are reviewed internally and interviewed by the relevant department.

In addition to our full-time employees, Mr. Jens Christian DUNKER, our Managing Director of Aircraft Trading, works for us under a secondment agreement date 22 June 2011 entered into between CALL and Jetline Consulting Limited, a company incorporated in England and wholly-owned by Mr. DUNKER. Mr. DUAN Xiaoge, our Head of Technical and Asset Management, has become our full-time employee effective from 1 March 2013. During the period between 17 January 2007 and 28 February 2013, Mr. DUAN worked for us as our technical consultant.

In 2011, 2012, and 2013, our expenses on staff wages and salaries and consultancy fees amounted to HK\$8.4 million, HK\$5.9 million, and HK\$16.4 million respectively, representing 3.7%, 1.3% and 2.4% of our revenues.

We have established effective employee incentive systems to remunerate our employees with outstanding performance. Pursuant to the Pre-IPO Share Option Scheme, eleven employees have been granted options to subscribe for 1,230,000 shares at the subscription price of US\$0.161 as of the date of this prospectus. Further information on the Pre-IPO Share Option Scheme is set forth in the section headed "E. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

With regard to our employees in China, save as disclosed in the section headed "Business – Legal proceedings and compliance" of this prospectus, we have complied with the applicable laws and regulations on employees' benefits. As of the date of this prospectus, 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.

Following Listing, our employees have been or may be granted share options pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme. Further information on the terms and conditions of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme is set forth in the sections headed "D. Post-IPO Share Option Scheme" and "E. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus, respectively.

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ENVIRONMENTAL MATTERS

As an aircraft leasing company, we are not subject to any significant environment laws and regulations. We do not currently have any environmental liabilities and do not expect that we would incur any material environmental liabilities which could have any material adverse impact on our business and operating results.

LICENCES AND PERMITS

Our PRC legal advisers confirm that, during the Track Record Period and the period up to the Latest Practicable Date, we had obtained all requisite licences, approvals, and permits from the relevant government authorities that are material for our aircraft leasing business in China and such licences, approvals, and permits remain in full effect, and no circumstances exist that would lead to their revocation or cancellation. Our PRC legal advisers also confirm that, to the best of their knowledge, except for the disclosure of non-compliance incidents in this prospectus, none of our subsidiaries incorporated in PRC China having acted in breach of any applicable rule or regulation of PRC law during the period commencing at the incorporation of the subsidiaries and up to the Latest Practicable Date.

The Directors confirm that we have obtained legal opinions from our legal advisers as to Hong Kong, Malaysian, Irish and Dutch laws that we have obtained all requisite licences, approvals and permits from the relevant government authorities for our operations in Hong Kong, Labuan, Ireland and the Netherlands.

Our Directors confirm, with the advice from our legal advisers as to Hong Kong laws, that no actions were pending against any of the Hong Kong subsidiaries in the courts of Hong Kong and no petitions to wind up any of the Hong Kong subsidiaries has been filed in the courts of Hong Kong. Our Directors confirm, with the advice from our legal advisers as to Malaysian laws to the best of their knowledge and based on the confirmation of our Company, that our subsidiaries incorporated in Malaysia do not carry activities or business that contravene with any existing applicable law, statute, rule or regulation of Labuan or Malaysia. Our Directors confirm that they are not aware of, and also confirm that our legal advisers as to Dutch laws based on the confirmation of our subsidiary incorporated in the Netherlands and without having conducted any independent investigation in that respect had confirmed that they are not aware of, our subsidiary incorporated in the Netherlands having acted in breach of any applicable rule or regulation of Dutch law during the period commencing at the incorporation of the subsidiary and up to the Latest Practicable Date. Our Directors confirm, with the advice from our legal advisers as to Irish laws based on documents including material agreements provided by our Company to and examined by them, that the implementation by our subsidiaries incorporated in the Ireland of the material agreements executed by the subsidiaries will not cause any Irish law or order to be contravened. The Directors therefore confirm that, during the Track Record Period and up to the Latest Practicable Date, we have complied with all relevant laws and regulations in all material aspects for our business operations in the relevant jurisdictions.

NON-COMPLIANCE MATTERS

During the Track Record Period and up to the Latest Practicable Date, we have the following non-compliant incidents relating to our business operations in China. Having consulted with our PRC legal advisers, our Directors believe that the following non-compliant incidents are immaterial to our business operations.

Brief description of the non-compliant incidents	Reasons for the non-compliant incidents	Remedial actions or consequence
<p>The subsidiaries of CALC (Tianjin), which are SPCs, are not in compliance with the requirement on registered capital under the applicable PRC laws and regulations.</p> <p>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 <i>Tianjin Dongjiang Free Trade Port Zone</i> should not be less than 10% of the total investment of the relevant project. Our PRC legal advisers advise us that the wholly-owned subsidiaries of CALC (Tianjin) are not in compliance with the relevant requirement under the Regulation.</p> <p>Our PRC Legal Advisers confirm that, according to the <i>Regulations on the Management of the Tianjin Dongjiang Free Trade Zone</i>, the responsibilities of the Management Committee is established by the Tianjin Municipal People's Government and has the authority to exercise administrative management over Tianjin Dongjiang Free Trade Zone. The authority includes:—</p> <ul style="list-style-type: none"> – Organise and draw up urban planning for the Free Trade Zone and its contiguous zone, which may be carried out after undergoing a review by the Binhai New District Committee and obtaining the Tianjin government's approval; – Exercise administrative management power intensively and uniformly, according to the authority invested in the Committee by the Tianjin government or entrusted to it by the relevant departments; 	<p>Our Directors believed that the Regulation would not be applicable to our SPCs.</p>	<p>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. Our PRC legal advisers confirm that the Management Committee is the competent authority to issue the confirmation.</p>

Brief description of the non-compliant incidents	Reasons for the non-compliant incidents	Remedial actions or consequence
<ul style="list-style-type: none"> - Handle all public management work of the Free Trade Zone and its contiguous zone with respect to land, planning, construction, industry and commerce, finance, labour, social security, environmental protection, health, production security, etc.; - Coordinate and assist with the Customs, Inspection and Quarantine, Immigration Inspection, Maritime Safety, Taxation, Foreign Exchange, and all other related administrative departments and other resident units, and coordinate other related affairs; - Organise and draw up an industrial development guidance directory, formulate a overall industrial layout plan, manage investment projects and development and construction activities; and - Promote the construction of a public information platform, publish public information timely, realise the integration and sharing of information resources. 		

Brief description of the non-compliant incidents	Reasons for the non-compliant incidents	Remedial actions or consequence
<p>No registration of lease agreements in respect of leased properties in China</p> <p>According to the relevant laws and regulations in China, any lease agreement for leased properties in China must be filed and registered with the relevant authorities after the date of signing of the leased agreement.</p> <p>As of the date of this prospectus, the lease agreements for 53 leased properties have not been registered. Out of these 53 leased properties, one is situated in Beijing, one is situated in Shanghai, and the remaining 51 leased properties are situated in Tianjin.</p>	<p>Our human resources personnel are in process of the registration of the lease agreements for the 1 leased property in Shanghai.</p> <p>The two lessors of a leased property in Beijing and a property in Tianjin are reluctant to conduct the registration of the lease agreements for both of the leased properties.</p> <p>We have not completed the registration of the lease agreements for 50 of the leased properties in Tianjin <i>Dongjiang Free Trade Port Zone</i>. According to the documents issued by authorised real estate administration, all lessors in respect of the 50 leased properties have legal ownership in the leased properties, but the lessors have not yet obtained the official property ownership certificate issued by the authorised real estate government as of the Latest Practicable Date.</p>	<p>No registration can be proceeded for one leased property in Beijing and Tianjin.</p> <p>As registration of lease agreements would need the official property ownership certificate under the relevant PRC laws and regulations, the registration of these 50 lease agreements have not been completed as of the Latest Practicable Date.</p> <p>We have been advised by our PRC legal advisers that, in respect of the lease agreements that have not been registered, we, as the lessee, may be subject to penalty of not more than RMB218,000 for the failure to file and register the lease agreements under the relevant PRC laws and regulations. However, as advised by our PRC legal advisers, the non-registration will not affect the validity of the lease agreements entered for the leased properties.</p>

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Our Directors confirm that in order to prevent the recurrence of non-compliance incidents in the future, (a) the human resources and office administration manger will monitor the performance of such requirement and (b) the internal audit of the risk management will perform review periodically. Save as disclosed above, as of the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to us to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial condition.

RISK MANAGEMENT

OVERVIEW

As an aircraft leasing company, our business faces a number of business, operational, and financial risks that require effective preventive measures and on-going monitoring and controls. We have also implemented various measures under the management of our senior management team to address the risks involved in our business operations. The following sets forth detailed information on our risk management systems. Our Directors believe that these measures are effective in controlling our risks whilst fostering our business growth in the rapidly changing business environment.

OBJECTIVES OF OUR RISK MANAGEMENT SYSTEMS

We have adopted the following risk management systems:–

- continue to optimise our business model, integrating it with our enhanced corporate governance structure to reduce the inherent risks in our business activities, such as liquidity risk and credit risk;
- continue to utilise our business network to effectively enhance our industry knowledge so as to reduce the probability of and the impact from defaulted and discontinued lease transactions; and
- continue to cultivate a strong risk management corporate culture through implementation of our risk management and staff training.

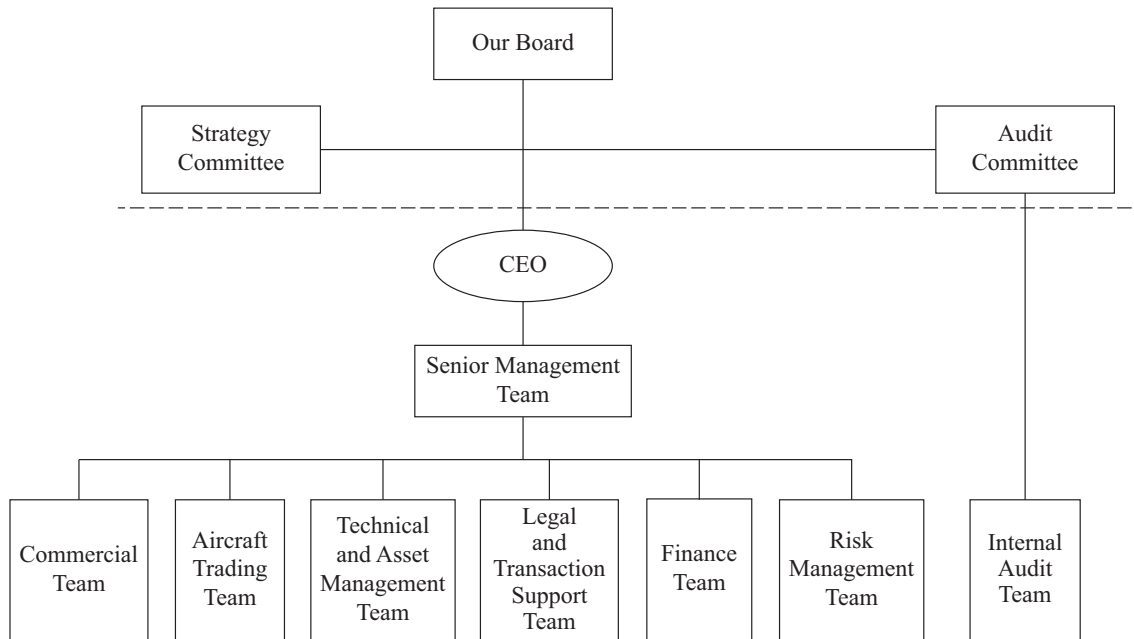
KEY OPERATIONAL RISKS INVOLVED IN OUR BUSINESS OPERATIONS

We have implemented risk management systems and policies from the business model dimension and the strategic dimension, and the following sets forth further information on these two dimensions:–

Business model dimension. Our business is organised and operated on a transactional basis so that each lease transaction is reviewed by our management from different perspectives. Further information on the risk control policies implemented by our management teams is set forth in the paragraphs under “Delineation of risk management functions” below. Such an approach helps managing systematic risks through established and standardised procedures which include (a) a stringent selection process of suitable aircraft assets and (b) a stringent review of the background of lessees through credit assessment and approval procedures. We believe these established procedures enable us to maintain relatively low exposure to the inherent risk in each lease transaction.

RISK MANAGEMENT

Strategic dimension. Our risk management initiatives at the strategic level are led by our chief executive officer and selected members of the senior management under the supervision of the strategy committee of our Board, with the focus on reducing and managing the inherent risks arising from our strategic planning, business operations, corporate credit environment, and finance and accounting. We have established our strategic risk management system and the following chart sets forth our risk management structure: –



OUR BOARD

Our Board is the highest decision-making and risk management body. Our Board oversees the risk management functions through the strategy committee and the audit committee.

Strategy Committee

Our Strategy Committee was established on 11 September 2013 to oversee the strategic issues and development of our Group. Members of our Strategy Committee are Mr. CHEN Shuang, our Chairman, Mr. POON, our Chief Executive Officer, Ms. LIU Wanting, and Mr. TANG Chi Chun. Members of our Strategy Committee have sufficient knowledge and experience in managing risk and all of them have extensive experience in financial and business operation in various international financial institutions. The principal responsibilities in the area of risk management include the following:–

- Setting out the overall philosophy of risk management.
- Approving risk management strategy, policies and procedures.
- Determining the overall level of risk tolerance, monitoring the senior management to implement the necessary internal control steps to identify, measure, monitor, and control risks, and regularly obtaining information on the nature and level of risk through monitoring and evaluation of a comprehensive risk management report.
- Ensuring effective identification, measurement, monitoring and control of business risks has been undertaken.

RISK MANAGEMENT

- Determining and approving our hedging policy.
- Assessing the risk management effectiveness by senior management in performing their duties.

The chairman of our Strategy Committee is Mr. CHEN Shuang, further information on his background is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus.

Audit Committee

Our Audit Committee, comprising Mr. NG Ming Wah, Charles, Mr. ZHANG Chongqing, Mr. SUN Quan, and Mr. GUO Zibin, was established on 11 September 2013. Our Audit Committee is primarily responsible for monitoring our internal controls and the independent internal audit function, reviewing and overseeing the implementation of our internal control rules and measures, evaluating our internal audit capabilities, mandating external auditors, as well as examining and verifying our financial information and related disclosure. Our Audit Committee will also report and make recommendations to our Board. The chairman of our Audit Committee is Mr. NG Ming Wah, Charles, further information on his background is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus.

DELINEATION OF RISK MANAGEMENT FUNCTIONS

Introduction

We believe that the risks should be addressed and rectified upfront in the respective operation teams, namely aircraft trading, commercial, technical and asset management, legal and transaction support and finance teams. We also believe that proper process controls, guidelines, procedures and alert systems are imposed on the respective teams to manage the risks pertaining to their business process. We designate a risk management team to assist these operation teams to design and set up processes and procedures with proper controls and provide guidance for implementation. We also rely on our internal audit team, which operates independently from the operation teams, to oversee the effectiveness of these process designs and operations and to provide comprehensive assurance with the highest level of independence and objectivity of our Group.

Our teams in risk management

Our risk management operations are organised into different teams to ensure that all our business, operational and financial risk areas are adequately covered during the ordinary course of our business. The major roles and responsibilities of our teams in risk management perspective are summarised below:–

Chief Executive Officer and senior management

Our Chief Executive Officer is overseeing our overall risk management operations of our Group. Our senior management, comprising our Senior Vice President – Head of Commercial, Managing Director of Aircraft Trading, Head of Technical and Asset Management, Chief Financial Officer, Chief Operating Officer and Financial Controller, is responsible for managing business, operational and financial risks associated with their responsible business functions independently and collaboratively in accordance with the risk management strategy, policies and procedures adopted

RISK MANAGEMENT

by our Strategy Committee. They report to our Chief Executive Officer who will recommend and report on our overall risk management operations to our Strategy Committee. Further information on their background is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus. The principal responsibilities of our business functions in the area of risk management are as follows:–

- Be responsible for management, monitoring and control of risk arising from their responsible business functions.
- Designs and implements controls and procedures that can mitigate risk effectively and efficiently.
- Ensures risk mitigating controls and procedures to operate effectively and efficiently.
- Performs periodic risk control self-assessment.
- Reports to Risk Management Team of: –
 - Any identified risk together with loss report and corrective/remedial actions.
 - Result of risk control self-assessment to be performed periodically.
- Ensures full compliance with risk management strategy, policies and procedures adopted by Strategy Committee.

Commercial Team

Our commercial team is led by Ms. LIU Wanting, our Senior Vice President – Head of Commercial, and mainly responsible for managing risks arising from aircraft leasing business cycle, including but not limited to procurement, placement, delivery and disposal of aircraft, financing of aircraft acquisition, counterparty default, lease receivable realisation, and government policy risks. Further information on our risk control policies is set forth in the paragraphs under “Detailed Operational Risk Management Policies”.

Aircraft Trading Team

Our aircraft trading team is led by Mr. Jens Christian DUNKER, our Managing Director of Aircraft Trading, and mainly responsible for managing operational risks arising from aircraft trading business, including but not limited to procurement and disposal of aircraft risks. Further information on our risk control policies is set forth in the paragraphs under “Detailed Operational Risk Management Policies”.

Technical and Asset Management Team

Our technical and asset management team is led by Mr. DUAN Xiaoge, our Head of Technical and Asset Management, and mainly responsible for managing risks associated with our aircraft asset, including but not limited to engineering and configuration, delivery, disposal, maintenance and return of aircraft and asset risks. Further information on our risk control policies is set forth in the paragraphs under “Detailed Operational Risk Management Policies”.

RISK MANAGEMENT

Legal and Transaction Support Team

Our legal and transaction support team is operated by Mr. TANG Yu Ping, our Financial Controller, under the direct supervision of our Chief Executive Officer. With the assistance of in-house and external legal counsels, tax advisor and other related professionals, our legal and transaction support team is mainly responsible for managing risks arising from execution of business transaction, including but not limited to, procurement, placement, delivery and disposal of aircraft, financing of aircraft acquisition, finance lease receivable realisation, tax, financial, legal and compliance risks. Further information on our risk control policies is set forth in the paragraphs under “Detailed Operational Risk Management Policies”.

Finance Team

Our finance team is led by Mr. YU Tai Tei, our Chief Financial Officer, and mainly responsible for managing financial risks and other business and operational risks including, but not limited to, aircraft acquisition and working capital financing, tax, budgeting, legal and compliance risks. Further information on our risk control policies is set forth in the paragraphs under “Detailed Operational Risk Management Policies”.

Risk Management Team

Our risk management team is led by Mr. LIU Fu Wah Patrick, our Chief Operating Officer, and mainly responsible for establishing a robust and vigorous risk management system to mitigate the risk of loss resulting from inadequate or botched internal processes and systems and new or inexperienced employees of the Group. The principal duties of our risk management team are summarised as follows:–

- Develops risk management strategy, policies and procedures.
- Reviews and analyses key business processes and transactions to identify possible risk areas.
- Recommends and provides guidance on design and implementation of risk mitigation controls over critical business processes.
- Designs, implements and executes key risk indicators monitoring framework to measure and analyse operational risk and losses.
- Designs, implements and monitors risk control self-assessment processes.
- Delivers risk management training.
- Reports to the Strategy Committee on significant loss event on transaction basis and risk assessment result twice a year.
- Executes other risk management initiatives directed by the Strategy Committee from time to time.

RISK MANAGEMENT

Internal Audit Team

Our internal audit team operates independently from other business functions and oversees our risk management and compliance system to provide comprehensive assurance with the highest level of independence and objectivity of our Group. The functional reporting line of our internal audit team is to our Audit Committee while its administrative reporting line is to our Chief Operating Officer. During the course of audit, our internal audit team is authorised to:–

- Access, review and evaluate comprehensively the business and operational processes and documents to identify any material risk control weakness or issue.
- Provide advice for improvement and rectification.
- Follow up control weakness and issues previously identified and ensure corrective and remedial measures have been duly implemented.

DETAILED OPERATIONAL RISK MANAGEMENT POLICIES

We are principally exposed to various risks arising from our business transactions and corporate operations. We assess and manage our business transaction risks with reference to the aircraft's title transfer date while our corporate operations risks is managed continuously without any time boundary. Further information on our key risk management policies and controls is analysed as follows:–

Business transaction risks – Before obtaining aircraft's title

Procurement of aircraft

We face a number of risks in aircraft procurement process. Risks relating to aircraft mainly include aircraft type selection, terms and conditions negotiation, aircraft delivery schedule and budgeting risks. Risks relating to people involved in procurement process include corruption and counterparty risks. We have several professional teams to monitor, control and review the entire procurement process. Initial acquisition plan, budget and proposal are prepared internally and reviewed by our senior management and external legal counsel prior to submission for approval of the Investment Committee. We also conduct due diligence check against each counterparty and take further actions such as inserting preventive clauses in transaction agreements, if necessary, to protect our interests.

Engineering and configuration of aircraft

Risks encountered by us at this stage include those relating to project management such as information leakage, conflict of interest, engineering corruption, and change of government policies. We have a team of experienced engineers with in-depth technical knowledge and a series of procedural controls to prevent the occurrence of material problems. Detailed scope of responsibilities and proper approval procedure are measures taken to prevent corruption. Furthermore, we have established a system to provide incentive that aligns with our corporate objective. We are constantly alert to some specific customers and industry-wise changes. Our teams regularly monitor and follow up on changes in government policies relating to industrial standard.

RISK MANAGEMENT

Placement (leasing) of aircraft

We monitor the global aircraft leasing market closely and report to our senior management regularly with an aim to draw up sound marketing and placement plans for business expansion. We have established a very efficient placing mechanism with guidelines and standard procedures to ensure timely, appropriate and satisfactory placements of new and used aircraft to minimise the risk of idle asset. Particularly for our leased aircraft, annual inspection is performed to ensure our aircraft will be returned by our customers in sellable or leasable condition upon the expiry of aircraft lease agreements.

Financing of aircraft acquisition

Financing is of significant importance to the success of our business operation. We manage our financing risk by early planning of our project funding requirement and maintaining cohesive business network with various onshore and offshore financing banks. For any unexpected event affecting our financing plan, we had, in the past, relied on the financing support from our Controlling Shareholders to provide us with short-term bridging finance facilities to satisfy our short-term financing needs. We anticipate such reliance will be diminished progressively in future given the availability of working capital financing facilities offered to us by our financing banks recently. We will continue to explore other available financing channels to diversify our financing sources to cope with our business expansion plan in future.

Delivery of aircraft

Completion of aircraft delivery requires collaborative effort of all operation teams and counterparties. Our key delivery risks include manufacture of aircraft, completion of financing, transfer of titles, delivery taken by airlines and approval of government. We consider this risk is vital to our business operation as failing to manage such risk would not only cause a delay in delivery but also damage our reputation in the aircraft leasing industry. To manage such risks, we closely monitor the aircraft manufacturing progress, the readiness of our customer to take delivery, the availability of fund by our financing bank and the completion status of all legal documents relating to aircraft delivery. We have also developed a comprehensive process and checklist to ensure all these areas are handled by our operation teams properly and completed promptly as scheduled. Any possible failure to complete the assigned tasks on time shall be reported immediately to our risk management team and our Chief Executive Officer without any delay.

Counterparty default and concentration

Our counterparty default risk refers to the risk of our counterparties not being able to fulfil their contractual obligations under aircraft purchase contracts, aircraft lease agreements, aircraft acquisition financing agreements, other financial and relevant transaction agreements. We assess our counterparty default and concentration risk prior to entering into any agreement through a rigorous and comprehensive counterparty selection process. We only deal with those counterparties that meet our selection criteria and pass our initial due diligence check. We continue to monitor the creditworthiness of our counterparties after engaging with them through our ongoing monitoring processes including, but not limited to, daily monitoring of lease receivable collection status, periodic on-site customer visits and financial and credit analysis. If the creditworthiness of our counterparty deteriorates and falls below our acceptable level, we are required to report the situation to our risk management team, our Chief Executive Officer and the Strategy Committee to determine any appropriate action.

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Fluctuation of cash flow and interest rate

Our cash flow and interest rate risk exposure is mainly arising from the mismatch of financing term and lease term of the same aircraft, which may trigger a re-financing need prior to the expiry of aircraft lease agreement and disposal of aircraft, and from the fluctuation of interest rate which may affect future cash outflow stream of financing with floating interest rate while most of our cash inflow from lease income are fixed. To minimise the uncertainty of future cash flow stream and frequency of re-financing arrangement, our current strategy starts from our planning stage to match the loan term with the lease term and to structure the cash flow stream of both financing and lease arrangements to ensure our receipt of each lease payment is sufficient to cover our payment of each loan instalment throughout the loan term. In addition, we also manage to maintain a balanced loan portfolio with fixed and floating interest rates. Our Strategy Committee has further approved to use derivative instruments to hedge against our cash flow and interest rate risk exposure. This cash flow and interest rate risk management strategy is reviewed by our Strategy Committee periodically to assess and determine the most appropriate risk management strategy taking into account the latest development of the debt market and interest rate trend. The current interest rate risk management policy is described in paragraphs at the end of this section.

Fluctuation of foreign exchange rate

Our foreign exchange risk exposure is mainly arising 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 our foreign exchange rate risk, all our aircraft and lease related contracts including, but not limited to, procurement, placement and disposal, are denominated in US dollar except for the Service Agreement relating to our finance lease receivable realisation transaction where we have agreed to convert certain future rents to be received on behalf of China Credit Trust from US dollar to RMB at a pre-determined exchange rate. We manage this risk exposure by closely monitoring the current and forward exchange rate movement and the estimated impact on our sensitivity analysis. Any exceptions will be reported to our risk management team, our Chief Executive Officer and, where necessary, the Strategy Committee. External legal counsel and professional advisors are also engaged to assess the impact and ensure full compliance of applicable foreign exchange control policies prior to conducting any business transaction. Our ongoing monitoring process include evaluation of foreign exchange rate forecast, assessment of impact on our operating profits resulting from the movement of foreign exchange rate and monitoring of the change or modification of the applicable foreign exchange control regulations on a timely basis.

Business transaction risks – After obtaining aircraft's title

Maintenance and residual value of aircraft

Aircraft are our major assets. Upon the commencement of aircraft lease agreement, our customers enjoy exclusive right to use the leased aircraft during the lease term. In order to protect the value of our asset, we have built in several asset protection clauses in aircraft lease agreement of which our customers are obliged to observe and fulfil the maintenance obligations and reserve, return compensation and re-delivery condition, etc. throughout and upon the expiry of the lease term. Our customers are further required to maintain full value insurance of the leased aircraft and its installed part and restricted from subleasing the leased aircraft without our prior written consent to ensure the actual user of the leased aircraft are indeed our intended customers. Besides, we are entitled to and have continuously performed periodic inspection on site of the leased aircraft and the

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maintenance records to ensure the performance of the maintenance obligations by our customers. We also engage, on a periodic basis, independent professional advisor to assess the fair value of our aircraft portfolio for impairment review. Any exceptions or non-compliance issues revealed in our monitoring process are reported to our risk management team, our Chief Executive Officer and the Strategy Committee immediately.

Exit of investment

Aircraft asset is our valuable investment. It is a durable but depreciating asset with high value and long useful life. If we are unable to exit our investment, either through re-leasing or disposal, when our leased aircraft is returned to us upon expiry of aircraft lease agreements, we may have a considerable amount of non-revenue generating asset on book which will adversely affect our investment return. We take measures to mitigate such risk at initial stage by choosing popular and easily-marketable aircraft models for acquisition with subsequent regular inspection and monitoring controls to ensure the aircraft to be returned in sellable or leasable condition. We also monitor closely the development of aircraft leasing market and, when appropriate, carry out early marketing campaign to dispose of our finance lease receivable and/or aircraft at early stage. Summary of our aircraft portfolio is reviewed and discussed by our senior management to identify any appropriate exit strategy periodically.

Financial covenants and settlement obligations

After entering into various financing, aircraft purchase and finance lease receivable realisation related agreements, we are due to comply with certain financial covenants and settlement obligations as specified in these agreements. Failure to comply with these covenants and obligations may constitute an event of default leading to early termination of these agreements. We manage this compliance risk through closely and frequently review of covenants compliance status and evaluation of potential impact based on various sensitivity analyses. When there is any condition precedents to our settlement obligation, such as receipt of lease payment prior to transferring to China Credit Trust pursuant to the terms and conditions of the Service Agreement, we have dedicated teams in the PRC to process receipt and payment while such process is monitored by our teams in Hong Kong. Early alert will be flagged to our senior management and our Chief Executive Officer if any potential noncompliance event is anticipated in future.

Corporate operations risks

Business secret and information confidentiality

Business information is our valuable intangible asset. We are very concerned with the risk of business information leakage which may damage our business competitiveness in the aircraft leasing industry and impose liability to us by breaching the non-disclosure and/or information confidentiality clauses of various agreements that we have entered into. We manage this risk by setting effective Chinese wall among our various business functions with only sufficient but not excessive information made available to the respective functions. Non-disclosure of business information and non-competition clauses are also built in our employees' employment agreements to protect our interests upon departure of our employees.

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Financial management and tax

We are exposed to a variety of financial and tax risks including, but not limited to, foreign exchange risk, interest rate risk, counterparty default (credit) risk and cash flow (liquidity) risk. In order to achieve an appropriate balance between risk and return and minimise the potential adverse effects on our financial performance, we have several professional teams to monitor, on a periodic basis, the financial and tax risk exposure of our Group by various methods described above, including the interest rate derivative hedging arrangement which is the only derivative hedging transaction allowed by the Strategy Committee. We are also explicitly restricted from entering into any other derivative transaction for hedging or speculation purposes without consent by the Strategy Committee. Besides, a weekly cash flow forecast is prepared and reviewed by our senior management to ensure the sufficient liquidity of our business operations in future. Where necessary, external professional advisers are engaged to advise on critical issues arising from our business transaction, such as applicable tax laws and regulations in various jurisdictions. Any exception or unexpected exposure is reported to our risk management team and Chief Executive Officer to determine any remedial action.

Capital management

Our capital risk exposure refers to our 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 shareholders' value in the long term. We manage our capital structure and make appropriate adjustments in light of changes in economic condition and our business expansion plan by issuing new shares, raising new debts or adjusting dividend payment to shareholders. We assess our capital risk at budgeting stage and monitor subsequently by reviewing our asset-liability (gearing) ratio on a monthly basis. Alert will be made to our risk management team and our Chief Executive Officer if the asset-liability ratio exceeds the threshold set by our annual budget or the current capital level is not sufficient to support the expected growth of our business.

Human resources

We face human resources risk in terms of recruitment and retention of industry talents, key personnel and leaders, compliance of different labour laws and regulations in various jurisdictions with our presence. We manage this risk by introducing talent training programme to develop and grow our talents organically and offering comparable remuneration and incentive package including bonus and share options to our employees. We encourage our employees to attend relevant training courses, either in-house or external, to keep their business and technical knowledge up-to-date. We also adopt standardised operating procedures and have employee succession plan in place to minimise the potential adverse impact on our business operation due to departure of any key personnel. With respect to the compliance risk, external professional advisers are engaged, where applicable, to ensure all our human resources policies do satisfy and comply with all relevant labour laws and regulations in different jurisdictions.

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DETAILED INTEREST RATE RISK MANAGEMENT POLICY

We view derivatives as a tool to achieve our asset and liability management objectives to:–

- Manage interest rate volatility impact on operating cash flows and profits.
- Reduce the cost for debt financing when compared to conventional debt structures.
- Manage the mixture of fixed and floating rate debts and, possibly, hedge future debt issues.

We may accomplish our goals by using derivatives to adjust our exposure to floating interest rates or by hedging the interest rate volatility of projected debt financing activities.

Guidelines on use of derivatives

We determine what action to take by evaluating the composition of our outstanding loans portfolio (adjusted for any hedges) and assessing the change in this composition over a predetermined planning horizon to determine our portfolio exposure. In determining when to hedge, we monitor our interest rate exposure, future funding and liquidity requirement, and consider current capital market information, such as level of market interest rate, shape of yield curve and signals of anticipated interest rate movement from government authorities and market sentiment. When evaluating the hedging options, we analyse and quantify the cost and benefit of all available derivative instruments that could achieve the same desirable objective. Preference is given on the lowest cost, most liquid and most flexible hedging strategy available. At inception, we choose derivative that closely matches the exposure being hedged. We are then required to monitor the value at risk until the hedge is unwound or expired.

Guidelines on selection of derivative counterparty

We select our derivative counterparties based on their respective current creditworthiness assessed by independent international credit rating agencies. We set and review annually maximum allowable trade limit for each single derivative counterparty to manage our counterparty concentration risk. For any exceptions or non-compliance with these guidelines, such as deterioration of the counterparty's credit rating after entering into the derivative hedging transaction, we are required to either unwind all or some outstanding derivative contracts with this "unqualified" counterparty or report to the Strategy Committee to determine any appropriate action.

Controls over derivative hedging process

The Strategy Committee establishes and guides the strategic direction of interest rate risk management, approves the annual interest rate risk tolerance level recommended by our Chief Executive Officer and sets position limits for execution. Our Chief Executive Officer manages our interest rate risk profile with reference to the approved tolerance level and position limits. The current interest rate risk tolerance level is set to be our floating rate debt (adjusted for hedges) ratio ("**Risk Ratio**") not exceeding 50%. If exceeded, corrective actions, including hedging with derivative instruments, should be taken within a pre-determined period set by our Strategy Committee who should continuously be informed about the Risk Ratio status on a weekly basis until the tolerance level is met. Details of our Strategy Committee and the background and experience relating to interest rate risk management of the committee members are described in the above paragraphs and set forth in the section headed "Directors, Senior Management, and Employees", respectively.

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Under our interest rate risk management strategy and the guideline, our finance team is responsible for monthly analysis of our financial position and daily mark-to-market position review and analysis of our outstanding derivative instruments. Any exceptions are reported to our transaction support team and risk management team. Our transaction support team is responsible for evaluation of hedging options, selection of qualified counterparty, negotiation of derivative's term and conditions and submission of hedging proposal to our Chief Executive Officer for approval. Once approved, our transaction support team completes the execution with our counterparty. In case our position limits are exceeded, all hedging proposal must be reviewed and approved by the Strategy Committee before execution. Our risk management team is responsible for formulation of hedging strategy, design of risk management framework, monitoring of hedging process and counterparty's qualification, review of interest rate market outlook and escalation of risk and non-compliance events to Chief Executive Officer and, where applicable, the Strategy Committee.

Our Directors confirm that we have strengthened the internal control measures, particularly on the compliance issues. We allocate and will deploy additional qualified human resources to ensure due compliance with the applicable laws and regulations and will engage external consultants (legal and accounting) and qualified company secretary.

Based on (a) the fact that none of the non-compliance incidents had a material adverse effect on our business, financial condition or results of operations; (b) we have deployed additional qualified human resources to ensure due compliance with the applicable laws and regulations; (c) we are in the process of engaging Hong Kong and PRC legal advisers to advise us on on-going compliance with the applicable laws and regulations; and (d) after making enquiries of our senior management and our Board and discussing with our internal control consultant regarding our internal control system, the Joint Sponsors confirm that nothing has come to their attention that our internal control measures are inadequate and ineffective.

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The following discussion and analysis should be read in conjunction with our audited consolidated financial information, including the notes thereto, as of and for the years ended 31 December 2011, 2012, and 2013 included in the accountant's report set forth in Appendix I to this prospectus. The accountant's report is prepared in accordance with HKFRSs.

The following discussion and analysis and other sections of this prospectus contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of the historical events, current conditions and expected future developments, as well as other factors believed by us to be appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" of this prospectus.

OVERVIEW

We are an independent aircraft leasing company focusing on China aircraft leasing market. According to the Ascend Report, as of 31 December 2013, we were the largest independent aircraft lessor in China and the ninth largest aircraft lessor in China in terms of the total number of aircraft in service and on order. Our market share in the China aircraft leasing industry was 3.1% as of 31 December 2013. As of 31 May 2014, we ranked the third among the aircraft leasing companies in China in terms of the total number of aircraft that have been delivered in 2014 and scheduled to be delivered in 2014.

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 entered into five lease agreements for five aircraft to be leased and delivered to an airline operator in Asia. Our business model allows us to provide different aircraft leasing transaction structures through our SPCs established in China and overseas. 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 long-term bank borrowings for aircraft acquisition. In addition to aircraft leasing, we also provide our airline customers with value-adding services including trading and marketing of used aircraft and other advisory services on fleet management, which distinguish us from other established aircraft leasing companies in China.

Because of our distinctive business model and the growing airline customer base, our lease income grew at the CAGR of 67.1% during the three years ended 31 December 2013, from HK\$223.1 million in 2011, to HK\$447.6 million in 2012, and further to HK\$623.3 million in 2013. Our fleet size has reached 32 aircraft as of the Latest Practicable Date.

We also completed our first realisation transaction of finance lease receivable of our aircraft in December 2013. Through the transaction, we improved our profitability, enhanced our capital base, and reduced our leverage. The transaction further demonstrates not only our business innovation capability, but also our sustainable and expandable business model in the future.

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Our business primarily focuses on the aircraft leasing market in China. China is a fast growing market for aircraft leasing industry in the world as a result of various factors, including the rapid development of the airline industry, the continuous economic development, and the relatively low market penetration of aircraft leasing business as compared with other developed countries. During the period from 2003 to 2013, China's real GDP has grown at the average rate of 10.2%, China's air passengers have grown from 87.6 million to 354.0 million at the CAGR of 15.0%, and China's RPK has also grown from 101.5 billion kilometres to 455.8 billion kilometres at the CAGR of 16.2%. In line with the development of airline industry, the number of commercial aircraft operated by China's airlines has grown significantly from 635 in 2003 to 2,080 in 2013 at the CAGR of 12.6%. Amid the expansion environment of the China airline industry, aircraft leasing is attractive to many airline operators as it can reduce their financial commitment in outright aircraft ownership and provide fleet planning flexibility with relatively low initial capital commitments. *Ascend* forecasts that by 2018, approximately 40% of the commercial aircraft operated by the Chinese airlines are expected to be under aircraft leasing.

We use SPCs established in China and overseas to enter into aircraft lease agreements with airline operators. The lease term of our long-term aircraft lease agreements is sufficiently long to cover the repayment term of our long-term bank borrowings. 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 of 31 December 2013, our aircraft lease agreements are of an average term of around 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 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 operate.

RECENT DEVELOPMENT OF OUR BUSINESS SUBSEQUENT TO THE TRACK RECORD PERIOD

Our business continues to grow since 31 December 2013 and the aircraft delivered and leased are generally consistent with the delivery schedule. For the period from 1 January 2014 to the Latest Practicable Date, we have delivered seven aircraft: five aircraft are under direct aircraft purchase and lease transactions and two aircraft are under aircraft sale and leaseback transactions. As of the Latest Practicable Date, out of the 30 aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement, we have lease commitment in respect of 17 aircraft.

Based on our unaudited consolidated financial statements prepared by our management, as of 30 April 2014, our finance lease receivable amounted to HK\$8,939.4 million and our cash and cash equivalents amounted to HK\$652.0 million.

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Our revenues and net profit are generated primarily from three sources, namely finance lease income, operating lease income, and other income from realisation of finance lease receivable. In 2013, we recognised HK\$57.1 million as other income from our first 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 cost is expected to increase because of the expansion of our fleet and that eight additional aircraft expected to be delivered in 2014. Our operating expenses are also expected to increase because our business growth. We also expect that our effective tax rate would increase in 2014 because of certain expenses (including the listing expenses and professional service expenses) incurred by our entities in Hong Kong are not deductible for tax purpose. All of these factors and listing expenses incurred and to be incurred could have adverse impact on our results for the year ending 31 December 2014.

Our Directors further confirm that since 31 December 2013 (being the date to which our latest audited consolidated financial information was prepared) and up to the Latest Practicable Date, there has been no material adverse change in our business, financial condition, and market conditions in the aircraft leasing industry of the PRC as whole, and there has been no event since 31 December 2013 which could materially affect the information shown in our consolidated financial information included in the Accountant's Report set forth in Appendix I to this prospectus.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Reorganisation

Further information on the Reorganisation is set forth in the section headed "History, Development, and Reorganisation" of this prospectus. Immediately before and following completion of the Reorganisation, there is no change in our business operation and the principal Shareholders. Our business operation was and will continue to be conducted through CALC (BVI) and its subsidiaries. Our Company is an investment holding company and has not been involved in any business before and after the Reorganisation. The Reorganisation only involved a series of share transactions whereby our Company replaces CALH as the ultimate holding company of our Group. Accordingly, the Reorganisation does not include any business combination and has been accounted for as a capital reorganisation transaction. Thus our consolidated financial information are prepared on a consolidated basis and are presented using carrying values of the assets, liabilities, and operating results of the companies now comprising our Group for the Track Record Period.

The financial information includes the financial position, operating results, and cash flows of the companies now comprising our Group as if the corporate structure of our Group had been in existence since the commencement of the Track Record Period or their respective dates of incorporation/establishment. For companies acquired (or sold to) third parties during the Track Record Period, the results of these companies would be included in (or excluded from) the financial information from the completion date of the relevant acquisition/disposal transaction.

The financial information is prepared in accordance with HKFRS and under the historical cost convention, as modified by the revaluation of derivative financial assets and liabilities, which are carried at fair value.

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Going concern

Our current liabilities exceeded our current assets by HK\$308.8 million, HK\$139.0 million, and HK\$1,421.4 million as of 31 December 2011, 2012, and 2013, respectively. As of 31 December 2013, we had capital commitment amounting to HK\$10,162.5 million in relation to the acquisition of aircraft.

Our Directors have given due consideration to our liquidity and adopt a going concern basis in preparing our audited consolidated financial statements based on the following assessments:–

- (a) For the aircraft under aircraft lease agreements, under our business model, the expected cash inflows from the lease receivables match the required cash outflows for repayment instalments of the long-term bank borrowings over the entire lease term of the aircraft.
- (b) Our net current liabilities position was mainly due to the fact that we used short-term borrowings to finance our aircraft acquisition and the payment of PDPs when the new aircraft ordered by us under the Aircraft Purchase Agreement are being built. As of 31 December 2012 and 2013, PDPs amounting to HK\$714.7 million and HK\$2,078.0 million, respectively, had been paid. According to the Aircraft Purchase Agreement, the amount of PDPs scheduled to be paid in the 12 months from 31 December 2013 is expected to be HK\$1,540.7 million. As of 31 December 2013, we have signed PDP financing with four commercial banks for the PDP of 23 aircraft. Subsequent to 31 December 2013, we entered into three additional agreements for PDP financing for eight aircraft, and we are in discussion with two commercial banks for the PDP financing for four aircraft. Based on the PDP financing agreements signed, the funding of HK\$1,245.0 million will be provided by commercial banks to support partial settlement of the PDPs. The remaining balance of PDPs amounting to HK\$295.7 million will be funded by our internally generated financial resources and additional PDP financing which is expected to be obtained in July 2014.
- (c) As of 31 December 2012 and 2013, the balance of PDP financing amounted to HK\$551.0 million and HK\$1,820.1 million, respectively. We will replace the PDP financing with the long-term bank borrowings upon the delivery of aircraft as scheduled, which includes 11 aircraft in 2014. As of the Latest Practicable Date, we have entered into lease agreements with airline operators for the leasing of eight aircraft expected to be delivered in 2014.
- (d) We have entered into a cooperative agreement with a bank, pursuant to which the bank provides a comprehensive loan facility amounting to US\$1.5 billion (equivalent to HK\$11.7 billion) to us during the period between 2013 and 2018. The granting of each specific loan will be subject to the credit assessment to be performed by the bank and the finalisation of the terms and conditions of the loan agreements, which will only be confirmed shortly before the delivery of aircraft.
- (e) Under the Aircraft Purchase Agreement, CALC (BVI) has an obligation to have net asset value of more than US\$300.0 million as of 31 December 2013. The net asset value of CALC (BVI) as of 31 December 2013 was US\$124.4 million (equivalent to HK\$970.7 million). *Airbus* has confirmed to us that despite such net asset value shortfall, it will not exercise its right to defer the delivery of aircraft until 30 June 2015. Therefore, our Directors believe that the delivery of the aircraft will be in accordance with the schedule and we should be able to obtain long-term loans as planned for the aircraft to be delivered in the coming 12 months.

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Taking into consideration our cash flows from operating activities, presently available banking facilities and the PDP financing, the estimated amount of net proceeds from the Global Offering, and based on the assumption that the conditional loan facility of US\$1.5 billion (equivalent to HK\$11.7 billion) and the confirmed PDP financing of HK\$1,137.3 million as of 30 April 2014 will be available to us, as and when required, our Directors are of the opinion that we will have sufficient working capital for our present requirements for the next 12 months from the date of this prospectus to 30 June 2015 on the basis that (a) we would deliver a total of 12 additional aircraft and that all of which are secured with lease commitment by way of aircraft lease agreements or letters of intent and (b) the cash inflows from lease income of leased aircraft will cover the cash outflows for the repayment of the long-term bank borrowings for aircraft acquisition. Our Directors are also of the view that we will be in a position to continue as a going concern and that we have prepared the financial statements on a going concern basis.

Our Directors confirm that we have the following unutilised banking facilities as of 30 April 2014:–

Unutilised banking facilities

	<u>As of 30 April 2014</u>
	<i>HK\$'000</i>
PDP financing	1,137,286
Working capital loan	–
Total	<u>1,137,286</u>

In light of the foregoing and with the detailed information set forth in the paragraphs under “Financial Information – Capital expenditure and capital commitment – Working capital” below, our Directors confirm that we will have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus. Hence, our Directors consider that we will continue as a going concern and have prepared the financial statements on a going concern basis.

SIGNIFICANT FACTORS AFFECTING OUR OPERATING RESULTS AND FINANCIAL CONDITION

Our Directors consider that the following are the principal factors which affect our operating results and financial conditions:–

Economic environment and development of China airline industry

Our operating results are significantly impacted by the economic environment in China and the development of the China airline industry. China experienced rapid economic growth during the last three decades principally as a result of the economic reform policies implemented by the PRC Government focusing on transforming China’s economy from a State-planned economy into a market-based economy. From 2003 to 2013, China’s real GDP has grown at an average rate of 10.2%. During the same period, because of the strong economic growth, China’s RPK has also increased from 101.5 billion kilometres to 455.8 billion kilometres, with the CAGR of 16.2%. The number of commercial aircraft operated by China’s airlines also increased from 635 in 2003 to 2,080 in 2013, with the CAGR of 12.6%. According to the Ascend Report, the number of commercial aircraft operated by China’s airlines in 2031 is expected to increase to 5,387. Pursuant to the 12th-Five-Year Plan, from 2010 to 2015, China will continue to develop a comprehensive national air network and over 60 new airports will be built and over 100 current airports will be expanded or rebuilt. The 12th-Five-Year Plan would also optimise China’s airport system in order to improve operational efficiency, with the major focus on easing capacity constraints at large airports and

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boosting the development of regional airports. These developments will further increase the air traffic in China. Our Directors believe that China airline industry will continue to enjoy the world's fastest growth as compared with the airline industry in other countries. The continuous development of the China's airline industry will accelerate the demand for aircraft leasing service and our business.

We focus on developing our aircraft leasing business in China. In 2011, 2012, and 2013, we derived most of our revenues from leasing of aircraft to the airline operators in China. In 2013, we also recorded other income of HK\$57.1 million from the realisation of the finance lease receivable in respect of one aircraft. Nevertheless, we will continue to derive a significant portion of our lease income from the airline operators in China in the future. Hence, if the China airline industry continues to develop, the demand for the aircraft leasing service will increase and we will benefit from the continuous growth. If, however, there is any significant slowdown in the Chinese economy for whatever reasons, the development of the airline industry would slowdown. This would affect the fleet expansion plan of the airline operators in China and hence, the demand for aircraft leasing service will decrease. The lease rate of our aircraft may also be subject to fluctuations depending on the time of entering into the lease transaction, the demand and supply dynamics, and the general economic environment in China.

Competition from other aircraft leasing companies

Competition in the China aircraft leasing industry is keen. We face competition from both domestic aircraft leasing companies in China and foreign lessors with business presence in China, which have long operating history, broad customer base, and strong financing and leasing capabilities. The competition affects not only the business opportunities available to us, but also the level of lease payments that we may charge to our airline customers, the terms and the availability of the long-term bank borrowings, and PDP financing for our aircraft acquisition.

We believe that with our competitive strengths, with further information set forth in the section headed "Business – Our competitive strengths", we are well positioned in the current competitive landscape of the China aircraft leasing industry. According to the Ascend Report, we are the largest independent aircraft lessor in China and the ninth largest aircraft lessor in China in terms of the total number of aircraft in service and on order as of 31 December 2013. Nevertheless, if we are not able to compete against our competitors, we may lose our market share and our operating results could be adversely affected.

Our ability to access to financing for our future aircraft acquisition

Aircraft leasing industry is capital intensive. One of the critical factors in determining the success and the profitability of our business is whether we can sustain and expand our financing source. Our ability to access to additional financing could be influenced by factors outside our control. The global and PRC credit environment and changes in the monetary and fiscal policies of the PRC Government and the governments of other countries may impact the availability of the financing source. As of date of this prospectus, all of our aircraft acquisition financing is obtained from commercial banks, which is covered by the lease term of the existing or second aircraft lease agreements. Although we intend to continue to implement this financing strategy, we may not have control on the terms and the availability of the bank borrowings for aircraft acquisition. In 2011, 2012, and 2013, we did not experience any situation where we were not able to secure sufficient bank borrowings for our aircraft acquisition. Nevertheless, we may encounter such situation in the future if such bank borrowings are not available at the time of our aircraft acquisition.

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In addition, we have completed the realisation of the finance lease receivable in respect of one aircraft in December 2013 as part of our financing strategies. We intend to continue to conduct sales of finance lease receivables in the future, but the success of which will depend on the capital markets condition and the investors' sentiment.

The Global Offering represents to us a new source of financing. With the listing status on the Stock Exchange, we will continue to explore other source of financing that we have not previously used, such as public equity financing and public debt financing.

Interest rate movements affect our aircraft lease income and our financing cost

Our operating results are also dependent to a significant extent on the interest rates in China and in the financial markets in which we obtain the aircraft acquisition financing.

A high interest-rate environment at the commencement of the aircraft lease agreement may lead to a higher amount of lease payment to be charged to our airline customers under new aircraft leasing transactions, thereby creating a relatively higher amount of finance lease receivable and lease income allocated in each subsequent year. However, such environment will increase our cost of bank borrowings with floating interest rates and reduce our net interest margin. In 2011, 2012, and 2013, the amount of lease income generated from our lease business amounted to HK\$223.1 million, HK\$447.6 million, and HK\$623.3 million, respectively.

Our bank borrowings cost is generally determined by the level of interest that the lending bank may change from time to time. The level of interest is outside our control. As of 31 December 2013, our bank borrowings subject to floating interest rates represented 62.7% of our total bank borrowings for aircraft acquisition in the total amount of HK\$9,195.7 million. The effect of the implementation of our interest rate hedging transactions is to convert the floating interest rates to fixed interest rates for certain long-term bank borrowings transactions. The interest rates were determined with reference to the US\$ LIBOR for three months to six months.

We set forth below the historical movements of the three-month and six-month US\$ LIBOR in 2011 to 2013:–

Six-month US\$ LIBOR

	2011	2012	2013
High	0.80850	0.81200	0.50625
Low	0.39325	0.50825	0.34200
Average	0.50729	0.68668	0.40869
Standard Deviation.....	0.11451	0.08993	0.04360

Three-month US\$ LIBOR

	2011	2012	2013
High	0.58100	0.58250	0.30500
Low	0.24500	0.30600	0.23585
Average	0.33722	0.43006	0.26720
Standard Deviation.....	0.09245	0.07760	0.01951

Source: Bloomberg

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In 2011, 2012, and 2013, our net interest margin, which is based on our net interest income divided by the average balance of our finance lease receivable, net, was 3.60%, 3.59%, and 3.63%, respectively. Changes in the market interest rates, including LIBOR, will continue to have significant impact on our operating results in the future.

The table below illustrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of our operating profit before taxation as of 31 December 2011, 2012, and 2013:–

	Increase/(decrease) in operating profit before taxation		
	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in basis points			
+50 basis points	(2,935)	(8,912)	(22,353)
-50 basis points	2,935	8,912	22,353
Increase/(decrease) in cash flows			
As of 31 December			
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in basis points			
+50 basis points	(4,406)	(11,715)	(14,839)
-50 basis points	4,406	11,715	14,839
Increase/(decrease) in our reserves			
As of 31 December			
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in basis points			
+50 basis points	–	22,084	29,574
-50 basis points	–	(22,084)	(29,574)

The sensitivity analysis above indicates the annualised impact on our operating profit before taxation that would arise assuming that the change in interest rates had occurred as of the balance sheet dates and had been applied to the exposure to interest rate risk for financial instruments in existence as of that date. The 50 basis point change represents our assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date and is sufficient based on the interest rate volatility during the Track Record Period.

With effective hedging on all bank loans with floating interest rate implemented, the net interest margin will always remain positive regardless the interest rate fluctuations. Without such hedging implemented, the breakeven point (i.e. estimated net profit equals to zero) would be resulted if the LIBOR is added by 13.3%, 7.2% and 4.8%, respectively, during the Track Record Period; and negative cash (excluding restricted cash) would be resulted if the LIBOR is added by 10.2%, 3.1% and 46.1%, respectively, during the Track Record Period.

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According to the sensitivity analysis for the period from the date of this prospectus to 31 December 2014 and the period from 1 January 2015 to 30 June 2015, only if the LIBOR is added by 4.1% and 3.3%, respectively, our estimated net profit would be breakeven; and only if the LIBOR is added by 12.4% and 8.2%, respectively, our Group's cash (excluding restricted cash) would be turned to negative, respectively.

Our Directors are of the view that the above sensitivity analysis on interest rate movements is sufficient for investors' understanding of the potential impact of interest rate changes to us. Despite our financing is long-term in nature, we manage the interest rate risk of the financing with interest rates of lease income received by us. Out of the 31 aircraft (excluding the aircraft under the realisation arrangement) currently owned by us, only 14 aircraft has interest rate mismatch, among which we have entered into floating-to-fixed interest rate swaps for the floating-rate bank borrowings of eight aircraft. As a result, our Directors consider that interest rate mismatch risk is not significant. The following table sets forth an analysis of the interest rate exposure against the lease income received by us as of the Latest Practicable Date:–

	Number of aircraft
Aircraft with fixed amount of lease income and fixed interest-rate repayment of the bank borrowings	15
Aircraft with floating amount of lease income and floating interest-rate repayment of the bank borrowings (with hedging arrangement due to the existence of cap amount over lease income)	1
Aircraft with floating amount of lease income and floating interest-rate repayment of the bank borrowings (without hedging arrangement)	1
Aircraft with fixed amount of lease income and floating interest-rate repayment of bank borrowings (with hedging arrangement)	8
Aircraft with fixed amount of lease income and floating interest-rate repayment of bank borrowings (without hedging arrangement)	6
Total (excluding the aircraft under the realisation arrangement)	31

Given the availability of the US\$ interest rate swap, we will continue to use interest rate swap arrangement for the aircraft with interest rate mismatch. Our Directors consider that the disclosure of cumulative effect of interest rate changes for the whole term of bank borrowings period (up to 20 years) may not be meaningful, as this does not reflect the ongoing risk management measures to be taken by us during the lease term of the aircraft.

Other sensitivity analyses

Our Directors are of the view that the sensitivity analysis on interest rate movements is sufficient for investors' understanding of the potential impact on us. Our Directors do not consider that we are exposed to significant foreign exchange risk given that:–

- (a) as shown in the table below, we match the currencies of the receipt of lease income and the repayment of bank loans for all its aircraft; and
- (b) we are mainly using US\$ as the principal currency of lease income and bank borrowings. The exchange rate between US\$ and HK\$ is pegged and thus we are subject to minimal currency exposure.

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The following table sets forth an analysis of the currency of lease income against the currency of bank borrowings:–

	<u>Number of aircraft</u>
Aircraft with lease income in US\$ and repayment of the long-term bank borrowings in US\$	29
Aircraft with lease income in RMB and repayment of the long-term bank borrowings in RMB	<u>2</u>
Total (excluding the aircraft under the realisation arrangement)	<u><u>31</u></u>

Our airline customers' ability to meet their payment obligations under the aircraft lease agreements

Most of our airline customers are State-owned airline operators in the PRC. As of 31 December 2013, we have not experienced any material delay by our airline customers in making payment of the lease payments. Nevertheless, our operating results are dependent to a significant extent on the ability of our airline customers to settle the lease payments according to the payment schedules set forth in the relevant aircraft lease agreements. We rely on these payments to service our long-term bank borrowings for aircraft acquisition. If for whatever reasons there is any material delay in making their payments amongst our airline customers, we may face imminent liquidity and re-finance risks and may need to take re-possession of the aircraft or other remedial actions to protect our interests. We may also need to identify opportunities for re-leasing the aircraft within a short period of time and may not be able to negotiate for the favourable lease terms. In any of these events, our operating results could be significantly affected.

The purchase price and the lease income generated from our leased aircraft

The purchase price for our aircraft is one of the important factors affecting our profitability. It is particularly relevant for our direct aircraft purchase and lease transactions. We will require additional financial resources to support our aircraft acquisition if the aircraft purchase price is comparatively high, which would result in higher amount of interest expense borne by us. A high aircraft purchase price may not lead to a high lease payment, the determination of which is dependent on a number of factors outside our control.

As of the Latest Practicable Date, we commit to purchase 30 aircraft under the Aircraft Purchase Agreement for a purchase commitment of HK\$7,834.0 million. The amount of purchase commitments also include the purchase price of the aircraft agreed to be purchased by us under aircraft sale and leaseback transactions.

Our taxation

Due to our business nature, we are subject to income tax in Ireland, Hong Kong, the Netherlands, Labuan, and the PRC. The amount of income tax expense during the three years ended 31 December 2013 amounted to HK\$26.8 million, HK\$33.2 million, and HK\$37.5 million, respectively, representing an effective tax rate of 34.3%, 25.9%, and 17.8%, respectively. The increase in the amount of tax was generally consistent with our business growth, and the decrease in the effective tax rate in 2013 was principally due to the novation of five aircraft leases from our subsidiaries in overseas acting as the lessors to our SPCs in China, pursuant to which we were not be required to pay PRC withholding tax. The reasons for the fluctuations in our effective tax rates during the three years ended 31 December 2013 were set forth in the paragraphs under "Our operating results"

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below. In addition to the current tax, we are also required to measure the deferred tax based on the tax laws that are enacted as of the balance sheet date. We need to constantly monitor our tax compliance, and we could be adversely affected by any material change in the tax law in any of the jurisdictions in which we operate our business. These changes, if any, may result in increasing amount of the tax payment that we are required to pay or that we may be subject to new type of taxation in the future.

Government regulations and policies

Any change in the laws and regulations by PRC Government may cause us to adjust or change our business practise or our business model, which may impact our business and operating results. In addition, changes in policies or introduction of new policies may affect the business operations of our airline customers, and as a result affect our business. Further information on the laws and regulations is set forth in the section headed “Applicable laws and regulations” of this prospectus.

OUR CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies which are significant to the preparation of the financial information set forth in this prospectus. Note 2 in the Accountant’s Report in Appendix I to this prospectus includes a summary of the principal accounting policies used in the preparation of our consolidated financial information. The determination of these accounting policies is fundamental to our financial condition and operating results, and requires us to make significant judgements and estimation, further information on which is set forth in the paragraphs under “Our Significant Accounting Judgements and Accounting Estimates” below.

Classification of leases entered into by us

As of the Latest Practicable Date, we have entered into 30 long-term aircraft lease agreements and four short-term, i.e. for the lease term of less than six years, aircraft lease agreements with eight airline customers in respect of 32 aircraft owned by us and two aircraft to be delivered to our airline customers after the Latest Practicable Date. Our Directors confirm that the reason for entering into the short-term aircraft lease agreements in respect of the four aircraft was primarily due to the fact that the aircraft are used aircraft with an average age of 15 years. Our Directors further confirm that these four transactions are expected to provide us with comparable investment return as that of the long-term lease transactions entered into by us. These transactions would not change our business model which focuses on entering into long-term aircraft lease agreements, the cash inflows of which match with the cash outflows for loan repayments under the long-term bank borrowings. We classify 32 aircraft lease agreements as finance leases and two aircraft lease agreements as operating leases following due consideration of all the relevant factors and the applicable HKFRs and our accounting policies for the purpose of preparing the financial information presented in this prospectus. The two aircraft lease agreements are classified as operating leases and hence, the purchase price of the aircraft has been recorded as our property, plant, and equipment and are subject to depreciation and impairment.

The following sets forth the applicable accounting policies adopted by us in determining whether an aircraft lease agreement entered into by us is a finance lease or operating lease from the accounting perspective.

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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, we recognise the minimum lease payments receivable by us as a finance lease receivable and record the unguaranteed residual value as an asset at the same time. 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 sheets as finance lease receivable, 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 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 our net investment in the lease. Aircraft lease agreements for which 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 term; any increase or decrease in lease payments that result from subsequent changes in floating interest rate is recorded as an increase or 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.

Our Directors confirm that we are using the internal rate of return (“**IRR**”) on each lease investment as the discount rate adopted in the calculation of the amount of the finance lease receivable. The IRR on a lease investment is the annualised effective compounded interest rate that makes the net present value of all lease related cash flows, both positive and negative, including the initial acquisition cost, expected lease income, unguaranteed residual value of the lease asset and the guaranteed residual value of the lease asset, from a particular lease term to be equal to zero. The discount rates adopted by us in the calculation of finance lease receivables – net, in 2011, 2012, and 2013 were in the range between 6.02% and 10.66%.

Our Directors further confirm that the factors affecting the IRR include the cost of the aircraft, the market lease rates, and the estimated residual value of the aircraft. In aircraft sale and leaseback transactions, we may not be able to reduce the aircraft purchase cost which is negotiated by the lessee before we entering into the transaction. As such, the IRR may be relatively low. For direct aircraft purchase and lease transactions, we have a better control on the aircraft purchase price through direct negotiations with the aircraft manufacturers or vendors. Hence, the IRR would be higher than the IRR in aircraft sale and leaseback transactions.

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 grant 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 us in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense over the lease term on the same basis as the lease income.

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Accounting policies adopted by us

Our accounting policies in this regard are consistent with the requirements under HKAS 17 (Leases). The classification of leases is based on the extent to which risks and rewards incidental to the ownership of a leased asset lies with us or the lessee. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by expectation of profitable operation over the aircraft's economic life and of gain from appreciation in value or realisation of a residual value.

According to our accounting policies, which are consistent with the requirements under HKAS 17, a lease is classified as a finance lease if it transfers substantially all the risk and rewards incidental to the ownership. A lease is classified as an operating lease if it is not a finance lease. In determining the classification, we review the terms and conditions of each lease and decide in accordance with our accounting policies. The accounting treatment of our airline customers of the lease is irrelevant in our decision on the accounting treatment of a particular aircraft lease agreement.

According to our accounting policies, whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the aircraft lease agreement. We consider that the following factors which would normally lead to a lease entered into by us to be classified as a finance lease:–

- (a) the lease transfers ownership of the aircraft to the lessee before the end of the lease term;
- (b) the lessee has the option to purchase the aircraft at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the commencement of the lease term, that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the aircraft even if the title is not transferred;
- (d) at the commencement of the lease term, the present value of the minimum lease payments (including residual value insurance maintained by us) amounts to at least substantially all of the fair value of the lease aircraft; and
- (e) the leased aircraft is of such a specialised nature that only our lessee can use them without major modifications.

The above matters are not conclusive, and the process involves our judgements and estimates, further information of which is set forth in the paragraphs under "Our Significant Accounting Judgements and Accounting Estimates" below. Lease classification is made at the commencement of the lease term. If at any time we agree with our airline customer (the lessee) to change the terms of the lease, other than by renewing the lease, that result in a different classification of the aircraft lease agreement, the revised agreement will be regarded as a new lease over its term. However, changes in our judgements and estimates (for example, changes in the economic life or the residual value) will not give rise to a new classification of a lease from the accounting perspective.

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Revenue recognition

Revenue comprises the fair value of the consideration received or receivable. We recognise 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 our activities as described below.

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 lease periods covered by the lease term.

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.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, we reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Service income

Service income is recognised in the accounting period in which the service is rendered.

Financial assets

We classify our financial assets in 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. We determine the classification of its financial assets at initial recognition.

In 2011, 2012, and 2013, other than loans and receivables and derivatives at fair value through profit or loss that we have designated as an effective hedging instrument, we 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: (a) those that we intend to sell immediately or in the short term, which are classified as held for trading, and those that we upon initial recognition designate as at fair value through profit or loss; (b) those that we upon initial recognition designate as available-for-sale; or (c) those for which we may not recover substantially all of its initial investment, other than because of credit deterioration. Our loans and receivable comprise “other receivables”, “restricted cash”, “cash and cash equivalents” and “finance lease receivable, net” on the consolidated balance sheet.

Loans and receivables are initially recognised at fair value which is the cash given to originate the assets including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

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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 we have transferred substantially all risks and rewards of ownership.

Finance lease receivables are regarded as loans and receivables for the purpose of derecognition and impairment.

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 realised the asset and settle the liability simultaneously.

Impairment of financial assets carried at amortised cost

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial asset 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 are 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.

Finance lease receivable for 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.

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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 us 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

The estimated useful lives and estimated residual value rate of aircraft, office equipment and motor vehicles are as follows:–

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft	25 years	15%
Leasehold improvements	Shorter of lease term or 3 years	0%
Motor vehicles	4 years	0%
Office equipment	2 to 5 years	5%

The 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other operating income/expense" in profit or loss.

Impairment of non-financial assets

Assets that have an indefinite useful life or have yet to be 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

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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 the nature of the underlying item, i.e. the subject matter of the hedging. We designate 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.

We document at the inception of the transaction the relationship between the hedging instruments and hedged items as well as the risk management objectives and the strategy for undertaking the hedging transaction. We also document our 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 consolidated financial information are shown in the consolidated statement of changes in equity.

Cash flow hedge

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.

Foreign currency transactions

Functional and presentation currency

Items included in our consolidated financial statements 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 Hong Kong dollars, which is our functional and presentation currency. Functional currencies of the subsidiaries of our Company include Renminbi, US dollars, and Hong Kong dollars.

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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.

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:–

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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); and
- all resulting exchange differences are recognised in other comprehensive income.

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, overdraft, 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 company'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 loans 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.

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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 flight equipment in the process of construction on forward order are capitalised and such amounts are added to prepayments on flight equipment. 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.

Share-based payments

We previously engaged in an equity-settled share-based compensation plan, under which we receive services from Directors, eligible employees, consultants and related parties as consideration for equity instruments (options) of CALH. The aforesaid equity-settled share-based compensation plan was subsequently taken over by us effective from the Reorganisation Date. The fair value of the services of the Directors, eligible employee, consultants and related parties received in exchange for the grant of the options by us 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).

Non-market performance and service conditions are included in assumptions about the number of shares under the options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, we revise our estimates of the number of shares under 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 profit or loss with a corresponding adjustment to equity.

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Our Directors confirm that the share-based payment has no material impact on our profitability in 2013. The amount charged in 2012 amounted to HK\$1.2 million and in 2013 amounted to HK\$1.2 million. Our Directors confirm that the existing share-based payment will have no material impact on our results in 2014 and going forward.

OUR SIGNIFICANT ACCOUNTING JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the financial information set forth in this prospectus requires the management to exercise its judgements and estimates on matters that are inherently uncertain based on the information and data that may change from time to time. As a result, our judgements and estimates on these items involve the use of assumptions and subjective judgements and are subject to change. The following sets forth the matters that require our significant judgements and estimates in applying our accounting policies.

Classification of leases entered into by us

Our principal business activities are aircraft leasing. At the inception of each aircraft lease, we will determine, based on the terms and conditions of each aircraft lease agreement with reference to our accounting policies and the requirements under HKAS 17, whether the lease is a finance lease or an operating lease. The classification is based on the extent to which risk and rewards incidental to the ownership of our aircraft lie with us or our airline customers (the lessees). A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by us are classified as operating leases.

We have developed a set of criteria to assist us to make judgements on lease classification and the estimations on the residual value of our aircraft. The criteria include the following:–

Present value of the minimum lease payments

If the present value of the minimum lease payments is substantially equal to the fair value of an aircraft, we will normally treat the long-term aircraft lease agreement as a finance lease.

Length of lease term

If the term of the aircraft lease agreement represents the major part of the economic life of an aircraft, we will normally treat the aircraft lease agreements to be finance leases.

We also consider the extent to which risk and rewards incidental to the ownership of the leased asset lie with the lessor and the lessee.

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, we recognise the minimum lease payments receivable by us as a finance lease receivable and records the unguaranteed residual value as an asset at the same time. 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 sheets as finance lease receivable, 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.

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Unearned financial income is allocated to each period during the lease term using the effective interest method that allocates rentals 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.

Operating leases refer to leases where substantially all of the rewards and risks of the assets remain with the lessors. Hence, lease income received from operating leases is treated as operating lease income on a straight-line basis over the lease term. The leased aircraft is treated as our non-current assets in the consolidated balance sheets, and depreciation is chargeable in accordance with the applicable accounting policies.

As of the Latest Practicable Date, we have entered into 30 long-term aircraft lease agreements and four short-term, i.e. for the lease term of less than six years, aircraft lease agreements with eight airline customers in respect of 32 aircraft owned by us and two aircraft to be delivered to our airline customers after the Latest Practicable Date. Our Directors confirm that the reason for entering into the short-term aircraft lease agreements in respect of the four aircraft was primarily due to the fact that the aircraft are used aircraft with an average age of 15 years. Our Directors further confirm that these four transactions are expected to provide us with comparable investment return as that of the long-term lease transactions entered into by us. These transactions would not change our business model which focuses on entering into long-term aircraft lease agreements with airline operators. We classify 32 aircraft lease agreements as finance leases and two aircraft lease agreements as operating leases following due consideration of all the relevant factors and the applicable HKFRs and our accounting policies for the purpose of preparing the financial information presented in this prospectus. The two aircraft lease agreements are classified as operating leases, pursuant to which the purchase price of the aircraft has been recorded as our property, plant, and equipment and are subject to depreciation and impairment.

Estimation of the residual value of aircraft

The residual value of our leased aircraft at the commencement of the lease term is based on our estimation, which is made with reference to valuation reports issued by independent valuers. The estimation of the residual value affects the determination of unearned finance income which will affect the amount of finance lease income to be recognised during each year throughout the lease term. Subsequent to the initial estimation, we will review and compare the determined residual value with the latest valuation of the aircraft. If there is any incident which would affect the residual value of the model of aircraft we own, we will re-assess the determined amount of residual value and may adjust, as appropriate.

Any reduction in the estimated residual value will affect the income allocation over the remaining lease term with no retrospective effect. We would also consider, at the commencement of the lease term, if we need to maintain residual value insurance with insurance companies. The amount guaranteed under the residual value insurance represents the amount of guaranteed residual value as part of our gross investments in the aircraft. In some cases, we are required by the financing banks to maintain the residual value insurance. We will also consider the model and type of the aircraft and the insurance premium required in determining whether residual value insurance is appropriate.

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Unguaranteed residual value is a portion of the residual value of our aircraft, the realisation of which by us is not assured or is guaranteed solely by a party related to us. The unguaranteed residual value of the aircraft at the inception of the lease is based on our estimates with reference to valuation reports issued by independent valuers. 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. Our Directors are of the opinion that there had been no reduction in the previously recognised unguaranteed residual value as of 31 December 2011, 2012, and 2013.

As of the Latest Practicable Date, out of the 32 aircraft owned by us, we have arranged for residual value insurance to be maintained on 19 aircraft upon requested by the banks or after consideration of various factors by us.

Impairment loss for finance lease receivable

We review the finance lease receivable on a regular basis, evaluate any indications of impairment and assess impairment loss in the case of impairment under specific circumstances. Any impairment loss, if made, will be reflected in the accumulated allowance for uncollected minimum lease payments. The residual value insurance maintained by us on 19 aircraft, as of the Latest Practicable Date, is one factor that would affect our decision on impairment. If there is any incident of default by our airline customers (lessees) or that there is any indication that the residual value of aircraft would be substantially lower than the determined amount, we will provide for impairment loss against our finance lease receivable, net, by way of accumulated allowance.

Impairment of non-financial assets

Non-financial assets are periodically reviewed by us 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.

In determining the value in use of our aircraft, we estimate the expected future cash flows from the aircraft and use a suitable discount rate (or implicit interest rate) to calculate the present value. We obtain valuation of aircraft from independent valuers for which the principal assumptions are based on the current market transactions for similar aircraft in the same location and of the same condition. The assumptions for the valuation may not be correct, and the value in use of our aircraft may change from time to time because of an unanticipated event or series of events.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in our consolidated income statement, 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.

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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 we operate and generate taxable income.

We periodically evaluate 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.

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.

Offsetting

Deferred income tax assets and liabilities are offset when (a) there is a legally enforceable right to offset current tax assets against current tax liabilities and (b) the deferred income tax 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.

Income tax

In 2011, 2012, and 2013, we had business operations in the PRC, Hong Kong, Ireland, and the Netherlands. We have also established business operations in Labuan since March 2013. Hence, we were subject to the income tax in a number of jurisdictions. Significant judgements are required in determining the provision for our income tax. There are many transactions and calculations for which the ultimate tax determination is far from certain. We recognise liabilities for anticipated tax issues based on our estimates of whether additional taxes will be required to be made. If the final outcome of our tax matters, in whatever jurisdictions, is substantially higher than our estimates and the original amount provided for in our statements of comprehensive income, such difference will impact the current and the deferred income tax assets and liabilities in the period in which such final outcome is made.

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Fair value of derivative financial instruments

The fair value 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. We use our judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. We have used discounted cash flow analysis for the derivative financial instruments that are not traded in active markets.

Recognition of share-based compensation expenses

We have granted share options to our Directors, eligible employees, consultants and related parties. We use 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 risk free rate, dividend yield, expected volatility and staff annual retention rate, is required to be made by our Directors in applying the Binomial valuation model.

Determination of control over structured entity

We have assessed that we do not control the trust plan as we (i) do not have the power to direct the relevant activities of the trust plan and (ii) do not significantly affect the variable returns of the trust plan.

PROPOSED CHANGES TO LEASE ACCOUNTING UNDER THE IFRS

In 2006, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) initiated a joint project to improve the financial reporting of leasing activities under IFRSs and US Generally Accepted Accounting Principles (U.S. GAAP). FASB and IASB issued a revised exposure draft of lease accounting (the “**Exposure Draft**”) on 16 May 2013 outlining the proposed changes to lease accounting under the IFRS, after considering responses to their Discussion Paper Leases: Preliminary Views, which was issued in March 2009, and the IASB’s initial Exposure Draft Leases and the proposed FASB Accounting Standards Update, Leases (Topic 840), which were issued in August 2010. The proposals, which continue to attract a diverse range of views among constituents, would change the accounting for operating lease. The proposals have not been finalised. The key proposals of the Exposure Draft and our initial assessment are set forth below.

Lessee accounting

The Exposure Draft eliminates off-balance sheet accounting for lessees. The balance sheet distinction between operating and finance leases will be removed, and a new asset (representing the right to use the leased item for the lease term) and liability (representing the obligation to pay rentals) are recognised for all leases (except short-term leases). The Exposure Draft is proposing two different expense recognition patterns for different types of lease: type A leases will apply the approach similar to current finance lease accounting with its resultant expense front-loading; and type B leases will apply a straight-line expense recognition pattern, similar to current operating lease accounting. The approach to be applied will depend on whether the lessee acquires or consumes more than an insignificant portion of the underlying asset. Where this is the case, the lease will be treated as a type A lease; otherwise, it will be treated as type B.

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The Directors expect that under the Exposure Draft, for the lease arrangements that treated as off-balance sheet operating lease under current standard, the lessee will need to recognise significant amount of asset (right to use lease asset) and liability. The Directors expect that most current operating lease of aircraft would be type A lease, which would require lessee to recognise higher expense in early portion of the lease period. If the proposals of the Exposure Draft are fully implemented without further revision or amendment, there will be significant changes in the accounting treatment of the airline operators. As a result, our Directors expect that there may have significant impact on the rapid development of the aircraft leasing business.

Lessor accounting

Consistent with lessee accounting, lessors will identify leases as either type A or type B using the same criteria. The accounting treatments for the lease currently classified as finance lease will not be materially changed under the Exposure Draft.

For leases of aircraft currently classified as operating leases, our Directors expect that we will derecognise the underlying asset (aircraft in property, plant and equipment) and replace it with a lease receivable (measured at the present value of the lease payments) and a residual asset (measured mainly based on the present value of the amount lessor expects to derive from the underlying asset at the end of the lease term) under the Exposure Draft. Any profit relating to the receivable component would be recognised immediately, whereas profit relating to the residual component would be deferred until the underlying asset is re-leased or sold by the lessor. Interest income on both the receivable and the residual asset would be recognised over the lease term.

The above implication to us is entirely based on the Exposure Draft, which is subject to further change or amendment.

We will commence detailed review and assessment of the implications of the Exposure Draft should it be finalised and implemented in accordance with a published timetable. Our Directors are of the view that if the Exposure Draft were fully implemented, it would have eliminated certain benefits of aircraft lease transactions currently enjoyed by airline operators (lessees) under the prevailing accounting standards. This may reduce the level of attractiveness of aircraft lease transactions from the lessees' perspective and may slow down the rapid development of aircraft lease industry generally. Nevertheless, the aircraft lease arrangements will continue to provide airline lessees with other commercial benefits. For example, the lessees would not need to incur a significant amount of capital for aircraft purchase and would have more flexibility in fleet planning through entering into aircraft lease agreements for different types of aircraft at different terms. On this basis, our Directors' view is that our business operation would not be significantly affected. There is no finalised timetable on the implementation of the Exposure Draft.

The Joint Sponsors, having considered the consultation history and the background of the Exposure Draft and the potential impact of the full implementation of the Exposure Draft, concur with the view of our Directors.

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SELECTED FINANCIAL DATA

Consolidated statements of comprehensive income

The following table sets forth our consolidated statements of comprehensive income for the Track Record Period:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues			
Finance lease income	223,075	363,727	477,966
Operating lease income	–	83,840	145,359
Other income	149	296	63,610
	<u>223,224</u>	<u>447,863</u>	<u>686,935</u>
Expenses			
Interest expense	(124,291)	(249,903)	(329,906)
Depreciation	(132)	(31,098)	(54,147)
Other operating expenses	(23,985)	(39,393)	(91,405)
	<u>(148,408)</u>	<u>(320,394)</u>	<u>(475,458)</u>
Operating profit	74,816	127,469	211,477
Foreign exchange gain/(losses)	3,496	847	(1,517)
Profit before income tax	78,312	128,316	209,960
Taxation			
Current income tax	(21,183)	(29,266)	(25,159)
Deferred income tax	(5,659)	(3,918)	(12,301)
	<u>(26,842)</u>	<u>(33,184)</u>	<u>(37,460)</u>
Profit for the year, all attributable to owners of our Company	<u>51,470</u>	<u>95,132</u>	<u>172,500</u>
Other comprehensive income for the year:–			
Change in fair value of interest rate swaps-cash flow hedges	–	(6,438)	13,538
Effect of termination of interest rate swap-cash flow hedges	–	–	15,187
Currency differences on translation of financial statements of overseas subsidiaries	484	(306)	5,300
Total other comprehensive income for the year, net of tax	<u>484</u>	<u>(6,744)</u>	<u>34,025</u>
Total comprehensive income for the year attributable to equity holders of our Company	<u>51,954</u>	<u>88,388</u>	<u>206,525</u>
Earnings per share for profit attributable to owners of our Company (expressed in HK\$ per Share)			
– Basic earnings per Share	<u>0.153</u>	<u>0.253</u>	<u>0.376</u>
– Diluted earnings per Share	<u>0.153</u>	<u>0.253</u>	<u>0.376</u>
Dividends	<u>55,353</u>	<u>19,224</u>	<u>53,000</u>

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Consolidated balance sheets

The following table sets forth our consolidated balance sheets as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Property, plant and equipment	911	1,540,829	1,487,127
Finance lease receivables – net	3,135,670	4,388,375	7,678,876
Derivative financial assets	–	–	13,620
Prepayments and other receivables	105,666	807,854	2,183,474
Restricted cash	7,558	78,691	102,411
Cash and cash equivalents	89,954	73,499	1,367,344
Total assets	3,339,759	6,889,248	12,832,852
EQUITY			
Equity attributable to owners of our Company			
Share capital	–	–	78
Reserves	234,273	618,716	737,727
Currency translation differences	378	72	5,372
Retained earnings	13	75,921	195,421
	234,664	694,709	938,598
Non-controlling interests	–	–	19,500
Total equity	234,664	694,709	958,098
LIABILITIES			
Deferred income tax liabilities	10,048	13,966	26,267
Bank borrowings	2,622,832	6,087,162	11,436,394
Long-term borrowing	–	–	155,172
Derivative financial liabilities	–	6,438	7,488
Borrowings from related parties	234,000	–	–
Income tax payables	–	5,901	8,613
Interest payable	2,709	21,856	34,547
Other payables and accruals	235,506	59,216	206,273
Total liabilities	3,105,095	6,194,539	11,874,754
Total equity and liabilities	3,339,759	6,889,248	12,832,852

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COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenues

Lease income

Our revenues are principally generated from the lease income received or receivable from the aircraft leases entered into between our airline customers and us. The lease income generated from our aircraft leases may broadly be classified into finance lease income and operating lease income according to our accounting policies. With respect to finance lease, finance lease income is recognised on an accrual basis using the implicit interest rate by applying the rate that discounts the estimated future cash flow through the expected life of the lease term or a shorter period, when appropriate, to the net carrying amount of the lease. Payments received from our airline customers under operating leases are recognised as our operating lease income on a straight-line basis over the period of the lease.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. For each lease, we need to classify the lease as operating lease or finance lease in accordance with our accounting policies. The factors to be considered include the following:–

- whether the lease transfers ownership of the asset to the lessee by the end of the lease term;
- whether the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- whether the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments (which include lease payments and residual values guaranteed by third parties) amounts to at least substantially all of the fair value of the leased asset; and
- whether the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Most of our lease contracts are classified as finance leases after taking into consideration the above factors. As an independent lease operator in the industry, we are usually required to insure a certain portion of the residual value of the aircraft as may be required by the parties providing long term borrowings to finance the acquisition of the aircraft. This practice would usually lead to higher present value of minimum lease payments amount at inception date of the lease. Besides, certain aircraft are subject to second leases. We have entered into second leases for three aircraft, the lease term of which will commence upon expiration of the term of the first aircraft lease agreements in 2022. We consider the higher insured residual value and the existence of second leases being one of the factors, among others, that lead to a higher percentage of finance lease classification in our lease portfolio.

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Most of our aircraft leases are recognised as finance leases in our financial statements. Our Directors confirm that the classification of our aircraft leases as finance leases is based on our accounting policies which are consistent with the HKFRSs taking into consideration the long lease term the residual value insurance maintained by us in respect of the relevant aircraft, and the fact that some of the aircraft are subject to second leases.

The following table sets forth the amount of our finance lease income and operating lease income during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance lease income	223,075	363,727	477,966
Operating lease income	–	83,840	145,359
Total	223,075	447,567	623,325

Our Directors confirm that we classify aircraft leases as finance leases and operating leases, respectively, with reference to factors to be considered under its accounting policies. Among which, whether the present value of the minimum lease payments (which include lease payments and residual values guaranteed by third parties) amounts to at least substantially all of the fair value of leased assets is one of the key factors for us in considering during the lease classification. The long term nature of leases (including second leases) and the residual value insurance will increase the amount of the present value of the minimum lease payments and this will result in the classification of finance lease.

Our Directors confirm that our Group, as an independent aircraft lessor, is usually required to maintain insurance on a portion of the residual value of the aircraft. This may be required by the prospective lessees or the banks providing the PDP financing and the long-term bank borrowings. This practice would usually lead to higher present value of minimum lease payments amount at the inception date of the lease. Besides, certain aircraft are subject to second leases. We have entered into second leases for three aircraft, the lease term of which will commence upon expiration of the term of the first aircraft lease agreements in 2022. Our Directors consider the higher insured residual value and the existing of second leases being the principal factors, among others, that lead to a higher percentage of finance lease classification in our Group's lease portfolio.

The growth in our lease income during the three years ended 31 December 2013 was principally attributable to the increase in our airline customer base and our fleet size. As of 31 December 2011, 2012, and 2013, we leased 10, 16, and 25 aircraft to three, four, and six airlines operators in China, respectively. Our fleet size has also increased to 32 as of the Latest Practicable Date. In 2012, two aircraft leased by us have been classified as operating leases in accordance with our accounting policies. Hence, the full amount of the lease in payments paid by our airline customers was treated as our lease income in the year. Further information on our accounting policies is set forth in the paragraphs under "Our Critical Accounting Policies" above. The net book value of the two aircraft is currently accounted for as part of our property, plant and equipment, and depreciation is charged based on our accounting policies.

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Other income

In addition to the income derived from our aircraft leasing business, we received, during the three years ended 31 December 2013, interest income of HK\$0.15 million, HK\$0.30 million, and HK\$0.7 million, respectively, from our bank deposits maintained with banks and financial institutions in Hong Kong and China. In 2013, we recorded a gain of HK\$57.1 million from the realisation of the finance lease receivable in respect of one aircraft as part of our financing strategies. Further information on the transaction is set forth in the section headed “Business – Realisation of finance lease receivables” of this prospectus. In 2013, we also received government subsidies of HK\$5.5 million in relation to PRC VAT.

Business segments

In 2011, 2012, and 2013, we were engaged in one business segment, i.e. provision of aircraft leasing services to airline operators in China. From the accounting perspective, our leases may be classified as finance leases or operating leases, but we do not operate two distinctive business segments. Further information on our accounting policies and the factors considered by us in determining whether an aircraft lease entered into by us is classified as a finance lease or operating lease is set forth in the paragraphs under “Our Critical Accounting Policies” and “Our Significant Accounting Judgements and Estimates” above.

Geographical delineation

In 2011, 2012, and 2013, our business focus was in China and hence, all our lease income was derived from the lease payments received by us from the airline operators in China.

Expenses

In 2011, 2012, and 2013, we had three principal types of expenses attributable to the generation of our revenues, namely (a) interest expense on aircraft acquisition financing and business expansion, (b) depreciation of our property, plant, and equipment, and (c) operating expenses.

Interest expense

In 2011, 2012, and 2013, we incurred HK\$124.3 million, HK\$249.9 million, and HK\$329.9 million as interest expense on bank borrowings for our aircraft acquisition. The interest rate during the the three years ended 31 December 2013 was in the range between 2.97% and 6.48% per annum. In 2011, we accrued interest of HK\$195,000 to CE Finance on a borrowing of HK\$234.0 million which was settled in January 2012. In 2012, we paid interest of HK\$4.3 million to CE Finance on the borrowings in the aggregate amount of HK\$897.0 million. There were two borrowings obtained separately from CE Finance in January and March 2012 in the amount of HK\$312.0 million and HK\$351.0 million, respectively, which were full settled in March 2012 and April 2012, respectively. The interest incurred on the borrowings from CE Finance was at the rate of 5.0% per annum. In 2013, we paid CE Finance HK\$1.2 million and FPAM HK\$0.7 million interest expense for the short-term borrowing provided by CE Finance and FPAM, respectively.

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Depreciation

This consists of depreciation on our leasehold improvements, motor vehicles, office equipment, and two leased aircraft which are classified as under operating leases from the accounting perspective in the total amount of HK\$0.1 million, HK\$31.1 million, and HK\$54.1 million during the three years ended 31 December 2013, respectively. The following table sets forth an analysis of our depreciation charge during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Aircraft under operating leases	–	30,626	53,365
Leasehold improvements	–	147	332
Office equipment	75	151	277
Motor vehicles	57	174	173
Total	<u>132</u>	<u>31,098</u>	<u>54,147</u>

Aircraft classified under finance leases would not have depreciation charged to our profit and loss because the only asset recognised by us is the finance lease receivable, net, which is a finance asset. Lease received from finance lease is allocated between finance lease income and repayment of finance lease receivable using an effective interest rate method. Operating lease does have depreciation charged to our profit and loss because we will recognise the aircraft as our fixed asset of which depreciation will be charged over the remaining useful life. Lease received from operating lease will be recognised as operating lease income.

Under the finance lease accounting, no depreciation expense is accounted for in the consolidated income statement. Under the operating lease accounting, depreciation expense is accounted for in the consolidated income statement. During the Track Record Period, depreciation recognised for the Company's two aircraft under operating lease were approximately nil, HK\$30.6 million and HK\$53.4 million, respectively. For PRC tax calculation purpose, the tax depreciation expenses were approximately nil, HK\$46.1 million and HK\$85.1 million, respectively. As such, the tax depreciation benefits as a result of accelerated depreciation (at the tax rate of 25%) were approximately nil, HK\$3.9 million and HK\$7.9 million, respectively, during the Track Record Period.

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Other operating expenses

The following table sets forth an analysis of our expenses during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Key management and employee expenses	8,856	7,392	18,574
Listing expenses	–	1,200	9,783
Business tax and surcharges	–	5,316	21,376
Professional service expenses ⁽¹⁾	5,179	6,219	9,132
Auditors' remuneration	950	1,796	2,891
Rental and utilities expenses	1,316	3,380	7,149
Office and meeting expenses	3,077	6,682	7,071
Travelling and training expenses	2,377	4,543	5,948
Others ⁽²⁾	2,230	2,865	8,513
Fair value loss on currency swap ⁽³⁾	–	–	968
Total	23,985	39,393	91,405

Notes:–

- (1) Professional service expenses included company secretarial service fee, general consultancy service fee, legal fee, rental for business office services, service fee for financial and taxation services, service fee for recruitment agents, and business development expenses for sponsoring industry conference.
- (2) Others principally included bank charges, insurance expenses and advertising expenses.
- (3) We realised the finance lease receivable in respect of an aircraft in December 2013. Under the term of related agreement, we would convert the future lease received on behalf of the buyer from US\$ to RMB during the period from 27 February 2024 to 27 May 2025 at an agreed exchange rate. This arrangement constitutes a derivative – currency swap contract. As of 31 December 2013, the fair value loss of this currency swap contract amounted to approximately HK\$968,000.

The following table sets forth further detailed information on our employee benefit expenses during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages, salaries, and bonuses	8,407	5,876	16,393
Share-based compensation	253	1,075	1,068
Welfare, medical, and other expenses	196	441	1,113
Total	8,856	7,392	18,574

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Foreign exchange gain/(loss)

We recorded a foreign exchange gain of HK\$3.5 million and HK\$0.8 million in 2011 and 2012, respectively. In 2013, our foreign exchange loss amounted to HK\$1.5 million. This foreign exchange loss or gain was arising from the exchange differences at the time of entering into aircraft leasing transactions. The loss was also arising from the appreciation of RMB in respect of the US\$ balance held by our subsidiaries in the PRC.

In addition to the foreign exchange gain/loss for transactional purpose, we also had currency differences on translation of the financial statements of our subsidiaries in different currencies in the amount of HK\$0.5 million, and HK\$(0.3) million, and HK\$5.3 million for the three years ended 31 December 2013, respectively. In 2013, the translation difference with gain of HK\$5.3 million compared with the translation difference with loss of HK\$0.3 million in 2012, mainly due to the translation of the financial statements of our subsidiaries in China.

We had no material foreign exchange gain/loss from the purchase of aircraft recorded because the transactions were all conducted in US\$. On this basis, our Directors consider that there is no material foreign currency exchange risk relating to aircraft acquisition.

Operating profit and operating margin

Our operating profit represented the aggregate of our lease income and interest income, net of interest expense, depreciation, and other operating expenses. Operating margin represents our operating profit divided by total revenues. In 2011, 2012, and 2013, our operating profit was HK\$74.8 million, HK\$127.5 million, and HK\$211.5 million, respectively, and our operating margin was 33.5%, 28.5%, and 30.8%, respectively. Although our operating profit continued to increase during the Track Record Period, the decrease in the operating margin in 2012 was principally due to the low operating margin for the aircraft leases classified as operating leases and the continuous business expansion which led to increases in other operating expenses. Operating leases have relatively low operating margin because we need to record depreciation charge as part of our cost. Increase in the number of operating leases will lower the overall operating margin as the profit margin for operating leases is lower than finance leases. In 2013, as our aircraft fleet size increased, the effect of low operating margin for operating leases diluted, so the operating margin increased compared with 2012.

Our operating profit during the Track Record Period was principally derived from our finance lease income and operating lease income classified under our accounting policies. We measure the profitability of each lease project through various measurements and parameters. For the lease transactions classified as finance lease, we monitor the net interest spread and the net interest margin. For the lease transactions classified as operating lease, we monitor the operating profit margin.

Profitability of the finance leases entered into by us and key financial ratios

We measure the margins of our interest income generated from finance leases through net interest margin, which is calculated by dividing (a) net interest income by (b) the average balance of the finance lease receivable. As a result, fluctuations in our net interest margin are reflected through fluctuations in our average balance of the finance lease receivable and our net interest spread.

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The following table sets forth our lease income, (under finance leases) interest expense, net interest spread and net interest margin during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance lease income ⁽¹⁾	223,075	363,727	477,966
Interest expense ⁽²⁾	(124,291)	(210,575)	(264,132)
Net finance lease income	98,784	153,152	213,834
Average balance of finance lease receivable, net	2,745,416	4,271,248	5,898,476
Average balance of borrowings attributable to the aircraft classified under finance lease ⁽³⁾	2,501,921	4,041,592	5,461,871
Net interest spread ⁽⁴⁾	3.16%	3.31%	3.27%
Net interest margin ⁽⁵⁾	3.60%	3.59%	3.63%

Notes:–

- (1) Finance lease income is the amount of revenue generated from the lease transactions classified as finance lease.
- (2) Interest expense is the cost of borrowing for acquisition of aircraft for which the associated lease transactions are classified as finance lease.
- (3) Average balance of borrowings attributable to the aircraft classified under finance lease represents the average balance of bank borrowings and bridging finance from our Shareholders.
- (4) Calculated as the difference between the average yield and the average cost. The average yield is calculated by dividing finance lease income by the average balance of finance lease receivable, net. The average cost is calculated by dividing interest expense by the average balance of the bank borrowings attributable to the aircraft classified under finance leases.
- (5) Calculated by dividing net finance lease income by the average balance of finance lease receivable, net.

In 2012, our net interest spread increased to 3.31% from 3.16% in 2011 and our net interest margin remained at similar level. The increase in the net interest spread was primarily due to the use of floating interest rates in most of our bank borrowings in the then prevailing low interest-rate environment during the relevant year.

In 2013, our net interest spread slightly decreased from 3.31% to 3.27% but, our net interest margin increased slightly from 3.59% to 3.63%.

The net interest margin during the Track Record Period remained steady. This was principally due to the increasing percentage of bank borrowings subject to floating interest rates whilst the lease income under the aircraft lease agreements were generally fixed at the inception of the aircraft lease agreements.

Profitability of the operating leases entered into by us and key financial ratios

The gross margin of the lease income generated from the operating leases is arrived after deducting the depreciation of the relevant aircraft and the related interest expense. As the amount of the lease income and depreciation of an aircraft remained constant during the lease term, our Directors consider that our gross margin for the leased aircraft classified under operating leases are affected by the interest expense incurred by us on the bank borrowings for the relevant aircraft acquisition.

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The following table sets forth our lease income (under operating leases), the amount of aircraft depreciation of aircraft, the related interest expense, and the gross margin during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating lease income	–	83,840	145,359
Depreciation of aircraft	–	(30,626)	(53,365)
Interest expense	–	(39,328)	(62,659)
Gross profit	N/A	13,886	29,335
Gross profit margin	N/A	16.6%	20.2%

In 2013, our gross margin increased principally because of the then low interest-rate environment and that all the long-term bank borrowings for the relevant aircraft are subject to floating interest rates.

Income tax

As of the Latest Practicable Date, we made all the required tax filings with the relevant tax authorities in the following jurisdictions. Our Directors confirm that there is no outstanding dispute with the relevant tax authorities. Income tax in 2011, 2012, and 2013 was HK\$26.8 million, HK\$33.2 million, and HK\$37.5 million, respectively, representing an effective tax rate of 34.3%, 25.9%, and 17.8%, respectively. The decrease in the effective tax rate was primarily due to novation of five aircraft leases from our subsidiaries in overseas acting as the lessors to our SPCs in China, pursuant to which we were not required to pay PRC withholding tax.

Cayman Islands profits tax

Our Company is incorporated as an exempted company in the Cayman Islands and is not subject to any income or capital gain tax under the current laws of the Cayman Islands.

BVI income tax

Our subsidiaries incorporated in the British Virgin Islands are exempted from income tax.

Ireland income tax

Our subsidiaries incorporated in Ireland are subject to income tax at the rate of 12.5% in 2011 and are subject to income tax at the rate of 25% in 2012 and 2013 under the S110 tax regime.

Hong Kong profits tax

Our subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. The Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profits during the three years ended 31 December 2013.

PRC tax

Our subsidiaries established in the PRC are subject to the PRC CIT at the rate of 25%. The PRC CIT is calculated at the rate of 25% on the taxable income of our subsidiaries established in China. The leasing income is subject to the PRC BT at the rate of 5% or the PRC VAT at the rate of 17% depending on when the leasing contracts were entered into between the subsidiaries and the customers.

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The PRC BT at the rate of 5% and the PRC CIT at the rate of 10% or 6% (tax treaty rate) are withheld on lease rental income payable by lessees in China to non-China tax resident subsidiaries of our Company. Interest payable to our subsidiaries incorporated in Hong Kong is subject to the withholding of the PRC BT at the rate of 5% and the PRC CIT at the rate of 7%.

The Netherlands income tax

Our 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.

Labuan income tax

Our subsidiaries incorporated in Labuan are subject to income tax at a rate of 3% on the estimated net profits or to be taxed at Malaysian Ringgit 20,000 if annual election is made.

Profit for the year and net profit margin

Our profit for the year is equal to our profit before income tax less taxation, and our net profit margin is equal to our profit for the years as a percentage of our revenues. In 2011, 2012, and 2013, our profit for the year was HK\$51.5 million, HK\$95.1 million, and HK\$172.5 million, respectively, and our net profit margin was 23.1%, 21.2%, and 25.1%, respectively.

Net effect of cash flow hedges

In 2012, we entered into two interest rate swap contracts which are cash flow hedges and will expire on 21 March 2024 and 21 September 2026, respectively, with the second contract unwound in December 2013. We entered into four interest rate swap contracts in 2013. Three of these contracts will expire on 21 September 2018 and the remaining contract will expire on 19 September 2019. The five interest rate swap contracts are implemented to exchange the floating interest rates with reference to six-month US\$ LIBOR into fixed interest rates in the range between 1.55% and 2.15%.

Derivative financial liabilities as of 31 December 2012 of HK\$6.4 million represented the unrealised losses recognised in the hedging reserve in equity on interest rate swap contracts entered into by us in 2012. Derivative financial assets as of 31 December 2013 of HK\$13.6 million represented unrealised gain recognised in the hedging reserve in equity.

Derivative financial liabilities as of 31 December 2013 of HK\$6.5 million represented the unrealised losses recognised in the hedging reserve in equity on interest rate swap contracts and HK\$1.0 million represented unrealised losses recognised in profit or loss on the currency swap contract.

Further information on our accounting policies is set forth in the paragraphs under “Our Critical Accounting Policies – Derivative financial instruments and hedging activities” of this prospectus.

The effective portion of changes in the fair value of derivatives that are designed and qualified as cash flow hedges is recognised in other comprehensive income, and accumulated in equity.

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OUR OPERATING RESULTS

Comparison of our results in 2013 and 2012

Revenues

In 2013, our total lease income was HK\$623.3 million, representing an increase of 39.3% as compared with our total lease income of HK\$447.6 million in 2012. The increase was primarily due to the increase in the number of leased aircraft to 25 as of 31 December 2013 from 16 aircraft as of 31 December 2012. In addition, the full-period impact of the lease income received from the two aircraft classified as under operating lease according to the HKFRS and our accounting policies also contributed to the increase income. The lease income obtained from operating leases amounted to HK\$145.4 million in 2013, as compared with HK\$83.8 million in 2012.

The other income also increased substantially to HK\$63.6 million in 2013, as compared with HK\$0.3 million in 2012, primarily due to the gain recorded from the realisation of finance lease receivables of HK\$57.1 million. The amount represented the amount of gain net of PRC BT and other cost incurred by us on the transaction.

Expenses

The following table sets forth our total expenses in 2013 and 2012 as compared with the revenues received by us during the corresponding years:–

	Year ended 31 December			
	2012		2013	
	<i>HK\$'000</i>	<i>% to our revenues</i>	<i>HK\$'000</i>	<i>% to our revenues</i>
Interest expense	249,903	55.8	329,906	48.0
Depreciation	31,098	6.9	54,147	7.9
Other operating expenses	39,393	8.8	91,405	13.3
Total	<u>320,394</u>	71.5	<u>475,458</u>	69.2

In 2013, our interest expense was HK\$329.9 million, representing an increase of 32.0% as compared with our interest expense of HK\$249.9 million in 2012. The increase in the interest expense were primarily due to the increase in our fleet and the corresponding balance of long-term bank borrowings. In addition, we obtained financing from CE Finance and FPAM in the total amount of US\$9.4 million (equivalent to HK\$73.3 million) and US\$6.0 million (equivalent to HK\$46.8 million), respectively, and the interest expense incurred during the years amounted to HK\$1.2 million and HK\$0.7 million, respectively. These borrowings from CE Finance and FPAM are short-term in nature. The amount due to FPAM was settled in full in September 2013, and the amount due to CE Finance was also settled in full on 3 September 2013. The average effective interest rate for our bank borrowings in 2013 was 4.45% per annum.

The percentage of our interest expense to our revenues improved in 2013 to 48.0% as compared with 55.8% in 2012. The improvement was principally due to the low interest-rate environment.

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The decrease in the interest expense was, however, offset by the increases in depreciation and other operating expenses incurred by us in 2013, both the amounts and the percentages to our revenues increased significantly. The increase in depreciation to HK\$54.1 million in 2013 from HK\$31.1 million in 2012 was primarily due to the full-period impact of the depreciation on the two aircraft classified by us as under operating leases.

The increases in our other operating expenses were generally consistent with our business expansion as a result of which, the travelling and training expenses, the expenses on key management and employees, and the professional service expenses increased at different paces. We incurred PRC business tax and surcharges at the rates of 5.7% based on the income generated from our SPCs in the PRC because of the increasing number of aircraft leased and delivered in the PRC. We also incurred expenses for the Listing of HK\$9.8 million in 2013.

As a result of the foregoing, in 2013, the total amount of our other operating expenses represented 69.2% of our revenues as compared with 71.5% in 2012. The amount of share-based compensation recognised as expenses under the Pre-IPO Share Option Scheme amounted to HK\$1.2 million in 2013 as compared with HK\$1.2 million in 2012, which remained unchanged.

Operating profit

In 2013, our operating profit was HK\$211.5 million, representing an increase of 65.9% as compared with our operating profit of HK\$127.5 million in 2012. The operating margin in 2013 was 30.8% as compared with 28.5% in 2012. The improvement in the operating margin was principally due to the gain on realisation of financial lease receivable of HK\$57.1 million, which was offset by the increase in our depreciation and other operating expenses and the two leases classified as operating leases. The expenses incurred for the Listing was also one of the factors for the increases in our other operating expenses.

So far as our finance lease business is concerned, the net interest margin was 3.63% in 2013 as compared with 3.59% in 2012. The improvement was primarily due to the continued low interest rate environment during the period.

Foreign exchange (loss)/gain

In 2013, we recorded a foreign exchange loss of HK\$1.5 million as compared with a minimal foreign exchange gain of HK\$0.8 million in 2012. The foreign exchange loss was arising from the exchange differences between US\$ and RMB arising from the lease transactions entered into by us during the period.

Profit before income tax

As a result of the foregoing, our profit before income tax in 2013 was HK\$210.0 million as compared with HK\$128.3 million in 2012. The increase was modest as compared with the increase in our revenues. Our profitability was primarily offset by the increases in our other operating expenses.

Taxation

Our income tax expense increased to HK\$37.5 million in 2013 as compared with HK\$33.2 million in 2012 and the effective tax rate was 17.8% and 25.9%, respectively. The lower effective tax rate in 2013 was primarily due to the novation of five aircraft leases from our subsidiaries in overseas acting as the lessors to our SPCs in China, pursuant to which we were not required to pay PRC withholding tax.

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Onshore financing within the PRC has no withholding tax on the interest expense paid, but arranging for offshore financing in China will have withholding tax on the interest expense paid. Hence, the effective tax rate for offshore financing in China was generally higher than that applicable to onshore financing. Our Directors confirm that the PRC withholding income tax on interest expenses payable to a foreign company is 7% or 10% depending on whether the foreign company is entitled to enjoy tax treaty benefit. More specifically, the withholding tax rate of 10% is applied to interest expenses payable to foreign enterprises incorporated in jurisdictions without entering into tax treaty with China. The withholding income tax rate of 7% is applied to the interest expenses payable to a Hong Kong Company who is eligible for the tax treaty benefit with reference to the Sino-HK Tax Treaty.

We are in the process of restructuring the financing arrangement to resolve the withholding tax issue.

Comparison of our operating results in 2012 and 2011

Revenues

In 2012, our total lease income was HK\$447.6 million, representing an increase of 100.6% as compared with our total lease income of HK\$223.1 million in 2011. According to our accounting policies, the lease income generated from finance lease was HK\$363.7 million and the lease income generated from operating lease was HK\$83.8 million, representing 81.3% and 18.7% of our total lease income, respectively. During the year, we have purchased and leased two aircraft to *Air China* which are classified as under operating lease according to the HKFRS and our accounting policies.

The substantial increase in the lease income in 2012 was principally due to the increase in our fleet size from 10 aircraft as of 1 January 2012 to 16 as of 31 December 2012.

As a result of our business growth, our interest income from bank deposits increased to HK\$0.3 million in 2012 from HK\$0.1 million in 2011.

Expenses

The following table sets forth our total expenses in 2012 and 2011 as compared with the revenues received by us during the corresponding years:–

	Year ended 31 December			
	2011		2012	
	<i>HK\$'000</i>	<i>% to our revenues</i>	<i>HK\$'000</i>	<i>% to our revenues</i>
Interest expense	124,291	55.7	249,903	55.8
Depreciation	132	*	31,098	6.9
Other operating expenses	23,985	10.7	39,393	8.8
Total	<u>148,408</u>	66.4	<u>320,394</u>	71.5

* Value insignificant

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In 2012, our interest expense was HK\$249.9 million, representing an increase of 101.1% as compared with our interest expense of HK\$124.3 million in 2011. The interest expense represented the interest paid by us for the aircraft acquisition financing. In addition, in 2012, we incurred interest of HK\$4.3 million to CE Finance on three borrowings in the total amount of HK\$897.0 million for the payment of the purchase price of four aircraft, the principal amount of each of these was HK\$234.0 million, HK\$312.0 million, and HK\$351.0 million. The full amount of the these short-term borrowings was fully settled in April 2012 through the long-term aircraft acquisition financing arranged by us. The average effective interest rate for our bank borrowings in 2012 was 5.15% per annum.

The increase in the interest expense in 2012 was commensurate with the increase in our lease income. The percentage of our interest expense to our revenues in 2012 was 55.8% which was at the similar level in 2011 of 55.7%.

In 2012, our depreciation charge increased to HK\$31.1 million, representing a very substantial increase from HK\$0.1 million in 2011. The increase was principally due to the deprecation charge for the two aircraft acquired by us and classified as under operating leases with the net book value of HK\$1,538.9 million as of 31 December 2012. The depreciation charge for the aircraft was HK\$30.6 million. In 2012, we have also acquired additional leasehold improvements and office equipment and as a result, the deprecation charge increased to HK\$0.5 million in 2012 from HK\$0.1 million in 2011.

In 2012, the total amount of our other operating expenses was HK\$39.4 million, representing an increase of 64.2%, as compared with our other operating expenses of HK\$24.0 million in 2011. Our other operating expenses represented 8.8% of our revenues in 2012, as compared with 10.7% in 2011. In 2012, our business experienced a rapid growth. The ratio of our other operating expenses to our revenues decreased, as compared with the percentage in 2011, because of the constant cash flow of the leased income generated from increased number of aircraft. The increased amount was due to the increases in our marketing cost, travelling and meeting costs, office rental, and staff cost for increase number of employees. We also incurred HK\$1.2 million on the Listing. In 2011 and 2012, the amount of share-based compensation recognised as expenses under the Pre-IPO Share Option Scheme amounted to HK\$0.3 million and HK\$1.2 million, respectively.

Operating profit

In 2012, our operating profit was HK\$127.5 million, representing an increase of 70.4% as compared with our operating profit of HK\$74.8 million in 2011. The operating margin in 2012 was 28.5% as compared with 33.5% in 2011. The decrease in the operating margin was principally due to the increase in our operating expenses as a result of the rapid business growth and the two leases classified as operating leases.

So far as our finance lease business is concerned, the net interest margin was 3.59% in 2012 and was at similar level as in 2011.

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Foreign exchange gain

In 2012, we recorded a foreign exchange gain of HK\$0.8 million, representing a decrease of 75.8% as compared with the foreign exchange gain of HK\$3.5 million in 2011. The foreign exchange gain was due to the transactional differences in the exchange rates between US\$ and RMB during the year.

Profit before income tax

As a result of the foregoing, our profit before income tax in 2012 was HK\$128.3 million, representing an increase of 63.9% as compared with our profit before income tax of HK\$78.3 million in 2011.

Taxation

Our income tax expense increased to HK\$33.2 million in 2012 as compared with HK\$26.8 million in 2011, representing an increase of 23.9%. The increase was primarily due to the increase in our profit before taxation in 2012. The amount of the current income and the deferred income tax in 2012 was HK\$29.3 million and HK\$3.9 million, respectively. Our effective tax rate in 2012 was 25.9% which was substantially lower than 34.3% in 2011. The decrease was due to the fact that we used our SPCs in China to arrange for the delivery of six aircraft leased to our airline customers in China. Hence, we were not subject to increasing amount of withholding tax even though there was an increase in the number of aircraft delivered as compared with the same in 2011.

COMPONENTS OF OUR CONSOLIDATED BALANCE SHEETS

Assets

The following table sets forth the components of our assets as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance lease receivables – net	3,135,670	4,388,375	7,678,876
Property, plant, and equipment	911	1,540,829	1,487,127
Prepayments and other receivables	105,666	807,854	2,183,474
Cash and cash equivalents	89,954	73,499	1,367,344
Restricted cash	7,558	78,691	102,411
Derivative financial assets	–	–	13,620
Total	3,339,759	6,889,248	12,832,852

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Finance lease receivables – net

Finance lease receivables – net, is the major component of our assets and is principally comprised of a stream of cash flows receivable from (a) our airline customers under the aircraft lease agreements entered into by us and classified as finance leases and (b) the residual value of the aircraft owned by us and classified as under finance leases minus the unearned finance income during the remaining lease term of the relevant aircraft lease agreements entered into by us. Unearned finance income is the difference between the present value and the gross value for the finance lease receivables. The following table sets forth the components of our finance lease receivable, net, as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance lease receivables – gross	3,948,580	5,308,843	8,586,841
Unguaranteed residual values	1,175,870	1,675,253	2,880,398
Guaranteed residual values	343,200	628,259	1,800,365
Gross investment in finance leases	5,467,650	7,612,355	13,267,604
Less: Unearned finance income	(2,331,980)	(3,223,980)	(5,588,728)
Less: Accumulated allowance	–	–	–
Finance lease receivables – net	<u>3,135,670</u>	<u>4,388,375</u>	<u>7,678,876</u>

For aircraft classified as under finance leases, our investment in the aircraft represents the aggregate of (a) finance lease receivables and (b) the residual value of the relevant aircraft as of the relevant date, less unearned finance income and accumulated allowances. The amount of the “unearned finance income” represents the income that would be allocated to the remaining period of the lease. The “finance lease receivables” represent the payments over the lease term that our airline customers are obligated to make, excluding all other costs for services and taxes that may be reimbursed by us. The “residual value” of an aircraft may further be classified as guaranteed residual value and unguaranteed residual value. A guaranteed residual value is guaranteed to us by (a) our airline customers, or (b) an Independent Third Party financially capable of meeting this guarantee. An unguaranteed residual value is determined by us with reference to an independent valuation report commissioned by us on a regular basis. The “accumulated allowances” represent the accumulated amount deducted from our investments as a result of material default of our airline customers in satisfying their payment obligations under the aircraft lease agreements or that the market value of the relevant type of aircraft has experienced a substantial and prolonged decrease due to factors outside our control. Any direct cost incurred for the acquisition and delivery of aircraft would be capitalised at the commencement of the aircraft lease agreement to reduce the unearned finance income and then amortised over the lease term.

The determination of the above components from time to time require our estimation and judgement, further information on which is set forth in the paragraphs under “Our Significant Accounting Judgements and Accounting Estimates” above.

As of 31 December 2011, 2012, and 2013, we had 10, 14, and 23 leased aircraft classified as under finance leases under our accounting policies. The finance lease receivables – gross increased as the number of our leased aircraft increased.

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According to our accounting policies, our Directors consider the amount of the finance lease receivables – net are affected by (a) the purchase price of the aircraft and the direct cost incurred by us incurred for the acquisition, (b) the level of the lease income to be received by us during the lease term, (c) the timing of the lease payments made by our airline customers, and (d) the estimated residual value of the aircraft at the end of the lease term. These factors affect the financial return of a lease and therefore amortisation of the finance lease receivable.

The present value of the amount of the lease payment receivables from new aircraft leases during the entire lease term represents the addition of the finance lease receivables – net, and the amount actually received represents the reduction of the amount of the finance lease receivables – gross.

Property, plant, and equipment

The following table sets forth the components of the net book value of our property, plant and equipment as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Aircraft	–	1,538,911	1,485,546
Leasehold improvements	–	801	530
Motor vehicles	635	461	288
Office equipment	276	656	763
Total	911	1,540,829	1,487,127

As of 31 December 2012, the increase in the net book value of the property, plant, and equipment, as compared with the net book value as of 31 December 2011, was principally due to the acquisition of two aircraft leased to a major airline in China. These two aircraft are classified as under operating leases according to our accounting policies. Hence, the aggregate purchase price of these two aircraft, together with the direct cost relating to negotiating and closing the lease, is treated as part of our property, plant, and equipment and subject to depreciation over its estimated useful lives after deduction of the residual value.

As of 31 December 2013, the decrease in the net book value of the property, plant, and equipment was principally due to the depreciation charge based on our accounting policies.

Leasehold improvements, motor vehicles, and office equipment were acquired for our business purposes and are located in Hong Kong and China.

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Prepayments and other receivables

The following table sets forth the principal components of our prepayments and other receivable as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
PDP	–	714,738	2,078,019
Interest capitalised	–	4,903	46,448
Deposits paid	–	–	7,914
Prepayments for aircraft acquisition	–	4,681	39,808
Prepayments for listing expenses	–	679	3,931
Amounts due from related parties	–	81,044	–
Deposits placed by CALH on our behalf for acquisition of aircraft	102,070	–	–
Others	3,596	1,809	7,354
Total	105,666	807,854	2,183,474

The amount of PDPs paid by us increased from HK\$714.7 million as of 31 December 2012 to HK\$2,078.0 million as of 31 December 2013. The payment of PDP was part of the terms of the Aircraft Purchase Agreement. Hence, we only started to arrange for PDP financing in 2012 following the entering into the Aircraft Purchase Agreement. The PDPs form part of the purchase price of the aircraft under the Aircraft Purchase Agreement. The increase in PDPs was consistent with the predetermined payment schedule, a total amount of HK\$1,820.1 million has been supported by PDP financing entered into by us with commercial banks in Hong Kong and China. All the PDP financing repayable within the next 12 months is treated as current liability of our Group.

The increase in the amount of interest capitalised and accrued on PDP financing was primarily due to the increase in the balance of PDP financing as of 31 December 2013 from HK\$551.0 million to HK\$1,820.1 million as compared with the same as of 31 December 2012. The increase in the prepayments for aircraft acquisition expenses was commensurate with the increase in our fleet size.

The other deposits represented the amount of rental deposits paid as a lessee and the deposit paid to *China Eastern Airlines* for the acquisition of used aircraft.

The amount due from related parties as of 31 December 2012 principally represented the amount due from CALH arising from the capital injection to us which was subsequently settled in full in May 2013.

The amount of deposits placed by CALH on our behalf as of 31 December 2011 was the deposit payment for aircraft acquisition. The amount was subsequently refunded to CALH by the counterparties after either delivery of the aircraft or cancellation of purchase orders.

The amount of others as of 31 December 2012 and 31 December 2013 included deferred facility fee. According to our accounting policies, these expenses will be capitalised as part of the finance lease receivable when the relevant aircraft is delivered.

The amount of others as of 31 December 2013 mainly included bank charges of letter of guarantee, and advances to employees. The amount of others as of 31 December 2012 mainly included advances to employees.

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Cash and cash equivalents

The following table sets forth the currencies of our cash and cash equivalents as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	69,497	49,481	452,317
RMB	20,045	23,756	909,222
HK\$	412	212	5,400
Others	–	50	405
Total	89,954	73,499	1,367,344

The substantial increase in our cash and cash equivalent as of 31 December 2013 was primarily due to the amount of proceeds received from the realisation of finance lease receivables of HK\$687.2 million, the long-term borrowing of HK\$155.2 million, and the working capital loan from China Everbright Bank Co., Ltd. (Hong Kong Branch) and Industrial and Commercial Bank of China (Asia) Limited in the aggregate amount of HK\$420.7 million.

Restricted cash

The following table sets forth the components of our restricted cash as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged deposits for bank borrowings	7,558	46,555	70,579
Pledged deposits for letter of guarantee issued by a bank	–	20,439	19,362
Pledged deposits for aircraft acquisition	–	6,001	6,110
Pledged deposits for interest rate swap contracts	–	5,696	–
Pledged deposits for a currency swap contract	–	–	6,360
Total	7,558	78,691	102,411

The deposits pledged were used as part of the security for our long-term bank borrowings for aircraft acquisition. The other collaterals included legal charges on all of our aircraft leased, pledge of shares of the SPCs owning the related aircraft, and corporate guarantees from certain members of our Group.

The pledged deposits for letter of guarantee was issued by China Everbright Bank Co., Ltd. (Tianjin Branch) in favour of one of our subsidiaries for the purchase price payable for two aircraft purchased by us.

The deposits pledged for interest rate swap contracts were made under two interest rate swap contracts entered into by us and expiring on 21 March 2024 and 21 September 2026. Further information on our hedging activities is set forth in the paragraphs under “Liabilities – Derivative financial liabilities” below and the section headed “Business – Financing strategies – Hedging transactions” of this prospectus.

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Derivative financial assets

The amount of the derivative financial assets of nil and HK\$13.6 million represented the unrealised gain recognised in the hedging reserve in equity on the interest rate swap contracts entered into by us in 2012 and 2013. The interest rate swap contracts were entered into for the purpose of exchanging our exposure to floating interest rates with reference to LIBOR under five long-term bank borrowings agreements into fixed interest rate in the range between 1.55% and 2.15%.

In 2012, we entered into two interest rate swap contracts which will expire on 21 March 2024 and 21 September 2026, respectively. The contracts are to exchange floating interest rate from LIBOR into fixed interest rate of 2.147% and 2.247%, respectively. In 2013, we entered into four new interest rate swap contracts which will expire on 21 September 2018, 21 September 2018, 21 September 2018, and 19 September 2019, respectively. The contracts are to exchange floating interest rates from LIBOR into fixed interest rates of 1.55%, 1.75%, 1.95% and 2.0%, respectively.

The above interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective in 2012 and 2013.

In December 2013, we terminated one of the interest rate swap contracts entered into in 2012, with 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 remain in the reserve until the hedged bank borrowing repayments occur during the period from 2014 to 2026, when the associated realised gain in the reserve will be progressively reclassified from equity to profit.

As of 31 December 2012 and 2013, the notional principal of outstanding interest rate swaps (31 December 2012: two swaps, 31 December 2013: five swaps) amounted to US\$75,912,000 (equivalent to HK\$592,114,000) and US\$187,276,000 (equivalent to HK\$1,460,753,000), respectively. The margin requirement of these interest rate swaps as at 31 December 2012 and 2013 were US\$56,000 and US\$77,000, respectively, for each basis point movement while their respective maximum exposure were US\$10,016,000 and US\$16,992,000. These interest rate swap contracts were secured by pledged deposits of HK\$5,696,000 and nil as of 31 December 2012 and 2013, respectively. Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

Our Directors confirm that our hedge ratio, based on the balance of the hedged floating interest rate aircraft bank borrowings relative to the balance of the total floating interest rate aircraft bank borrowings of our Group for the three years ended 31 December 2013, was nil, 22% and 23%, respectively. We are not engaged in any interest hedging activity for the PDP financing and working capital facilities as PDP financing is of short term of approximately two years.

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Liabilities

The following table sets forth the components of our liabilities as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings	2,622,832	6,087,162	11,436,394
Long-term borrowing	–	–	155,172
Other payables and accruals	235,506	59,216	206,273
Interest payable	2,709	21,856	34,547
Derivative financial liabilities	–	6,438	7,488
Borrowings from related parties	234,000	–	–
Income tax payables	–	5,901	8,613
Deferred income tax liabilities	10,048	13,966	26,267
Total	<u>3,105,095</u>	<u>6,194,539</u>	<u>11,874,754</u>

Bank borrowings

As of 31 December 2011, 2012, and 2013, a significant part of our balance of bank borrowings was relating to the long-term bank borrowings for aircraft acquisition and PDP financing. As of 31 December 2013, we also had banking facilities for general working capital purpose. The increase in our balance of bank borrowings was due to our business expansion and the increase in our fleet size.

The following table sets forth an analysis of the nature of aircraft lease transactions entered into by us as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
Direct aircraft purchase and lease transactions . . .	4	5	9
Aircraft sale and leaseback transactions	6	11	16
Total	<u>10</u>	<u>16</u>	<u>25</u>

The following table sets forth an analysis of our balance of bank borrowings as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank borrowings for aircraft acquisition . .	2,622,832	5,536,134	9,195,670
PDP financing	–	551,028	1,820,074
Working capital borrowings	–	–	420,650
Total	<u>2,622,832</u>	<u>6,087,162</u>	<u>11,436,394</u>

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The bank borrowings for aircraft acquisition are secured bank borrowings subject to fixed or floating three-month or six-month US\$ LIBOR. The bank borrowings are secured by, in addition to the legal charges on our aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares of the subsidiaries which are SPCs and the registered owner of the related aircraft, corporate guarantees from certain members of our Group (including CALC (BVI)), and pledged deposits of amounting to HK\$7.6 million, HK\$46.6 million, and HK\$70.6 million as of 31 December 2011, 2012, and 2013, respectively.

The original repayment term of the long-term bank borrowings for aircraft acquisition is in the range between 12 and 20 years. Each leased aircraft as part of our fleet is subject to a separate long-term bank borrowing with the repayment term generally corresponding to the relevant lease term. The other collateral included legal charges on all of our aircraft leased, pledge of shares of the SPCs owning the related aircraft, and corporate guarantees from certain members of our Group.

As of 31 December 2013, we have entered into 24 long-term bank borrowings agreements for aircraft acquisition of which 11 bank borrowings agreements are under fixed interest rate between 4.5% and 6.5% and the remaining 13 loan agreements are under floating interest rate with margin in the range between 2.6% and 4.6% with reference to three-month or six-month US\$ LIBOR adjusted on a regular basis.

The PDP financing was subject to floating interest rates and was used by us for the settlement of the PDPs for the aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement. As of 31 December 2013, we had 16 aircraft under sale and leaseback transactions and nine aircraft under direct purchase and lease transactions. For aircraft sale and leaseback transactions, we do not need to make any pre-delivery payment for the aircraft as the purchase commitment is assigned to us from the relevant airline operators on a date close to the delivery date. Pre-delivery payments are required to be made under direct aircraft purchase and lease transactions.

As of 31 December 2012 and 2013, the PDP financing was secured by our rights and benefits in respect of the purchase of the aircraft and pledged deposits of HK\$6.0 million and HK\$6.1 million, respectively. Among the bank borrowings, HK\$136.2 million and HK\$740.4 million were drawn down from China Development Bank (“**CDB**”) under a facility agreement (the “**CDB Facility Agreement**”) as of 31 December 2012 and 2013, respectively. We also have obtained a standby loan facility of US\$40.0 million from CE Finance in 2012 for the sole purpose of paying CDB in satisfaction of the indebtedness outstanding under the CDB Facility Agreement.

As of 31 December 2013, we borrowed an aggregate amount of US\$44.0 million (equivalent to HK\$343.2 million) from a bank which were secured by guarantees from CALC (BVI). We also borrowed a short-term working capital financing amounting to US\$10.0 million (equivalent to HK\$78.0 million) from another bank which were secured by guarantees from CALC (BVI) and China Aircraft Assets Limited.

Long-term borrowing

CALC (Tianjin) entered into a loan agreement with an Independent Third Party for the loan amount of RMB122,000,000 as part of the arrangement for the realisation of the finance lease receivable in respect of one aircraft completed in December 2013. The term of this loan, with an annual interest rate of 6.43%, is 12 years. The loan was pledged by the aircraft held by us. The proceeds of the loan were received by us and has been used for the repayment of the relevant long-term bank borrowings for the aircraft in 2014.

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Other payables and accruals

The following table sets forth an analysis of other payables and accruals as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits received (a)	26,269	30,490	90,326
Amounts due to related parties (b)	198,207	–	845
Consultant and professional fees payable (c)	5,552	12,219	43,940
Business tax, PRC VAT and			
Withholding tax payables (d)	–	5,209	40,552
Others	1,688	5,988	9,799
Operating lease rentals received in advance	–	5,310	5,300
Bonus payable (e)	3,790	–	–
Director fee payable	–	–	1,110
Rentals received to be paid	–	–	14,401
Total	235,506	59,216	206,273

The amount of other payables and accruals included the following principal components:–

- (a) The amount of deposits received by us from our airline customers following the signing of the relevant letters of intent for lease commitment.
- (b) The amount due to CALH which has been settled by us by the issue of new Shares to CALH in July 2013. The amount due to related parties of HK\$0.8 million as of 31 December 2013 represented an amount of office rental of HK\$0.5 million due to CE Finance miscellaneous expenses incurred which have been settled as of the date of this prospectus.
- (c) Consultant and professional fees payable for services rendered.
- (d) An amount of business tax, PRC VAT and withholding tax payable in the amount of HK\$40.5 million was in relation to carrying on aircraft leasing business in China through the SPCs. In addition, there was an amount of HK\$14.0 million for the provision of PRC BT on the gain recorded from the realisation of finance lease receivable completed in December 2013.
- (e) The amount of bonus payable as of 31 December 2011 principally included the amount of bonus payable to Mr. POON pursuant to the service agreement dated 29 June 2011 entered into between CALH and Mr. POON. The amount was settled in March 2012. There was no bonus payable to Mr. POON in 2012.

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- (f) The balance represented the amount of lease payments received by us from the lessee in respect of the aircraft the finance lease receivable of which has been realised and disposed of to an Independent Third Party. Further information on this transaction is set forth in the section headed “Business – Realisation of finance lease receivables” of this prospectus.

Interest payable

As of 31 December 2011, 2012, and 2013, the amount of interest payable was HK\$2.7 million, HK\$21.9 million, and HK\$34.5 million. The interest payable represented the amount of interest on the long-term bank borrowings and PDP financing arranged for aircraft acquisition. The increase in the amount of interest payable in 2012 and 2013 was due to the increase in the balances of long-term borrowings in the recent two years.

Derivative financial liabilities

Derivative financial liabilities as of 31 December 2012 and 2013 of HK\$6.4 million and HK\$7.5 million, respectively, represented the unrealised losses recognised in the hedging reserve in equity on the interest rate swap contracts entered into by us in 2012 and 2013 and on the currency swap contract entered into by us in 2013.

Further information on our accounting policies is set forth in the paragraphs under “Our Critical Accounting Policies – Derivative financial instruments and hedging activities” of this prospectus.

Borrowings from related parties

The balance of borrowings from related parties as of 31 December 2011 was the short-term borrowing obtained from CE Finance. The loan was unsecured but guaranteed by Mr. POON and subject to an effective interest rate of 5.0% per annum. The proceeds of the loan were used by us for the payment of the purchase price for aircraft acquisition. During the period between December 2011 and April 2012, we obtained three borrowings from CE Finance in the amount of HK\$234.0 million, HK\$312.0 million, and HK\$351.0 million, respectively. These borrowings were revolving during the period with the maximum amount due not more than HK\$351.0 million and were used to bridge the gap between the aircraft delivery date and the relevant long-term bank borrowings, the availability of which had been delayed due to unforeseeable reasons and that we had no general working capital banking facilities during the period. All of these short-term borrowings were fully settled in April 2012.

We have implemented stringent internal control measures to ensure that the long-term bank borrowings would be available timely.

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Income tax payables

Our income tax payables increased to HK\$5.9 million as of 31 December 2012 and HK\$8.6 million as of 31 December 2013. The amount was primarily due to the PRC CIT provision at the rate of 25.0% on the net income generated by us from the aircraft classified as under operating leases according to our accounting policies. During the relevant period, the interest incurred by our SPCs in the PRC for offshore financing was subject to withholding tax. We are in the process of restructuring the financing arrangement to resolve the withholding tax issue.

Deferred income tax liabilities

The amount of deferred income tax liabilities are based on our accounting policies and determined with reference to the applicable tax rates as of the balance sheet dates on our likely future taxable profit. It is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. The amount of deferred income tax charged to our statements of comprehensive income in 2011, 2012 and 2013 was HK\$5.7 million, HK\$3.9 million, and HK\$12.3 million, respectively. These amounts are based on the movements in the deferred income tax assets and liabilities as of 31 December 2011, 2012, and 2013:–

	Deferred income tax assets	Deferred income tax liabilities	Deferred income tax
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January 2011	11,635	(16,024)	
Credited/(Charged) during the year to profit or loss	<u>11,075</u>	<u>(16,734)</u>	(5,659)
As of 31 December 2011 and 1 January 2012	22,710	(32,758)	
(Charged)/Credited during the year to profit or loss	<u>(22,710)</u>	<u>18,792</u>	(3,918)
As of 31 December 2012 and 1 January 2013	–	(13,966)	
(Charged) during the period to profit or loss	<u>–</u>	<u>(12,301)</u>	(12,301)
As of 31 December 2013	<u>–</u>	<u>(26,267)</u>	

We provided for deferred tax assets as a result of the tax losses incurred by our SPCs incorporated in Ireland due to accelerated depreciation for income tax purpose. In 2012, these companies have elected to be taxed under a special tax regime under section 110 of the Irish Taxes Consolidation Act, 1997. Hence, the deferred tax assets were reversed out and set-off against the deferred tax liabilities during the year.

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SHAREHOLDERS' EQUITY

The following table sets forth the components of the changes in our total equity attributable to our Shareholders as of 31 December 2011, 2012 and 2013:–

	Shareholders' equity
	<i>HK\$'000</i>
As of 1 January 2011	237,790
Total comprehensive income for 2011	51,954
Dividends	(55,353)
Value of share options granted under the Pre-IPO Share Option Scheme	273
As of 31 December 2011	234,664
Total comprehensive income for 2012	88,388
Issue of ordinary shares by a subsidiary	389,720
Dividends	(19,224)
Value of share options granted under the Pre-IPO Share Option Scheme	1,161
As of 31 December 2012	694,709
Total comprehensive income for 2013	206,525
Issue of new Shares	89,210
Contribution by non-controlling interests	19,500
Dividends	(53,000)
Value of share options granted under the Pre-IPO Share Option Scheme	1,154
As 31 December 2013	958,098

As of 31 December 2013, our Shareholders' equity was HK\$958.1 million, representing an increase of HK\$263.4 million from HK\$694.7 million as of 31 December 2012. The increase was principally attributable to the following:–

- total comprehensive income in 2011, 2012 and 2013 in the amount of HK\$52.0 million, HK\$88.4 million, and HK\$206.5 million, respectively;
- the new issue of 50,000,000 shares, in aggregate, by CALC (BVI) to CALH for the total consideration of HK\$389.7 million in 2012 pursuant to three written resolutions of the sole director of CALC (BVI) dated 15 June 2012, 31 August 2012, and 13 November 2012 as part of the Reorganisation; and
- the new issue of 9,980 CALH Shares at the subscription price of HK\$89.6 million which was settled in cash.

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In 2011, 2012, and 2013, we also declared dividends of HK\$55.4 million, HK\$19.2 million, and HK\$53.0 million, respectively. The outstanding options under the Pre-IPO Share Option Scheme was 42,030,000 options as of 31 December 2013. Although the share options were not granted by us, our Company has agreed to take up the obligation, as part of the Reorganisation, and would issue new Shares to the employees if the conditions of the options granted are satisfied. As a result, an amount of HK\$0.3 million and HK\$1.2 million was credited from our Shareholders' equity representing the accumulated value of the share options amortised in 2011 and 2012. In 2013, the amount credited from our Shareholders' equity in respect of the options granted under the Pre-IPO Share Option Scheme was HK\$1.2 million. Further information on the options granted under the Pre-IPO Share Option Scheme is set forth in the section headed "E. Pre-IPO Share Option Scheme" as set forth in Appendix IV to this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from aircraft in operation

In 2011, 2012, and 2013, the cash flows from aircraft in operation was positive. Our Directors confirm that when a lease transaction is structured, they will ensure that:—

- (a) each period lease payment, i.e. cash inflow, is always more than each bank loan instalment, i.e. cash outflow;
- (b) the estimated residual value of aircraft at end of lease must be higher than the balloon payment of the bank loan; and
- (c) where appropriate, a residual value insurance will be purchased to provide additional comfort to bank for loan repayment at maturity.

Our Directors would like to clarify that the total lease income over the entire lease term of the leasing of aircraft would not be sufficient to cover the total principal amount of long-term bank borrowings. At the end of the lease term, there will be an outstanding balance of the principal of the long-term bank borrowings. This outstanding balance is "balloon payment", the repayment of which is principally secured by the residual value insurance if the proceeds received from the disposal of the aircraft is less than the amount of the balloon payment. We would consider arranging for re-financing if there is a second lease or renewal of the expired lease upon the end of the repayment term.

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The following table illustrates the cash position of our aircraft in operation during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
I: Aircraft in operation			
Lease income	309,503	570,563	815,928
Bank repayment	(246,415)	(429,038)	(637,335)
	<u>63,088</u>	<u>141,525</u>	<u>178,593</u>
II: New aircraft purchase and delivery			
Capital expenditure	(584,042)	(2,963,379)	(4,109,542)
Bank borrowings	324,870	3,112,785	4,003,186
Borrowings from related parties	234,000	663,000	120,120
Repayment of borrowings from related parties	–	(897,000)	(120,120)
	<i>(Note)</i> <u>(25,172)</u>	<u>(84,594)</u>	<u>(106,356)</u>
III: New aircraft not yet delivered			
PDP	–	(714,738)	(1,491,579)
PDP financing	–	568,386	1,378,555
PDP refund	–	–	128,298
Repayment of PDP financing	–	(14,032)	(148,688)
	<i>(Note)</i> <u>–</u>	<u>(160,384)</u>	<u>(133,414)</u>
IV: Net capital movement			
Pledged deposit	(3,565)	(71,133)	(23,720)
Proceeds from issuance of new shares	–	389,720	89,210
Refinancing	–	–	290,160
Loan full repayment on refinancing	–	–	(271,892)
Dividend paid	–	–	(53,000)
Proceeds from working capital loan	–	–	420,650
Working capital loan repayment	–	–	(735)
Capital contribution by non-controlling interests	–	–	19,500
Proceeds from derecognition of financial lease receivables	–	–	687,213
Proceeds from long-term borrowings	–	–	155,172
Proceeds from disposal of financial instrument	–	–	15,187
Net cash generated/(used in) other operating activities	<u>38,100</u>	<u>(231,594)</u>	<u>25,173</u>
	<u>34,535</u>	<u>86,993</u>	<u>1,352,918</u>
Net (decrease)/increase in cash and cash equivalents	72,451	(16,460)	1,291,741
Cash and cash equivalents at the beginning of the year	16,586	89,954	73,499
Exchange difference on cash and cash equivalents	917	5	2,104
Cash and cash equivalents at end of the year	<u>89,954</u>	<u>73,499</u>	<u>1,367,344</u>

Note:–

The balances are financed by the equity, which are reflected in Part IV “Net capital movement”

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The significant increase in the net capital movement in 2013 was primarily due to the impact of the realisation of finance lease receivable in respect of one aircraft, pursuant to which we received proceeds from derecognition of finance lease receivables of HK\$687.2 million and proceeds from long-term borrowing of HK\$155.2 million. In addition, we also issued new shares and received proceeds of HK\$89.2 million. During the year ended 31 December 2013, we declared and paid dividend of HK\$53.0 million. We also received working capital loans from two commercial banks in Hong Kong in the aggregate amount of HK\$420.7 million.

The following sets forth the principal components of the net cash outflow in 2012:–

	<i>HK\$' million</i>
Settlement of amounts due to related parties (CALH) ⁽¹⁾	198.2
Interest paid to related parties	4.5
Others	28.9
Total	<u>231.6</u>

Note:–

- (1) As of 31 December 2011, we had amounts due to related parties of HK\$198.2 million (see note 29(j) of Appendix I to this prospectus), which mainly represented the working capital supported and provided by the related parties. Such amounts had been repaid and settled in net cash outflow in 2012.

Cash flows

Our business operation requires a significant amount of financing for aircraft acquisition. Before completion of the Global Offering and the Capitalisation Issue, we principally use the cash generated from our business operations, long-term bank borrowings, and PDP financing to satisfy our liquidity needs. We also used short-term borrowings from related parties to satisfy the short-term liquidity needs if and when necessary. Following completion of the Global Offering and the Capitalisation Issue, our Directors believe that our liquidity and capital expenditure requirements will be funded by a combination of the net proceeds from the Global Offering, cash generated from our operating activities, long-term bank borrowings, PDP financing, and the proceeds from realisation of finance lease receivables as part of our financing strategies.

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The following table sets forth a summary of our cash flows during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flow used in operating activities	(233,823)	(1,048,874)	(2,578,919)
Net cash flow used in investing activities	(2,616)	(2,285,746)	(1,363,706)
Net cash flow generated from financing activities . .	308,890	3,318,160	5,234,366
Net increase/(decrease) in cash and cash equivalents	72,451	(16,460)	1,291,741
Cash and cash equivalents at the beginning of the year	16,586	89,954	73,499
Exchange difference	917	5	2,104
Cash and cash equivalents at the end of the year	89,954	73,499	1,367,344

Net cash flow used in operating activities

The table below sets forth further information on our cash flows used in operating activities during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit after income tax	51,470	95,132	172,500
Adjustments for:–			
– Depreciation	132	31,098	54,147
– Interest expense of bank borrowings	124,096	245,570	328,022
– Interest expense of borrowings from related parties	195	4,333	1,884
– Share-based payments	273	1,161	1,154
– Unrealised foreign exchange (gains)/losses . .	(3,501)	837	(3,641)
– Fair value loss on currency swap	–	–	968
	<u>172,665</u>	<u>378,131</u>	<u>555,034</u>
– Finance lease receivables – net	(476,430)	(1,252,705)	(3,290,501)
– Prepayments and other receivables	(149,987)	12,551	(12,343)
– Other payables and accruals	214,270	(196,670)	153,878
– Income tax payable	–	5,901	2,712
– Deferred income tax liabilities	5,659	3,918	12,301
	<u>(406,488)</u>	<u>(1,427,005)</u>	<u>(3,133,953)</u>
Net cash flow used in operating activities	<u>(233,823)</u>	<u>(1,048,874)</u>	<u>(2,578,919)</u>

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In 2013, we experienced net cash outflow from operating activities in the amount of HK\$2,578.9 million. Our adjusted profit for the period was HK\$555.0 million, but we had working capital outflow of HK\$3,134.0 million during the year. The substantial increase in the working capital outflow, as compared with HK\$1,427.0 million in 2012, was principally due to the increase in the finance lease receivables – net, to HK\$3,290.5 million as a result of increased number of aircraft delivered in 2013. In 2013, our prepayments and other receivable compared to 2012 increased by HK\$12.3 million principally due to the changes in the amount of deposits paid by us for the purchase of aircraft.

In 2012, we experienced net cash flow used in operating activities in the amount of HK\$1,048.9 million. Our adjusted profit for the year was HK\$378.1 million, but we had working capital outflow of HK\$1,427.0 million during the year. The substantial increase in working capital outflow, as compared with HK\$406.5 million in 2011, was principally due to the increase in finance lease receivables – net, to HK\$1,252.7 million due to increase in the number of aircraft in 2012. Our prepayments and other receivable decreased by HK\$12.6 million principally due to the increase in the amount of deposits paid by us for the purchase of aircraft. There was a substantial decrease in other payables and accruals as a result of our repayment of a significant portion of the amount due to CALH.

In 2011, we experienced net cash flow used in operating activities in the amount of HK\$233.8 million. Our adjusted profit for the year was HK\$172.7 million, and the net working capital outflow was HK\$406.5 million. During the year, the finance lease receivable, net, increased by HK\$476.4 million principally due to the two aircraft added to our fleet. The prepayments and other receivable increased by HK\$150.0 million mainly due to the payment of deposits for aircraft purchase. Other payables and accruals increased by HK\$214.3 million due to the increase in the amount due to CALH.

The negative operating cash flow shown in the statements of cash flows is primarily due to the fact that the cash payments for the new aircraft acquired for finance lease purpose are treated as cash outflows under operating activities, whereas the proceeds from the corresponding bank borrowings are treated as cash inflows from financing activities. Our Directors confirm that the negative operating cashflows have no impact on the current and future liquidity as none of the financing arrangements engaged by us (including the PDP financing and the long-term bank borrowings) contain covenants on our operating cashflow levels. Our Directors would also like to emphasise that the expected cash inflows from lease receivables match the required cash outflows for instalment repayments of the bank borrowings over the lease term of the aircraft.

Net cash flow used in investing activities

The table below sets forth further information on our cash flows used in investing activities during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase of property plant and equipment	(947)	(1,571,008)	(425)
Disposal of a subsidiary.	(1,669)	–	–
Deposit paid for purchase of aircraft	–	(714,738)	(1,363,281)
Net cash flow used in investing activities	<u>(2,616)</u>	<u>(2,285,746)</u>	<u>(1,363,706)</u>

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In 2013, the net cash flow used in investing activities of HK\$1,363.7 million was mainly due to the PDPs paid for 21 out of the 36 aircraft under the Aircraft Purchase Agreement.

In 2012, we experienced net cash flow used in investing activities of HK\$2,285.7 million. The increase was principally due to the acquisition of two aircraft by us in the amount of HK\$1,569.5 million which were classified as under operating leases according to our accounting policies and the deposit paid for the purchase of aircraft under the Aircraft Purchase Agreement.

In 2011, we disposed of all the issued share of China Aircraft Leasing (HK) Company Limited (currently known as China Financial (HK) Company Limited) to Friedmann Pacific Asset Management (Hong Kong) Limited, a subsidiary of FPAM, for consideration payable of HK\$3.1 million, and the amount of HK\$1.7 million represented the cash and cash equivalent held by China Aircraft Leasing (HK) Company Limited at the time of disposal. China Aircraft Leasing (HK) Company Limited is currently not engaged in any business activities. We also purchased a motor vehicle and certain office equipment.

Net cash flow generated from financing activities

The table below sets forth further information on our cash flows generated from financing activities during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proceeds from issuance of new shares	–	389,720	89,210
Contribution by non-controlling interests	–	–	19,500
Proceeds from bank borrowings	324,870	3,681,171	6,092,551
Proceeds from borrowings from related parties . . .	234,000	663,000	120,120
Proceeds from long-term borrowing	–	–	155,172
Repayments of bank borrowings	(122,669)	(216,841)	(743,319)
Repayments of borrowings from related parties	–	(897,000)	(120,120)
Interest paid on bank borrowings	(123,746)	(226,229)	(315,331)
Interest paid on loans from related parties	–	(4,528)	(1,884)
Proceeds from disposal of a derivative financial instrument	–	–	15,187
Deposits pledged in respect of bank borrowings . .	(3,565)	(65,437)	(23,056)
Deposits pledged in respect of derivative financial instruments	–	(5,696)	(664)
Dividend paid to shareholders	–	–	(53,000)
Net cash generated from financing activities	<u>308,890</u>	<u>3,318,160</u>	<u>5,234,366</u>

In 2013, our net cash flow generated from financing activities was HK\$5,234.4 million. The amount principally included the bank borrowings obtained by us for the acquisition of aircraft, working capital loan and the long-term borrowing. We repaid during the year the principal of the bank borrowings of HK\$743.3 million. The interest paid for bank borrowings increased compared to 2012 was mainly due to the increase of the bank borrowings.

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In 2012, our net cash generated from financing activities was HK\$3,318.2 million. The amount principally included the bank borrowings obtained by us for the acquisition of aircraft which are classified under operating leases. In this connection, we pledged bank balance of HK\$65.4 million for the bank borrowings. We repaid during the year the principal of the bank borrowings of HK\$216.8 million. During the year, CALC (BVI) allotted and issued 50,000,000 shares to CALH for the total consideration of HK\$389.7 million pursuant to three written resolutions of the sole director of CALC (BVI) dated 15 June 2012, 31 August 2012 and 13 November 2012.

In 2011, our net cash generated from financing activities was HK\$308.9 million. The amount principally included the bank borrowings of HK\$324.9 million obtained by us for aircraft acquisition. In this connection, we pledged bank balance of HK\$3.6 million for the bank borrowings. We repaid during the year the principal of the bank borrowings of HK\$122.7 million and the interest of the bank borrowings of HK\$123.7 million.

Bank borrowings and equity management

Bank borrowings

Our business growth and aircraft financing requirements are primarily supported by bank borrowings.

As of 30 April 2014, our total bank borrowings amounted to HK\$12,109.1 million, representing an increase of 5.88% as compared with HK\$11,436.4 million as of 31 December 2013.

The following table illustrates the amount of our bank borrowings as of 31 December 2011, 2012, and 2013 by fixed-interest rates and floating-interest rates:–

	As of 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Fixed-interest rate bank borrowings	1,257,108	47.9	2,082,263	34.2	3,426,992	30.0
Floating-interest rate bank borrowings	1,365,724	52.1	4,004,899	65.8	8,009,402	70.0
Total	<u>2,622,832</u>	<u>100.0</u>	<u>6,087,162</u>	<u>100.0</u>	<u>11,436,394</u>	<u>100.0</u>

The following table sets forth the percentage of current and non-current interest-bearing bank borrowings as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	136,366	374,050	2,820,997
Non-current	2,486,466	5,713,112	8,615,397
Total	<u>2,622,832</u>	<u>6,087,162</u>	<u>11,436,394</u>

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The long-term bank borrowings provided for aircraft acquisition are secured by legal charges over the leased aircraft, pledge of the shares of the relevant subsidiaries, as the registered owners of the aircraft, corporate guarantees provided by certain members of our Group (including CALC (BVI)), and pledged deposits amounting to HK\$7.6 million, HK\$46.6 million, and HK\$70.6 million as of 31 December 2011, 2012, and 2013, respectively. Bank borrowings for deposits placed for purchase of aircraft were secured by our Group companies' rights and benefits in respect of the purchase of aircraft and pledged deposits of HK\$6.0 million and HK\$6.1 million as of 31 December 2012 and 2013, respectively. There are other undertakings and covenants included in the relevant long-term bank borrowings agreements, which mainly include:–

- there will be no material change to the shareholding structure of the relevant SPCs which are the borrowers in the relevant bank borrowings transaction;
- there will be no additional financing from third parties for the relevant leased aircraft without the prior approval of the relevant banks; and
- full compliance with certain financial covenants set forth in our bank borrowing agreements, including (a) our gearing ratio not to exceed 95.0% (as of 31 December 2013, our gearing ratio was 92.5%) and (b) our net assets not to be less than US\$70.0 million (equivalent to HK\$546.0 million) (as of 31 December 2013, our net asset value was US\$122.8 million (equivalent to HK\$958.1 million)).

As of the Latest Practicable Date, we have not received any notification from our lenders that we are in breach of any undertakings and covenants in the agreements for our bank borrowings that could constitute an event of default under the agreements.

As part of our ordinary course of business, we are subject to a number of covenants and undertakings included in our financing agreements and agreements for aircraft purchase. A detailed table of these covenants is set forth in “Material covenants in financing and asset purchase arrangements” below.

Equity management

We manage our equity structure and make adjustments to it in light of changes in economic conditions and our business expansion plan. To maintain or adjust the equity structure, we may issue new shares, raise new debts or adjust the amount of dividend paid to our Shareholders. No changes were made to the objectives, policies or processes for managing equity during the Track Record Period.

We monitor our equity using gearing ratio, which is calculated as total liabilities divided by total assets. The asset-liability ratios as of 31 December 2011, 2012, and 2013 are as follows:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total liabilities	3,105,095	6,194,539	11,874,754
Total assets	3,339,759	6,889,248	12,832,852
Gearing ratio.	93.0%	89.9%	92.5%

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Our high gearing ratio during the Track Record Period is the result of the peculiar business environment and opportunities in China and our financing strategy in response to the business environment. We fully utilise the available banking facilities so long as (a) the interest rates of such long-term bank borrowings are in the acceptable range and (b) the cash inflows of lease income during the lease term of each aircraft is sufficient to cover the repayment instalments of the long-term bank borrowings during the same time period.

Our Directors are of the view that our high gearing ratio should not be used as the sole indication that we are subject to unmanageable liquidity risk. The high gearing ratio of our Group is primarily a result of the financing strategy to fully utilise the banking facilities (project financing) available in aircraft acquisition against the future cash flows generated from the long-term aircraft lease agreements and the underlying aircraft asset, rather than other types of financing which are commonly used by other international lessors. Our Directors confirm that, as part of their industry experience in dealing with commercial banks in China, one of the major reasons for commercial banks willing to provide project financing in aircraft acquisition is the anticipated and stable cash inflow generated from leading airline operators in China. This substantiates our strategy to focus on leasing the aircraft to the major and regional airline operators in China or airline operators in other countries with national ownership background.

Net current liabilities

The following table sets forth the principal components of our current assets and liabilities as of 31 December 2011, 2012, 2013 and 30 April 2014:–

	As of 31 December			As of 30 April
	2011	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)
Current assets				
Finance lease receivables – net	104,161	164,957	262,544	358,178
Prepayments and other receivables	105,666	83,532	19,199	12,729
Cash and cash equivalents	89,954	73,499	1,367,344	651,953
	<u>299,781</u>	<u>321,988</u>	<u>1,649,087</u>	<u>1,022,860</u>
Current liabilities				
Other payables and accruals	235,506	59,216	206,273	241,552
Income tax payables	–	5,901	8,613	10,244
Interest payable	2,709	21,856	34,547	60,636
Bank borrowings	136,366	374,050	2,820,997	2,565,140
Borrowing from related parties	234,000	–	–	–
Long-term borrowings – current portion	–	–	78	77
	<u>608,581</u>	<u>461,023</u>	<u>3,070,508</u>	<u>2,877,649</u>
Net current liabilities	<u>(308,800)</u>	<u>(139,035)</u>	<u>(1,421,421)</u>	<u>(1,854,789)</u>

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Our current liabilities exceeded our current assets by HK\$308.8 million, HK\$139.0 million, and HK\$1,421.4 million as of 31 December 2011, 2012, and 2013, respectively. As of 31 December 2013, we had capital commitment amounting to HK\$10,162.5 million in relation to the acquisition of aircraft.

Our Directors have given due consideration to our liquidity and adopt a going concern basis in preparing our audited consolidated financial statements based on the following assessments:–

- (a) For the aircraft under aircraft lease agreements, under our business model, the expected cash inflows from the lease receivables match the required cash outflows for repayment instalments of the long-term bank borrowings over the entire lease term of the aircraft.
- (b) Our net current liabilities position was mainly due to the fact that we used short-term borrowings to finance our aircraft acquisition and the payment of PDPs when the new aircraft ordered by us under the Aircraft Purchase Agreement are being built. As of 31 December 2012 and 2013, PDPs amounted to HK\$714.7 million and HK\$2,078.0 million, respectively, had been paid. According to the Aircraft Purchase Agreement, the amount of PDPs scheduled to be paid in the 12 months from 31 December 2013 is expected to be HK\$1,540.7 million. As of 31 December 2013, we have signed PDP financing with four commercial banks for the PDP of 23 aircraft. Subsequent to 31 December 2013, we entered into three additional agreements for PDP financing for eight aircraft, and we are in discussion with another two banks for the PDP financing for four aircraft. Based on the PDP financing agreements signed, the funding of HK\$1,245.0 million will be provided by commercial banks to support partial settlement of the PDPs. The remaining balance of PDPs amounting to HK\$295.7 million will be funded by our internally generated financial resources and additional PDP financing which is expected to be obtained in July 2014.
- (c) As of 31 December 2012 and 2013, the balance of PDP financing amounted to HK\$551.0 million and HK\$1,820.1 million, respectively. We will replace the PDP financing with the long-term bank borrowings upon the delivery of aircraft as scheduled, which includes 11 aircraft in 2014. As of the Latest Practicable Date, we have entered into lease agreements with airline operators in China for the leasing of eight additional aircraft expected to be delivered in 2014.
- (d) We have entered into a cooperative agreement with a bank, pursuant to which the bank provides a comprehensive loan facility amounting to US\$1.5 billion (equivalent to HK\$11.7 billion) to us during the period between 2013 and 2018. The granting of each specific loan will be subject to the credit assessment to be performed by the bank and the finalisation of the terms and conditions of the loan agreements, which will only be confirmed shortly before the delivery of aircraft.
- (e) Under the Aircraft Purchase Agreement, CALC (BVI) has an obligation to have net asset value of more than US\$300.0 million as of 31 December 2013. The net asset value of CALC (BVI) as of 31 December 2013 was US\$124.4 million (equivalent to HK\$970.7 million). *Airbus* has confirmed to us that despite such net asset value shortfall, it will not exercise its right to defer the delivery of aircraft until 30 June 2015. Therefore, our Directors believe that the delivery of the aircraft will be in accordance with the schedule and we should be able to obtain long-term loans as planned for the aircraft to be delivered in the coming 12 months.

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Taking into consideration our cash flows from operating activities, presently available banking facilities and the PDP financing, the estimated amount of net proceeds from the Global Offering, and based on the assumption that the conditional loan facility of US\$1.5 billion (equivalent to HK\$11.7 billion) and the confirmed PDP financing of HK\$1,137.3 million as of 30 April 2014 will be available to us, as and when required, our Directors are of the opinion that we will have sufficient working capital for our present requirements for the next 12 months from the date of this prospectus to 30 June 2015 on the basis that (a) we would deliver a total of 12 additional aircraft and that all of which are secured with lease commitment by way of aircraft lease agreements or letters of intent and (b) the cash inflows from lease income of leased aircraft will cover the cash outflows for the repayment of the long-term bank borrowings for aircraft acquisition. Our Directors are also of the view that we will be in a position to continue as a going concern and that we have prepared the financial statements on a going concern basis.

Our Directors confirm that we have the following unutilised banking facilities as of 30 April 2014:–

Unutilised banking facilities

	<u>As of 30 April 2014</u>
	<i>HK\$'000</i>
PDP financing	1,137,286
Working capital loan	–
Total	<u>1,137,286</u>

In light of the foregoing and with the detailed information set forth in the paragraphs under “Financial Information – Capital expenditure and capital commitments – Working capital” below, our Directors confirm that we will have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus on the basis that (a) we would deliver a total of 12 additional aircraft and that all of which are secured with lease commitment by way of aircraft lease agreements for 11 aircraft and a letter of intent for one aircraft and (b) the cash inflows from lease income of leased aircraft will cover the cash outflows for the repayment of the long-term bank borrowings for aircraft acquisition. Our Directors are also of the view that we will be in a position to continue as a going concern and have prepared the financial statements on a going concern basis.

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MATERIAL COVENANTS IN FINANCING AND ASSET PURCHASE ARRANGEMENTS

The following table sets forth the material covenants in the financing and asset purchase arrangements entered into by us and the compliance status during the Track Record Period and the Latest Practicable Date:–

	Gearing ratio ⁽¹⁾	Net asset value ⁽²⁾	Net debt to net asset value ⁽³⁾	Coverage ratios			PDP gearing ratio ⁽⁷⁾	Reference dates
				Debt service ⁽⁴⁾	Interest service ⁽⁵⁾	EBITDA to interest ⁽⁶⁾		
		(US\$ million)						
Covenant effective date	6 December 2012	6 December 2012	6 December 2012	6 December 2012	25 March 2013	4 September 2013	28 February 2014	
Financing arrangements								
PDP financing	<95%	>50, >70	N/A	>1.1	>1.2	N/A	<100%	
Long-term bank borrowings and other banking facilities	<95%	>70	N/A	N/A	N/A	>120%	N/A	
Aircraft Purchase Agreement	N/A	>85	<10	N/A	N/A	N/A	N/A	31 December 2012
	N/A	>150	<11	N/A	N/A	N/A	N/A	30 June 2013
	N/A	>300	<11	N/A	N/A	N/A	N/A	31 December 2013
Compliance status								
As of 31 December 2011	NYE	NYE	NYE	NYE	NYE	NYE	NYE	
As of 31 December 2012	90%	89.227	8.528	1.278	NYE	NYE	NYE	
As of 31 December 2013	92%	124.444	10.428	1.141	2.244	183%	NYE	
As of the latest practicable date for the purpose of determining the indebtedness	93%	127.497	11.568	1.256	2.115	150%	88%	

NYE - Not yet effective

Notes:–

- (1) The gearing ratio is the ratio where all liabilities are divided by the shareholders' equity.
- (2) The net asset value represents the value of the total assets less the value of the total liabilities.
- (3) Net debt = Bank borrowings – Cash and cash equivalents
- (4) Debt service coverage ratio =
$$\frac{\text{(EBITDA - Cash tax)}}{\text{(Repayments of principal + (Interest x Tax shield))}}$$

Where:–

- EBITDA is equal to US\$ equivalent of the gross income (e.g. gross lease income received) less other operating expenses.
 - The amount of principal excludes the relevant loan.
- (5) Interest service coverage ratio = (Gross rental collected + other incomes (including interest income) – Other operating expenses)/Interest expense
 - (6) EBITDA to interest = EBITDA/Interest expense

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(7) PDP gearing ratio = Outstanding PDP financing of a bank/Net asset value

(8) The figures in the table above are calculated from CALC (BVI) as the covenants are related to CALC (BVI).

Our Directors confirm that the financial covenants on the net asset value undertaken by us are and the consequences of such breach are set forth in the Aircraft Purchase Agreement. Our Directors further confirm that waivers of exercising its rights to defer the delivery of the ordered aircraft for breach of such financial covenants has been granted by *Airbus* on 25 September 2013 and 19 February 2014 (the “**Waivers**”) and such Waivers would continue to be effective until the earlier of 30 June 2015, the Listing Date or the date on which the application for the Listing is withdrawn (the “**Standstill Period**”). As set forth in the Waivers, *Airbus* shall be entitled to exercise any rights it may have for breach of financial covenants after the Standstill Period has elapsed. As agreed between *Airbus* and us, the obligation of financial covenants’ undertakings shall be terminated upon Listing and hence, there is no related ground for *Airbus* to terminate the Aircraft Purchase Agreement with respect to the financial undertakings after Listing.

Our Directors further confirm that our Group has not received any request from *Airbus* for delayed delivery of aircraft under the Aircraft Purchase Agreement as a result of the above mentioned breach of covenants.

Our Directors confirm that (a) for covenants in financing arrangements, we are required to provide our interim and annual financial statements to the banks for checking the compliance status and (b) for covenants in Aircraft Purchase Agreement, they are only applicable on 31 December 2012, 30 June 2013 and 31 December 2013 for checking the compliance status. Except for the non-compliance disclosed in this prospectus, our Directors confirm that we have not breached any covenant under our financing arrangement, nor have we received any notice from banks in this regard.

Our Directors further confirm that we would monitor the covenant compliance status and our gearing ratio at the following times:–

- For the preparation of annual budget, our finance team will take account for covenant compliance and appropriate gearing ratio on the forecast and conduct review on regular basis.
- On monthly basis, our finance team is responsible to calculate the covenant and gearing ratio and report to our chief financial officer for monitoring.
- For every aircraft acquisition transaction, our transaction team is responsible to gather all project information for our finance team to assess the impact of project debt-to-equity ratio to our covenant compliance and overall gearing ratio to avoid any unexpected violation of financial covenants. The assessed project is to be approved by chief executive officer or Investment Committee/Strategy Committee, where appropriate, prior to execution.

In addition to the quantitative covenants set forth above, we have also undertaken to our banks providing banking facilities to us the following undertakings:–

- disclose such information about the business, assets and financial conditions of our Company for compliance purpose (to the extent such disclosure is in full compliance with the applicable laws and regulations);

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- furnish to the relevant borrower our financial reports (to the extent such disclosure is in full compliance with the applicable laws and regulations);
- not to create or allow to exist any encumbrance or security over our assets save for the then existing security which had been disclosed, such encumbrance or security created to secure the financing for the purchase of assets and any related capital expenditure;
- give the relevant bank prior written notice of any reorganisation, amalgamation, reconstruction, takeover, scheme of compromise or arrangement or amendment of any provision of our constitutive documents, and obtain prior written consent of the relevant borrower if any such occurrence may adversely affect the rights of the relevant borrower under the relevant financing agreement;
- director nominated by CEL remains the chairman of our Board;
- CEL remains our Controlling Shareholders;
- CEL will have not less than two-ninth voting rights on our Board upon Listing; and
- repay all outstanding loans, together with accrued interest, upon occurrence of any event resulting in termination of the Aircraft Purchase Agreement.

Our Directors confirm that the above undertakings, to the extent that they are given by CEL, will be released upon the Listing being approved by the Listing Committee of the Stock Exchange. Further information of which is set forth in the section headed “Controlling Shareholders and Substantial Shareholders” of this prospectus.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure

In 2011, 2012, and 2013, our capital expenditure was principally used for business expansion purpose including the purchase of property, plant and equipment and the purchase of aircraft to generate lease income. The primary source of financing for our capital expenditure was our own working capital, bank borrowings, and borrowing from related parties. The following table sets forth our capital expenditure during the three years ended 31 December 2013:–

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Acquisition of aircraft	584,042	2,963,379	4,109,542
Acquisition of other property, plant, and equipment	947	1,471	425
Total	<u>584,989</u>	<u>2,964,850</u>	<u>4,109,967</u>

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Capital commitment

The following table sets forth our contracted commitment contracted for as of 31 December 2011, 2012, and 2013, but not yet incurred by us:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase of aircraft	5,845,749	16,359,250	10,162,469

In October 2012, we entered into the Aircraft Purchase Agreement with *Airbus* for the purchase of 36 current generation of A320 family aircraft which are currently planned to be delivered to us before the end of 2016, out of which six aircraft have been delivered as of the Latest Practicable Date. Our agreement to purchase these aircraft has secured a series of scheduled deliveries which will enable us to achieve our targeted growth. For each aircraft, we are obliged to make PDPs at specific dates prior to its scheduled delivery.

The amount of aircraft purchase commitment of HK\$10,162.5 million as of 31 December 2013 represented our estimate of the total purchase costs of the aircraft which are contracted to be purchased and delivered to us under the Aircraft Purchase Agreement. As of the Latest Practicable Date, the amount of outstanding aircraft purchase commitment under the Aircraft Purchase Agreement is HK\$7,834.0 million. The prices are not fixed at the time of entering into the relevant agreement and can only be determined upon determination of the final specifications of the aircraft. The final purchase prices paid by us will be lower than the listed prices because of different aircraft specifications and various price concessions, credits or discounts that may be provided by the aircraft manufacturer. These concessions take the form of credit memoranda, which we may apply towards the purchase of goods and services. These credit memoranda are generally incorporated into the final aircraft invoices and thus reduce the amount to be paid by us for each aircraft. As a result, the final purchase prices of the aircraft purchased by us are expected to be substantially less than the manufacturer's listed prices.

Our Directors' assessment of our ability to fulfil the aircraft purchase commitment

Our Directors confirm that the aircraft purchase commitment of HK\$7,834.0 million as of the Latest Practicable Date is expected to be financed by (a) PDP financing, (b) long-term bank borrowings, and (c) the net proceeds from the Global Offering. We may also receive additional financial resources from the possible realisation of our investment in finance lease receivables in the future. Our Directors intend that the following allocation of financial resources are expected to be used to fund our aircraft purchase commitment:–

Description	Amount (HK\$ million)	%
PDP financing	1,166.4	14.3
Long-term bank borrowings	6,735.9	82.9
Net proceeds from the Global Offering	229.1	2.8
Total	8,131.4	100.0

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As of the Latest Practicable Date, the PDPs for four aircraft in the amount of HK\$494.1 million have yet to be secured by PDP financing. Our Directors confirm that the PDP financing for two aircraft is expected to be available in July 2014 and for the remaining two aircraft by the end of 2014. China Everbright Bank Co., Ltd. (Hong Kong Branch), and China Development Bank (Hong Kong Branch), are the two commercial banks in discussion with our Group for the PDP financing.

With the PDPs expected to be settled in full, we would continue to secure additional lease commitment for the aircraft at the best possible rates. The long-term bank borrowing will then be available after confirming the lease commitment. Our Directors are confident that we will be able to obtain the required PDP financing, the relevant lease commitment, and the appropriate long-term bank borrowings for the aircraft committed to be purchased under the Aircraft Purchase Agreement. If all of the planned PDP financing for the four aircraft is not available, our Directors intend to use the internal financial resources for settlement of the PDPs.

We will not need to arrange for the long-term bank borrowing for an aircraft until there is a lease commitment with the delivery date of the aircraft having been agreed with the relevant airline customer. In any event, the delivery schedule set forth in the Aircraft Purchase Agreement may change or the delivery slot can be transferred to third parties as confirmed by our Directors as well as evidenced by the reported cases in the global market. Hence, our Directors are of the view that we would be able to secure sufficient financing to fulfil the capital commitment or in any event of whatever reasons failed to secure lease commitment, we will be able to manage with alternative plan without causing our Group falling into liquidity problem.

Our Directors acknowledge that there were previous breach of the net asset value covenant in the Aircraft Purchase Agreement. The breach was primarily a timing issue as we planned to complete the Global Offering in 2013 with the equity raised to support our business operations. Waivers of exercising its rights to defer the delivery of the ordered aircraft for breach of such financial covenants have been granted by *Airbus*. We have never violated any other financing covenants contained in PDP financing and long-term bank borrowings. Our Directors consider that the breach of the net asset value covenant has no impact on our ability to obtain PDP financing and long-term bank borrowings. In addition, we have strengthened the internal monitoring and control notices, so as to prevent similar breaches from occurring in the future.

“Tipping point” analysis

The following sets forth a “tipping point” analysis prepared by our Directors. Subject to the assumptions set forth below, the “tipping point” analysis illustrates the point beyond which we would run out of cash in the event that we had to transfer the untaken aircraft delivery slots under the Aircraft Purchase Agreement. The following “tipping point” analysis is hypothetical in nature and does not represent the actual business environment in which we are operating.

The “tipping point” analysis is based on the following assumptions:–

- 1 Lease income from the existing aircraft is assumed to be received as scheduled and such income will be used to repay the relevant long-term bank borrowings. The bank loan repayments are made based on the repayment schedules. A realisation of the finance lease receivable for one aircraft was in 2013.
- 2 As of 31 December 2013, we secured letters of intent and/or lease agreements in relation to 26 aircraft to be delivered in 2014 and 2015. Long-term bank borrowings agreements would be entered into with banks before the delivery of the relevant aircraft. Lease income from such 26 aircraft would be received as scheduled and such income would be used to repay the relevant long-term bank borrowings.

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- 3 For the aircraft that do not have signed lease letters of intent or lease agreements as of the date of this prospectus, we assume that we will not be able to secure long-term bank borrowings. Alternatively, we will transfer the aircraft delivery slots in the market.
- 4 Generally 1% of the sales price to the new buyer can be used as a commission fee benchmark. As such, brokerage commission is assumed to be 1% of slot selling price.

According to *Ascend*, the transaction volume of brand new and less than one-year old Airbus A320-200 aircraft has been gradually increasing from 2004 to 148 aircraft in 2013 with an average of sale and purchase of 102 aircraft completed in each year. Despite the global financial crisis in 2009, the transaction volume of brand new and less than one-year old Airbus A320-200 aircraft maintained a minimum transaction volume of 88 aircraft during the year.

Our Directors also confirm that if we are required to execute the contingency plans, we will first attempt to transfer the aircraft delivery slot to a third party in the significant number of aircraft order backlog through *Airbus*. If *Airbus* fails to transfer the aircraft delivery slot, we will then discuss with *Airbus* for deferred delivery of the relevant aircraft as in other cases in the aircraft industry submitted earlier. If none of these plans meet our requirements, as the last resort, we would engage aircraft broking agents to transfer the aircraft delivery slot to third party. Given the market price levels, the transaction volume in the secondary market, and the small number of committed aircraft under Aircraft Purchase Agreement without lease commitment, our Directors believe that the contingency plans are feasible and its execution would have a minimal impact on us.

Based on the above assumptions, our cash inflows are expected to be equal to cash outflows when we sell our aircraft delivery slots under the Aircraft Purchase Agreement at such prices representing 18.0% discount to the actual purchase price for the aircraft under the Aircraft Purchase Agreement. Since 2005, the market prices for brand new Airbus A320 family aircraft, as compared with the actual purchase price for brand new aircraft under the Aircraft Purchase Agreement, represented a discount in the range between 0.2% and 5.0%. This comparison is made at the same point of time as once an aircraft delivery slot is transferred to a third party, the transferee would then work with *Airbus* for the direct delivery of the aircraft without our involvement. This percentage decrease is significantly lower than the percentage decrease in the “tipping point” analysis before which we would run out of cash and encounter liquidity risk.

The Directors confirm that the comparison of the historical market prices of brand new aircraft with actual purchase prices of our aircraft under the Aircraft Purchase Agreement is reasonable and appropriate to illustrate the historical discounts in the secondary market for the following reasons:—

- (i) Given that the aircraft purchase price with *Airbus* is confidential information, it is impossible for us to obtain such information from other aircraft buyers in the market each year for comparison purpose. On the other hand, our Directors believe that the purchase prices of aircraft from *Airbus* have increased steadily from 2005 to 2014 due to robust market demand, limited production capacity, and increasing cost of raw materials, labour, and other costs of production. Therefore the comparison of our actual purchase prices with the market prices of brand new aircraft is considered by our Directors to be the most prudent and appropriate comparison for the purpose of making the discount estimation in the “tipping point” analysis.

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- (ii) Our Directors would like to clarify that when the aircraft delivery slot is transferred, the relevant aircraft is classified as brand new as it will be delivered from *Airbus* to the third party directly. Also, given the purchase prices with *Airbus* are confidential information, the market prices of brand new aircraft represent the actual selling prices of the aircraft based on transactions completed in the secondary market during the relevant period.

“Market prices” represent the actual selling prices of the aircraft based on transactions completed in the secondary market during the relevant period, whereas the “base value” reflects the underlying economic value of an aircraft in an open, unrestricted, stable market environment with a reasonable balance of supply and demand, and assumes full consideration of its “highest and best use”. Since the aircraft purchase price is confidential information and is not generally available in public domain, the base value is the most commonly used reference point for aircraft appraisers and other market participants to estimate the value of an aircraft in deciding the transaction price in the secondary market. Thus, the base value is a valid and relatively reliable reference in the aircraft trading market.

Operating lease commitment – where we are the lessee

The following table sets forth the minimum lease payments under non-cancellable operating leases in respect office premises used by us as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted:–			
Not later than one year	2,481	5,808	5,592
Later than one year but not later than five years . .	241	7,818	2,363
	<u>2,722</u>	<u>13,626</u>	<u>7,955</u>

Operating lease arrangement – where we are the lessor

The following table sets forth the future minimum lease receipts under non-cancellable operating leases entered into by us as of 31 December 2011, 2012, and 2013:–

	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	–	145,436	145,436
Later than one year but not later than five years . .	–	581,743	581,743
Later than five years	–	928,987	783,552
Total	<u>–</u>	<u>1,656,166</u>	<u>1,510,731</u>

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Working capital

In June 2013, we entered into a cooperative agreement with China Development Bank, Hong Kong Branch, pursuant to which the bank agrees to provide to us a conditional loan facility amounting to US\$1.5 billion (equivalent to HK\$11.7 billion) during the period between 2013 and 2018 for the purpose of purchasing aircraft. The granting of each specific loan will be subject to the credit assessment 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 aircraft. Our Directors are of the opinion that we will be able to draw down the necessary bank loans from the loan facility to finance the purchase of aircraft committed by us when the relevant aircraft are delivered in 2014.

We are required to pay PDPs to the aircraft manufacturer when the new aircraft ordered by us are being built. Our Directors confirm that the PDPs represent 30% to 40% of the expected actual purchase price of the relevant aircraft. We normally use PDP financing for settlement of the PDPs. Pursuant to the delivery schedule in the Aircraft Purchase Agreement, PDPs in the amount of US\$271.3 million (equivalent to HK\$2,116.1 million) are expected to be paid in the next 18 months from 31 December 2013. Our Directors intend that these PDPs will be funded by the confirmed PDP financing in the amount of HK\$1,137.3 million as of 30 April 2014 and our internally generated financial resources. The amount of PDPs payable in the next 18 months from 31 December 2013 would be substantially less than the aircraft purchase commitment as of the same date. The remaining balance will be financed by the long-term bank borrowings when the relevant aircraft is about to be delivered.

Taking into consideration our cash flows from operating activities, presently available banking facilities and the PDP financing, the estimated amount of net proceeds from the Global Offering, and based on the assumption that the conditional loan facility of US\$1.5 billion (equivalent to HK\$11.7 billion) and the confirmed PDP financing of HK\$1,137.3 million as of 30 April 2014 will be available to us, as and when required, our Directors are of the opinion that we will have sufficient working capital for our present requirements for the next 12 months from the date of this prospectus to 30 June 2015 on the basis that (a) we would deliver a total of 12 additional aircraft and that all of which are secured with lease commitment by way of aircraft lease agreements or letters of intent and (b) the cash inflows from lease income of leased aircraft will cover the cash outflows for the repayment of the long-term bank borrowings for aircraft acquisition.

DISCLOSURE ON FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

Our principal financial instruments include finance lease receivable, interest-bearing bank loans (including PDP financing), and cash and cash equivalents. The main purpose of these financial instruments is to support our business operations and aircraft acquisition plans. We also have various financial assets and financial liabilities arising from our business operations. The principal risks arising from our financial instruments are market risk (including the foreign exchange risk and the interest rate risk), credit risk, and liquidity risk. We intend to achieve an appropriate balance between the risks and the investment returns so as to minimise the potential adverse impact on our business and financial condition.

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Market risk

(a) Foreign exchange risk

We are exposed to foreign exchange risks as certain portion of cash and cash equivalent, financial assets included in prepayment and other receivable, finance lease receivable, other payables and accruals and bank borrowings held by entities within our Group are denominated in currencies other than the entity's function currency, primarily with respect to RMB and US dollars. We currently do not have a foreign currency hedging policy as we consider that our exposure to foreign exchange risk is insignificant. However, we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

(b) Cash flow and fair value interest rate risk

Our interest rate risk mainly arises from finance lease receivable and bank borrowings. Finance lease receivable and bank borrowings issued at floating rates expose us to cash flow interest rate risk. Finance lease receivable and bank borrowings issued at fixed rates expose us to fair value interest rate risk.

We manage the interest rate risk by the way of matching the interest rates of the finance lease receivable with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the finance lease receivable and the corresponding bank borrowings cannot be matched. As of 31 December 2011, 2012, and 2013, there were three, five, and ten aircraft lease agreements where the effective interest rates implicit in finance lease receivable are fixed for the whole lease term while the associated bank borrowings bear floating rates. Given the above scenario, we have managed its cash flow interest rate risk by entering into floating-to-fixed interest rate swaps for the associated floating-rate bank borrowings for two of the aircraft lease projects. Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, we agree with other parties to exchange, at specified intervals (primarily quarterly), the difference in amounts between the fixed leg and the floating leg 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.

Our Directors confirm that our hedge ratio, based on the balance of the hedged floating interest rate aircraft bank borrowings relative to the balance of the total floating interest rate aircraft bank borrowings of our Group for the three years ended 31 December 2013, was nil, 22% and 23%, respectively. We are not engaged in any interest hedging activity for the PDP financing and working capital facilities as PDP financing is of short term of approximately two years.

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The table below illustrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of our operating profit before taxation and cash flows as of 31 December 2011, 2012, and 2013:–

	Increase/(decrease) in operating profit before taxation		
	As of 31 December		
	2011	2012	2013
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Changes in basis points			
+50 basis points	(2,935)	(8,912)	(22,353)
-50 basis points	2,935	8,912	22,353

Note:–

(1) No material hedging impact during the Track Record Period

	Increase/(decrease)in cash flows		
	As of 31 December		
	2011	2012	2013
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Changes in basis points			
+50 basis points	(4,406)	(11,715)	(14,839)
-50 basis points	4,406	11,715	14,839

Note:–

(1) No material hedging impact during the Track Record Period

	Increase/(decrease)in our reserves		
	As of 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in basis points			
+50 basis points	–	22,084	29,574
-50 basis points	–	(22,084)	(29,574)

The sensitivity analysis above indicates the annualised impact on our operating profit before taxation and cash flows that would arise assuming that the change in interest rates had occurred at the balance sheet dates 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 our assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date and is sufficient based on the interest rate volatility during the Track Record Period.

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With effective hedging on all bank loans with floating interest rate implemented, the net interest margin will always remain positive regardless the interest rate fluctuations. Without such hedging implemented, the breakeven point (i.e. estimated net profit equals to zero) would be resulted if the LIBOR is added by 13.3%, 7.2% and 4.8%, respectively, during the Track Record Period; and negative cash (excluding restricted cash) would be resulted if the LIBOR is added by 10.2%, 3.1% and 46.1%, respectively, during the Track Record Period.

According to the sensitivity analysis for the period from the date of this prospectus to 31 December 2014 and the period from 1 January 2015 to 30 June 2015, only if the LIBOR is added by 4.1% and 3.3%, respectively, our Group's estimated net profit would be breakeven; and only if the LIBOR is added by 12.4% and 8.2%, respectively, our Group's cash (excluding restricted cash) would be turned to negative, respectively.

Further information on our hedging policy is set forth in the section headed "Risk Management – Detailed interest rate risk management policy" of this prospectus.

Credit risk

We take on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for us by failing to discharge an obligation. Significant changes in economy or in the operating environment of a particular industry segment that represents a concentration in our portfolio, could result in losses that are different from those provided for as of the balance sheet date. We therefore carefully manage our exposure to credit risk. Our credit exposure is generally arising from the counterparty risk in the course of providing aircraft leasing service.

We implement our risk management system according to our plan based on our industry research, counterparty credit rating, and understanding of the counterparty's operation, financial condition, and its shareholders' support. We believe that all of these are able to strengthen the control and the management of our credit risk.

(a) Probability of default

Default risk – in the event of default, we may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

Late payment risk – in the event of late payment, we are 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, we may request for a security deposit where we may apply towards the payment or discharge of any obligation owned by the lessee.

(b) Risk limit control and mitigation policies

We manage, limit and control concentrations of credit risk wherever they are identified, in particular, to assess the lessee' repayment ability periodically.

(c) Impairment and allowance policies

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

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Our policy requires the review of the financial statements of the lessee or its parent company and the valuation and residual value of the aircraft (effectively the collateral held) under the lease at least annually or more regularly when circumstances require.

Finance lease receivable and financial assets of our Group are neither past due nor impaired. We have not encountered any delay or default in the collection of lease receivable. No impairment allowance was made for our finance lease receivable and financial assets of our Group as of 31 December 2011, 2012, and 2013.

(d) Concentration of risk of financial assets with credit exposure

In 2011, 2012, and 2013, our airline customers were major or regional airlines in China. If the airlines experience financial difficulties, our aircraft leasing service could be adversely affected in terms of recoverability of the lease payments from our airline customers.

To manage this risk, we assess the business performance of our airline customers on a regular basis. In view of the fact that our airline customers are operating smoothly and the sound collection history of the receivable due from them, we believe that the credit risk inherent in our outstanding receivable balances from our airline customers is low.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Our treasury function aims to maintain flexibility in funding through financial support from our Shareholders prior to Listing. To ensure continuity of funding, our policy is to maintain cash inflows generated from aircraft leases to match the cash outflows arising from bank borrowings.

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The following table shows the remaining contractual maturities at the balance sheet date of our financial assets and liabilities as well as commitments, which are based on contractual undiscounted cash flows and the earliest date we can be required to receive and pay:–

	Less than one year	Between one and two years	Between two and five years	Over five years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 31 December 2013					
Financial assets					
Finance lease receivables	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	145,436	145,436	436,307	783,552	1,510,731
Derivative financial instruments	(2,628)	(4,472)	1,705	23,216	17,821
	<u>2,322,542</u>	<u>938,696</u>	<u>2,789,594</u>	<u>7,349,949</u>	<u>13,400,781</u>
Financial liabilities					
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	159,311	–	–	–	159,311
Off-balance sheet – operating lease commitments	5,592	2,363	–	–	7,955
Derivative financial instruments	4,105	13,386	(10,970)	270	6,791
	<u>3,790,988</u>	<u>1,464,404</u>	<u>2,534,892</u>	<u>7,841,706</u>	<u>15,631,990</u>
Net	<u>(1,468,446)</u>	<u>(525,708)</u>	<u>254,702</u>	<u>(491,757)</u>	<u>(2,231,209)</u>
As of 31 December 2012					
Financial assets					
Finance lease receivables	482,095	482,095	1,422,635	3,550,277	5,937,102
Other receivables excluding prepayments	82,853	–	–	–	82,853
Restricted cash	–	–	–	78,691	78,691
Cash and cash equivalents	73,499	–	–	–	73,499
Off-balance sheet – operating lease receivables	145,436	145,436	436,307	928,987	1,656,166
	<u>783,883</u>	<u>627,531</u>	<u>1,858,942</u>	<u>4,557,955</u>	<u>7,828,311</u>

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	Less than one year	Between one and two years	Between two and five years	Over five years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities					
Bank borrowings	692,667	1,007,067	1,774,181	5,325,507	8,799,422
Other payables and accruals	48,697	–	–	–	48,697
Off-balance sheet – operating lease commitments	5,808	5,457	2,361	–	13,626
Derivative financial instruments	–	7,518	17,692	(21,531)	3,679
	<u>747,172</u>	<u>1,020,042</u>	<u>1,794,234</u>	<u>5,303,976</u>	<u>8,865,424</u>
Net	<u>36,711</u>	<u>(392,511)</u>	<u>64,708</u>	<u>(746,021)</u>	<u>(1,037,113)</u>
As of 31 December 2011					
Financial assets					
Finance lease receivables	334,957	334,038	1,003,411	2,619,374	4,291,780
Other receivables excluding prepayments	3,596	–	–	–	3,596
Restricted cash	–	–	–	7,558	7,558
Cash and cash equivalents	89,954	–	–	–	89,954
	<u>428,507</u>	<u>334,038</u>	<u>1,003,411</u>	<u>2,626,932</u>	<u>4,392,888</u>
Financial liabilities					
Bank borrowings	268,809	264,508	822,055	2,371,617	3,726,989
Borrowings from related parties	235,690	–	–	–	235,690
Other payables and accruals	231,716	–	–	–	231,716
Off-balance sheet – operating lease commitments	2,481	241	–	–	2,722
	<u>738,696</u>	<u>264,749</u>	<u>822,055</u>	<u>2,371,617</u>	<u>4,197,117</u>
Net	<u>(310,189)</u>	<u>69,289</u>	<u>181,356</u>	<u>255,315</u>	<u>195,771</u>

Our Directors confirm that the shortfall was primarily due to the accounting treatment of PDPs, including both the bank financing and the equity portions, which were not treated as financial assets as of the relevant dates indicated, whereas the amount of PDP financing was included in the financial liabilities as of the relevant dates indicated. Upon delivery of aircraft, the PDPs will be transformed into “finance lease receivables”, and treated as financial assets if the lease is classified as finance lease, while the PDP financing will be replaced by the long-term bank borrowings both of which are financial liabilities. Accordingly, the liquidity position will significantly be improved.

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We have arranged for PDP financing. We may also use short-term borrowings to support the payment of 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 of 31 December 2012 and 2013, we placed PDP amounting to HK\$714.7 million and HK\$2,078.0 million, respectively. PDPs are prepayment 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\$551.0 million and HK\$1,820.1 million as of 31 December 2012 and 2013, respectively. The analysis above includes the remaining contractual maturities of PDP financing.

INDEBTEDNESS

As of 30 April 2014, which is the latest practicable date for the purpose of determining the amount of our indebtedness, we had (a) outstanding interest-bearing balance of bank borrowings and long-term borrowings in the total amount of HK\$12,263.7 million; (b) the unutilised banking facilities in the total amount of HK\$1,137.3 million; and (c) a comprehensive loan facility amounting to US\$1.5 billion (equivalent to HK\$11.7 billion) to us during the period between 2013 and 2018 provided by a bank. The granting of each specific loan under the comprehensive loan facility will be subject to the credit assessment to be performed by the bank and the final terms and conditions of the relevant loan agreement. The borrowings were used by us for aircraft acquisition purpose.

As of 30 April 2014, the bank borrowings are secured by (a) in addition to other legal charges, all of our aircraft leased to airline companies under either finance leases or operating leases; (b) pledge of the shares in the SPCs owning the related aircraft; (c) guarantees from certain members of our Group; (d) pledge of deposits amounting to HK\$71.5 million; and (e) our certain rights and benefits in respect of acquisition of aircraft.

As of the date of this prospectus, we currently have no intention to raise material external debt financing in the near future. We have no intention to change our financing strategies pursuant to which we will continue to use our long-term bank borrowings and PDP financing. We will proceed to implement realisation of our long-term lease receivable to provide us additional financing.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on as of 30 April 2014, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

POST-BALANCE SHEET EVENTS AND OFF-BALANCE SHEET COMMITMENT AND ARRANGEMENTS

Post-balance sheet events

The Reorganisation was completed on the Reorganisation Date pursuant to which FPAM, CE Aerospace, Easy Smart, and Prosper Victory have become the Shareholders holding 45.72%, 44.13%, 8.05%, and 2.10%, respectively, of the then number of Shares in issue. Further information on the Reorganisation is set forth in the section headed “Business – Reorganisation” of this prospectus.

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Off-balance sheet commitments and arrangements

As of 31 December 2013, we did not have any off-balance sheet commitments and arrangements.

Contingent liabilities

Our Directors confirm that we had no contingent liabilities as of 31 December 2013.

RELATED PARTY TRANSACTIONS

Our company entered into certain related party transactions during the Track Record Period. Further information on these transactions is set forth in Note 29 to our consolidated financial information included in Appendix I to this prospectus. Our Directors confirm that these transactions were carried out in the ordinary and usual course of business and on normal commercial terms and on arm's length basis.

DIVIDEND AND DIVIDEND POLICY

In 2011, 2012, and 2013, we declared and settled HK\$55.4 million, HK\$19.2 million, and HK\$53.0 million as dividends, respectively. On 19 May 2014, our Company proposed to declare final dividend of HK\$69.0 million to its then sole shareholder, CALH, for the year ended 31 December 2013. Such dividend will be paid before the Listing Date. The payment of final dividend of HK\$69.0 million will have the following immediate financial impact on us: (a) our gearing ratio will be slightly increased by 0.3% for the year ending 31 December 2014 assuming that all other variables remain constant; (b) the net current liabilities will be increased by HK\$69.0 million, which represents 3.7% of our net current liabilities position of HK\$1,854.8 million as of 30 April 2014; and (c) there is no impact on our aircraft purchase commitment. After considering these factors, our Directors are of the view that the payment of final dividend of HK\$69.0 million would not materially affect our financial position.

Following Listing, subject to the factors set forth below, we expect that we would distribute annual dividend of not less than 30% of our profit attributable to equity holders of our Company in the relevant year. Our Board may determine the amount of future dividends at their sole discretion after considering our profits, cash flows, business opportunities, capital commitment and capital expenditure requirements, general financial condition, and other factors that our Board considers appropriate.

If we declare any dividend in the future, it may only be paid out of our distributable profit as permitted under the relevant laws of the place of incorporation of our Company. Cash dividends on our Shares, if any, will be made in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by such other means as our Directors may approve from time to time.

DISTRIBUTABLE RESERVES

As of 31 December 2013, we had distributable reserves of HK\$772.9 million representing contributed surplus of HK\$696.0 million and share premium of HK\$89.1 million less accumulated losses of HK\$12.2 million.

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UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set forth below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 as if the Global Offering had taken place on that date assuming the over-allotment is not exercised.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the Global Offering been completed as of 31 December 2013 or at any future dates. The unaudited pro forma statement of adjusted net tangible assets is prepared based on the audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 as set forth in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below:—

	Audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the equity owners of our Company as of 31 December 2013	Unaudited pro forma adjusted net tangible assets per Share (Note 3)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Based on an Offer Price of HK\$5.53 per Share	938,598	602,114	1,540,712	2.63
Based on an Offer Price of HK\$7.82 per Share	938,598	862,899	1,801,497	3.08

Notes:—

- (1) The audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 is extracted from the Accountant's Report in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity owners of our Company as of 31 December 2013 in the Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$5.53 and HK\$7.82 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately HK\$11.0 million which have been accounted for prior to 31 December 2013) and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or any option may be granted under the Post-IPO Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.

FINANCIAL INFORMATION

- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 585,781,000 Shares were in issue assuming that the Global Offering has been completed on 31 December 2013 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or any option may be granted under the Post-IPO Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets does not take into account the final dividend of HK\$69.0 million proposed on 19 May 2014 for the year ended 31 December 2013. Such dividend will be paid before the Listing. Had such dividend been taken into account, the unaudited consolidated pro forma adjusted net tangible assets per Share would be approximately HK\$2.51 (assuming an Offer Price of HK\$5.53 per Share) and approximately HK\$2.96 (assuming an Offer Price of HK\$7.82 per Share) respectively.
- (5) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2013.

LISTING EXPENSES

The estimated total amount of expenses for the Listing (excluding underwriting commission) incurred in relation to the Global Offering is HK\$38.6 million. In 2012, we incurred HK\$1.9 million of expenses for the Listing, of which HK\$0.7 million was recognised as prepayments and HK\$1.2 million was charged to our profit and loss. In 2013, we incurred HK\$13.0 million of expenses for the Listing, of which HK\$9.8 million was charged to our profit and loss and HK\$3.2 million was capitalised. We estimate that HK\$23.7 million of expenses will be incurred by us in 2014 for the Listing, of which an amount of HK\$20.5 million will be charged to our profit and loss for the year ending 31 December 2014 and HK\$3.2 million will be capitalised. These expenses for the Listing are principally comprised of professional fees paid to the parties involved in the Global Offering for their services rendered for the purpose.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirm that, up to the Latest Practicable Date, they are not aware of any circumstances which would give rise to any disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 31 December 2013, being the date to which our latest audited consolidated financial statements have been prepared.

FUTURE PLANS AND PROPOSED USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

FUTURE PLANS AND PROPOSED USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

Our future plans will focus on the aircraft leasing business in China and other countries in Asia. Hence, we will use a significant portion of our net proceeds from the Global Offering for aircraft acquisition. Our Directors estimate that we will receive net proceeds from the Global Offering (other than the net proceeds for the sale of the Sales Shares) of HK\$722.1 million, after deducting the underwriting fees and estimated total expenses paid and payable by us in connection with the Global Offering, assuming that the Offer Price is HK\$6.68 (being the mid-point of the indicative range of the Offer Price stated in this prospectus). We intend to use the net proceeds for the following purposes:–

- HK\$649.9 million, representing 90% of the total net proceeds from the Global Offering, for aircraft acquisition; and
- HK\$72.2 million, representing 10% of the total net proceeds from the Global Offering, for our working capital purpose.

Our future plans will not involve any acquisition of business and hence, we have not identified any target business or company for acquisition purpose.

If the Offer Price is determined at HK\$7.82, being the highest point of the indicative range of the Offer Price, the net proceeds to us would be increased by HK\$129.8 million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

If the Offer Price is determined at HK\$5.53, being the lowest point of the indicative range of the Offer Price, the net proceeds to us would be decreased by HK\$131.0 million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

If the Offer Price is determined at HK\$6.68, being the mid-point of the indicative range of the Offer Price, the net proceeds to the Selling Shareholder will be HK\$97.7 million (after deducting the underwriting fees payable by the Selling Shareholder in relation to the Global Offering). The Selling Shareholder will be responsible for the underwriting commission for the Sale Shares, and the expenses in relation to the Global Offering will be borne by us.

If the Over-allotment Option is exercised in full, and assuming that the Offer Price is HK\$6.68, (being the mid-point of the indicative range of the Offer Price, the net proceeds to us would be increased by HK\$115.9 million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any of our future development plans as intended, we may hold such funds in short-term deposits with licenced banks and authorised financial institutions in Hong Kong and/or China for so long as it is considered in our best interests by our Directors.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

DIRECTORS

Our Board consists of nine directors, comprising two executive directors, three non-executive Director, and four independent non-executive Directors. The powers and duties of our Board include:–

- convening Shareholders’ meetings and reporting at Shareholders’ meetings our Board’s 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.

We have entered into service contract with each of our executive Directors and a letter of appointment with each non-executive Director and each independent non-executive Director. The table below sets forth the age and designation of each of our Directors:–

Name	Age	Position	Responsibilities	Date of joining us	Date of appointment
Mr. CHEN Shuang (陳爽)	46	Chairman, Non-executive Director	<ul style="list-style-type: none"> – reviewing overall strategic planning – business development – chairman of the strategy committee 	30 June 2011	12 August 2013
Mr. POON Ho Man (潘浩文)	41	Chief Executive Officer, Executive Director	<ul style="list-style-type: none"> – formulating and reviewing overall strategic planning – business development – managing overall business operations – member of the Strategy Committee 	24 March 2006	21 December 2012
Ms. LIU Wanting (劉晚亭)	32	Executive Director	<ul style="list-style-type: none"> – managing commercial, marketing and banking operations – business development – member of the Strategy Committee 	1 June 2006	12 August 2013
Mr. TANG Chi Chun (鄧子俊)	52	Non-executive Director	<ul style="list-style-type: none"> – business development – advising on financial related operations – member of the Strategy Committee 	30 June 2011	12 August 2013
Mr. GUO Zibin (郭子斌)	45	Non-executive Director	<ul style="list-style-type: none"> – attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations – member of Audit Committee 	10 March 2014	10 March 2014

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Name	Age	Position	Responsibilities	Date of joining us	Date of appointment
Mr. FAN Yan Hok, Philip (范仁鹤)	64	Independent non-executive Director	<ul style="list-style-type: none"> – chairman of the Remuneration Committee – Member of the Nomination Committee 	11 September 2013	11 September 2013
Mr. NG Ming Wah, Charles (吳明華)	64	Independent non-executive Director	<ul style="list-style-type: none"> – chairman of the Audit Committee – member of the Remuneration Committee – member of the Nomination Committee 	11 September 2013	11 September 2013
Mr. ZHANG Chongqing (張重慶)	68	Independent non-executive Director	<ul style="list-style-type: none"> – chairman of the Nomination Committee – member of the Audit Committee – member of the Remuneration Committee 	11 September 2013	11 September 2013
Mr. SUN Quan (孫泉)	48	Independent non-executive Director	<ul style="list-style-type: none"> – member of the Audit Committee – member of the Nomination Committee – member of the Remuneration Committee 	11 September 2013	11 September 2013

Chairman and Non-executive Director

Mr. CHEN Shuang (陳爽), aged 46, is our Chairman and a non-executive Director. Mr. CHEN was appointed as a non-executive Director on 12 August 2013. Mr. CHEN is responsible for reviewing our overall strategic planning and business development.

Mr. CHEN is also a 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, the chairman of Management Decision Committee of CEL, a company listed on the Stock Exchange (stock code: 165), a director of Everbright Securities Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 601788), a supervisor of China Everbright Bank Company Limited, a company listed on the Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: 601818), an independent director of Noah Holdings Limited, a company listed on the New York Stock Exchange (stock code: NOAH.N), and an independent non-executive director of China Nonferrous Mining Corporation Limited, a company listed on the Stock Exchange (stock code: 1258). Mr. CHEN is currently a non-official member of the Financial Services Development Council, the 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 obtained the degree of master of law from East China University of Political Science and Law (華東政法大學) in 1992 and a diploma in legal studies from the School of Professional and Continuing Education of the University of Hong Kong in 2003. Mr. CHEN is a qualified lawyer in the PRC and a senior economist in the PRC.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Executive Directors

Mr. POON Ho Man (潘浩文), aged 41, is our Chief Executive Officer and an executive Director. Mr. POON founded our Group in March 2006. Mr. POON is responsible for formulating and reviewing our overall strategic planning and managing overall business operations. Mr. POON is also a director of all other companies within our Group except for CALC 3-Aircraft Limited, CALC 6-Aircraft Limited, CALC 8- Aircraft Limited, CALC 9- Aircraft Limited, CALC Satu Limited, CALC Dua Limited and CALC Finance Cooperatief U.A. Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and that may be granted under the Post-IPO Share Option Scheme and assuming the Over-allotment Option is not exercised), Mr. POON will indirectly hold 30.94% interest in our Company.

Mr. POON is the chairman of FPAM. Mr. POON was a director of Garron International Limited (now known as China Investment and Finance Group Limited), a company listed on the Stock Exchange (stock code: 1226) during the period between December 2004 and October 2010.

Since April 2003, Mr. POON has been the Responsible Officer of Friedmann Pacific Asset Management (Hong Kong) Limited in supervising the conduct of type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO and FP Sino-Rich Securities & Futures Limited in supervising the conduct of type 1 (dealing in securities) regulated activities under the SFO. He was also the Responsible Officer of FP Sino-Rich Securities & Futures Limited in supervising the conduct of type 6 (advising on corporate finance) regulated activities under the SFO from 17 September 2005 to 15 March 2011. Mr. POON is experienced in building hedging models, dealing in different financial instruments to maximise the gain and monitoring the risk assumed in an investment portfolio.

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 (中國人民政治協商會黑龍江省委員會) and the Vice President of China Group Companies Association (中國集團公司促進會), an association under the State-owned Assets Supervision and Administration Commission of the State Council. Mr. POON is the Honourary President of Hong Kong Overseas Chinese Association (香港華僑華人總會), the Vice President of Chinese Financial Association of Hong Kong (香港中國金融協會) and the Vice President of Jiangxi Province Federation of Overseas Chinese Entrepreneurs (江西省僑商聯合會). 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 (劉晚亭), aged 32, is an executive Director and our Senior Vice President-Head of Commercial. Ms. LIU joined us in June 2006. Ms. LIU is responsible for managing the commercial, marketing and banking operations and the business development of our Group and she focuses on the aircraft leasing and financing businesses. Within our Group, Ms. LIU is also a director of Airbusac Limited (incorporated in the Cayman Islands), CALC AC Limited, CALC Asset Limited, Airbusac Limited (incorporated in Hong Kong), Airbussz Limited and CALC Jianqing Limited.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Ms. LIU is currently a director of 中僑融資租賃有限公司 (Sino Asset Financial Leasing Limited*), a company established in China. Ms. LIU represents us in the Leasing Committee of China Association Enterprise with Foreign Investment from April 2010 to April 2011, and a founding member of Chinese Financial Association of Hong Kong (香港中國金融協會). Ms. LIU was 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 2012 to June 2014. Ms. LIU has given speeches in various conferences on leasing and also delivers lectures to financing experts in the Greater China region from time to time.

Ms. LIU graduated with the degree of bachelor in journalism from Heilongjiang University (黑龍江大學) China in 2004, and a degree of master of arts in communication from Hong Kong Baptist University in 2005. Ms. LIU also completed a finance study course for senior executive organised by Tsinghua University in 2008. She is a candidate for the degree of executive master of business administration (高級管理人員工商管理碩士) at Tsinghua University. Since joining us in June 2006, Ms. LIU has initiated, structured, and completed a number of aircraft leasing transactions.

Mr. TANG Chi Chun (鄧子俊), aged 52, is a non-executive Director appointed on 12 August 2013. Mr. TANG is responsible for the business development and advising on financial related operations of our Group.

Mr. TANG is an executive director and the chief financial officer of CEL, a company listed on the 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: 601788), 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 in Hong Kong and a graduate of the Accountancy Department at the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in 1983. Mr. TANG is also a member of the Association of Chartered Certified Accountants and the HKICPA. Mr. TANG has over 22 years of experience in audit, investment, accounting, and finance.

Mr. GUO Zibin (郭子斌), aged 45, is a non-executive Director appointed on 10 March 2014. Mr. GUO is responsible for attending meetings of our Board to perform duties as a member of our Board, 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 (航天投資控股有限公司) 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 the 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.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Independent non-executive Directors

Mr. FAN Yan Hok, Philip (范仁鹤), aged 64, is an independent non-executive Director appointed on 11 September 2013. Mr. FAN is currently holding directorships in the following companies listed on the securities market in Hong Kong or overseas:–

Name of listed company	Securities exchange and stock code	Position held
China Everbright International Limited	Hong Kong Stock Exchange: 257	Independent non-executive director
HKC (Holdings) Limited	Hong Kong Stock Exchange: 190	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

In 2011, 2012, and 2013 and up to the Latest Practicable Date, Mr. FAN had held directorships in the following companies listed on the securities market in Hong Kong or overseas:–

Name of listed company	Securities exchange/market and stock code	Position held	Period
China Everbright International Limited	Hong Kong Stock Exchange: 257	Executive director	1997 – 2010
		Non-executive director	2010 – 2012
Zhuhai Zhongfu Enterprise Co., Ltd.	Shenzhen Stock Exchange: 000659	Independent director	May 2010 – June 2013
Suntech Power Holdings Co. Ltd (“ Suntech ”)	New York Stock Exchange: STP (suspended since 11 November 2013) OTC Market: STPFQ (from 11 November 2013)	Independent director	9 March 2013 – 9 December 2013

Mr. FAN was appointed as an independent director of Suntech on 19 March 2013 to aid Suntech’s board navigate its then challenges. After Suntech defaulted in payment of its convertible bond in the principal amount of US\$541 million due on 15 March 2013, Suntech’s subsidiary Wuxi Suntech Power Co., Ltd. (“**Wuxi Suntech**”) has been put into involuntary insolvency and restructuring proceeding by the Wuxi Municipal Intermediate People’s Court in Jiangsu Province, China since 21 March 2013. Suntech has also been put into provisional liquidation by the Grand Court of the Cayman Islands, the jurisdiction of its incorporation, since 9 November 2013. Mr. FAN considered that he was unable to carry out his function as an independent director in view of the provisional liquidation of Suntech therefore resigned on 9 December 2013. There was no disagreement between him and Suntech’s board and there was no other matter in relation to his resignation which would need to be brought to the attention of Suntech’s shareholders or creditors, the Shareholders or the Stock Exchange. After Mr. FAN’s resignation, the joint provisional liquidators of Suntech commenced a Chapter 15 proceeding under the U.S. Bankruptcy Code in a federal court in the Southern District of New York on 21 February 2014 to recognise in the U.S. the overseas provisional liquidation previously granted in the Cayman Islands. Mr. FAN was not involved in any investigation by the joint provisional liquidators or any of the other regulators.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

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, the United States and the degree of master of science in management in 1976 from Massachusetts Institute of Technology, the United States. Mr. FAN is also a member of the Asian Advisory Board of AustralianSuper, a pension fund established in Australia.

Mr. NG Ming Wah, Charles (吳明華), aged 64, is an independent non-executive Director appointed on 11 September 2013. Mr. NG obtained the degree of bachelor of science in electronic and electrical engineering from Loughborough University in England in 1972 and the degree of master of science in business studies from London Business School, University of London in England in 1974. Mr. NG is a director of Somerley Capital Limited, a company licenced to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. NG is also a non-executive director of Goldlion Holdings Limited (stock code: 533), a company listed on the Stock Exchange and also acts as a member of each of its audit, remuneration and nomination committees. In addition, Mr. NG is a member of the Board of Governors of the Hong Kong Arts Centre. Mr. NG had also been an executive director (investment banking, Asia Pacific region) of an international investment bank and a director of N.M. Rothschild & Sons (HK) Ltd. Mr. NG has more than 35 years of experience in finance and management and he has had extensive experience in reviewing and analysing in depth financial statements of public companies together with extensive experience in dealing with internal and external auditors regarding the supervision of internal financial controls and the auditing of financial statements. Our executive Directors have considered Mr. NG's education, qualifications and experience and are satisfied that Mr. NG has the necessary training and experience for the purpose of Rule 3.10(2) of the Listing Rules. Mr. NG was appointed as an independent non-executive Director of our Company on 11 September 2013.

During the three years prior to the Latest Practicable Date, Mr. NG was an independent non-executive director of CEL, a company listed on the Stock Exchange, (stock code: 165) from 1 November 1993 to 15 May 2013 and of China Molybdenum Co., Limited, a company listed on the Stock Exchange, (stock code: 3993) from 8 December 2006 to 17 August 2012. Mr. NG tendered his resignation as an independent non-executive director from the board of Dalian Ports (PDA) Company Limited, a company listed on the Stock Exchange, (stock code: 2880) on 17 March 2011 (having been a director since 16 November 2005).

Mr. NG was also a non-executive director of Man Wah Enterprise Company Limited ("**Man Wah Enterprise**") from 6 December 1994 to 27 July 1995. Man Wah Enterprise was a private limited Hong Kong company incorporated in Hong Kong on 24 November 1970 and was engaged in silk flower manufacturing business. On 19 September 1995, the directors of Man Wah Enterprise filed a statutory declaration with the Companies Registry pursuant to section 228A of the then in force Companies Ordinance (Chapter 32 of the laws of Hong Kong) to the effect that they were of the opinion that the company could not by reason of its liabilities continue its business and that it was necessary that the company be wound up. On 13 October 1995, a petition for the winding up of Man Wah Enterprise was filed by a creditor in court. On 22 November 1995, a winding up order on Man Wah Enterprise was made by the court pursuant to the said petition. On 3 April 1996, an application was made by the liquidators to the court pursuant to section 209A of the then in force Companies Ordinance (Chapter 32 of the laws of Hong Kong) to have the liquidation of Man Wah Enterprise conducted as if it were a creditors' voluntary winding up. Upon such application, an order was made by the court on 2 May 1996 that the winding up of Man Wah Enterprise should be conducted as if the winding-up were a creditors' voluntary winding-up. Man Wah Enterprise was dissolved on 24 September 1999. According to the report of the liquidator and the official receiver dated 1 May

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

1996, proofs of debts of a total value of approximately HK\$3,300,000 had been submitted up to that date (of which approximately 65% in amount were submitted by shareholders of Man Wah Enterprise and their associates) and the official receiver held cash in the sum of approximately HK\$280,000 at that date. As a non-executive director, Mr. NG was not involved in the day-to-day business operations of Man Wah Enterprise. Mr. NG has further confirmed that there was no wrongful act on his part leading to the winding-up of Man Wah Enterprise and that, as far as he was aware, no actual or potential claim had been or would be made against him as a result of such winding up. The liquidators concluded in their report in 1996 that they were of the view that this liquidation was not a matter of public concern. Mr. NG also confirmed that other than those matters disclosed therein, he was not involved in any matters relating to the winding up of Man Wah Enterprise.

Mr. ZHANG Chongqing (張重慶), aged 68, is an independent non-executive Director appointed on 11 September 2013.

Mr. ZHANG is the vice president of China Group Companies Association (中國集團公司促進會) and the vice president of China Market Association (中國市場學會). Mr. ZHANG served as the deputy secretary and vice chairman of the China Enterprise Management Association (中國企業管理協會) and a committee member of the China Entrepreneur Association (中國企業家協會). Mr. ZHANG was also the head of the China Enterprise Information Exchange Centre (中國企業信息交流中心) and the president of China Enterprise News (中國企業報).

Mr. ZHANG graduated from Renmin University of China with an undergraduate degree of trading and economics in 1969, and he is a researcher. Mr. ZHANG has published various books, including *Management Breakthrough* (管理突破).

Mr. SUN Quan (孫泉), aged 48, is an independent non-executive Director appointed on 11 September 2013.

Mr. SUN is the executive director and chief executive officer of China Capital Impetus Asset Management Pte Ltd and the general manager of Beijing Dejoera Investment Co. Ltd. Mr. SUN is currently a director of China Capital Impetus Investment Limited which manages investment funds including China Capital Impetus Fund. In addition, Mr. SUN is currently a director of RHB OSK GC-Millennium Capital Pte. Ltd. Mr. SUN is also serving as the executive director and the deputy secretary-general of the Beijing Overseas Chinese Chamber of Commerce (北京僑商會).

Mr. SUN graduated from Beijing University of Technology (北京工業大學) in 1989 with the degree of bachelor of engineering 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.

Save as disclosed herein, each of our Directors confirms with respect to him/her that:—

- (a) he/she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company,
- (b) there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders,
- (c) there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

SENIOR MANAGEMENT

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

Name	Age	Date of joining us	Current position
Mr. Jens Christian DUNKER	48	22 June 2011	Managing Director of Aircraft Trading
Mr. DUAN Xiaoge (段曉革)	47	17 July 2007*	Head of Technical and Asset Management
Mr. YU Tai Tei (余大弟)	53	17 June 2013	Chief Financial Officer
Mr. LIU Fu Wah Patrick (廖富華)	44	1 September 2013	Chief Operating Officer
Mr. TANG Yu Ping (鄧宇平)	44	7 November 2011	Financial Controller
Ms. Aikaterini SOMI (also known as Ekaterini SOMI and Catherine SOMI)	34	20 January 2014	Legal counsel

* Mr. DUAN joined us as our consultant.

Mr. Jens Christian DUNKER, aged 48, is our Managing Director of Aircraft Trading pursuant to a secondment agreement dated 22 June 2011 (as amended by an amendment agreement dated 1 April 2013) entered into between CALL and Jetline Consulting Limited, a company incorporated in England and wholly-owned by Mr. DUNKER. Mr. DUNKER has worked for us since June 2011. Mr. DUNKER obtained the degree of Master in Air Transport Management from the College of Aeronautics of the Cranfield Institute of Technology in United Kingdom in 1993. Mr. DUNKER completed the degree course in aerospace engineering at Technische Universität Berlin in 1994.

Mr. DUNKER worked for Deutsche Lufthansa AG initially as project manager for its regional airline subsidiary Cityline and later as Manager Aircraft Purchasing from 1994 to 1998 and was responsible for the preparation of analyses and economic viability calculations in connection with the selection of aircraft, negotiation and drafting of aircraft purchasing contracts, budgetary control with respect to aircraft procurement and internal coordination of aircraft purchasing. He worked for Dornier Luftfahrt GmbH, a regional aircraft manufacturer, from 1998 to 1999. As Manager Sales Engineering, Mr. DUNKER was responsible for the sales support of the 728JET new aircraft project. From 2000 to 2007, as the Head of Aircraft Finance of TUI AG, Mr. DUNKER was responsible for, among other things, the development of financing and procurement strategies, negotiation and implementation of aircraft financing and leasing contracts, identification of potential investors for assets transactions and preparation of economic viability study to the management. Since then, Mr. DUNKER has been acting as an independent consultant for various airlines and investors. Mr. DUNKER has over 20 years of experience in the aircraft industry, focusing on aircraft purchase and financing.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Mr. DUAN Xiaoge (段曉革), aged 47, is our Head of Technical and Asset Management. Mr. DUAN joined us on 17 July 2007 as a consultant and has become a full-time employee of our Group effective from 1 March 2013. Mr. DUAN graduated with the degree of bachelor of professional aeronautics from the College of China Civil Aviation (中國民用航空學院) (currently known as Civil Aviation University of China) in 1988. Mr. DUAN further completed a professional manager MBA programme (職業經理MBA課程研修班) organised by Xi'an Jiaotong University (西安交通大學) in 2007. Mr. DUAN was qualified as an assistant engineer of China Northwest Airlines in 1989. Mr. DUAN is a qualified civil aircraft maintenance personnel of China Aviation Administration of China since 1994.

Prior to joining us, Mr. DUAN worked as an independent contracted technical consultant of GE Capital Aviation Services from 2000 to March 2012 where he was responsible for aircraft re-delivery, delivery assignment, and managing aircraft alterations. Mr. DUAN has over 12 years of experience in the aircraft industry, focusing on aircraft maintenance and engineering, project consultancy and planning.

Mr. YU Tai Tei (余大弟), aged 53, is our Chief Financial Officer. Mr. YU joined us in June 2013. Mr. YU is responsible for all aspects relating to finance and accounting of our Group. Mr. Yu obtained a diploma certificate in the department of accounting of the Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in 1984. Mr. YU further obtained the degree of master of business administration from the University of Warwick in 1996 and the degree of doctor of business administration from Hong Kong Polytechnic University, Hong Kong, in 2004.

Mr. YU is a fellow member of the Association of Chartered Certified Accountants, the HKICPA, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Chartered Secretaries, and the Hong Kong Institute of Directors. Mr. YU is also a member of the Certified General Accountants Association of Canada. Mr. YU is also accredited as an authorised supervisor by HKICPA to train prospective members of the institute. Mr. YU has more than 29 years' working experience with multi-national and Hong Kong listed companies as well as the Hong Kong Inland Revenue Department, in the areas of finance, business control, auditing and tax.

Mr. LIU Fu Wah Patrick (廖富華), aged 44, is our Chief Operating Officer. Mr. LIU joined us on 1 September 2013. Mr. LIU is responsible for risk, financial and operations management. Mr. LIU graduated with the degree of bachelor of science in economic from the University of Victoria in 1994 and obtained the degree of master of business administration in finance from California State University, Hayward in 2001. Mr. LIU is a certified public accountant in the State of Washington of the United State of America since 9 June 2000 and a member of the American Institute of Certified Public Accountants since 31 May 2001.

Prior to joining us, Mr. LIU had worked in KPMG, Standard Chartered Bank (HK) Limited, and Goldbond Group Holdings Limited (Stock code: 172), a company listed on the Stock Exchange. Mr. LIU has over 17 years of experience in audit, investment, operational risk, equipment leasing and financial management.

Mr. TANG Yu Ping (鄧宇平), aged 44, is our Financial Controller. Mr. TANG joined us on 7 November 2011. Mr. TANG is also the alternate director of China Aircraft Assets Ltd (incorporated in Labuan, Malaysia), a wholly-owned subsidiary of our Company. Mr. Tang graduated with the degree of bachelor of arts in economic and social studies from the Victoria University of Manchester in 1992. Mr. TANG 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 in 1993.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Prior to joining us, Mr. TANG held senior financial and information technology positions in various companies, including Lisi Group (holdings) Limited (stock code: 526), Sky Hawk Computer Group Holdings Limited (stock code: 1129), and Chanceton Financial Group Limited (Stock code: 8020), all of which are listed on the Stock Exchange. Mr. TANG is a Certified Public Accountant in Hong Kong and a Chartered Accountant in England and Wales. Mr. TANG is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. TANG has over 19 years of experience in corporate development, financial management, consulting for various industries including aviation logistics, corporate finance advisory and manufacturing.

Ms. Aikaterini SOMI (also known as Ekaterini SOMI and Catherine SOMI), aged 34, is our Legal Counsel. Ms. SOMI joined us on 20 January 2014. Ms. SOMI is responsible for all legal issues pertaining to our business of us. Ms. SOMI graduated with the degree of bachelor of laws from the Brunel University, London in 2005 and obtained the Postgraduate Diploma in Professional and Legal Skills from the City University London in 2007. In 2007, Ms. SOMI was admitted as a barrister at the Bar of England and Wales and in 2010 was admitted as a solicitor of the Senior Courts of England and Wales. Ms. SOMI is also a member of the Honourable Society of the Middle Temple and the Law Society of England and Wales.

Prior to joining us, Ms. SOMI practised as a solicitor in commercial and banking litigation with an international law firm in London and thereafter acted as corporate counsel for a global aircraft leasing company, namely International Lease Finance Corporation. Ms. SOMI has over seven years of experience in commercial and banking litigation, international and aviation transactions.

Compliance with the management continuity requirement under the Listing Rules

We comply with the management continuity requirement under Rule 8.05(1)(b) of the Listing Rules on the basis that our management control was largely vested in the two executive Directors, namely Mr. POON and Ms. LIU, during the Track Record Period and up to the Latest Practicable Date, and both Mr. POON and Ms. LIU will continue to be the executive Directors and form the core management of our Group at the time of Listing and thereafter.

Apart from being our executive Director, Mr. POON is also the founding member of our Group, who is member of our Board and the board of directors of most of the members of our Group since their incorporation. Ms. LIU joined us in June 2006 and is also the director of a number of subsidiaries of our Company. Mr. POON and Ms. LIU were members of the core management team of our Group during the Track Record Period by actively participating in daily operation and management and business development of our Group. Both Mr. POON and Ms. LIU are the ones who controlled the Group throughout the Track Record Period and up to the time of Listing.

COMPANY SECRETARY

Mr. LEUNG Ming Yiu (梁明耀), aged 41, is our Finance Manager and Company Secretary. Mr. LEUNG joined us in August 2013. Mr. LEUNG graduated with the degree of bachelor of commerce in accounting from Hong Kong Shue Yan University in 2008. Mr. LEUNG is a Certified Public Accountant in Hong Kong.

Prior to joining us, Mr. LEUNG served several companies as an accountant, senior accountant, and finance manager during the period between March 1999 and August 2013. In particular, Mr. LEUNG is experienced in corporate finance transactions. Mr. LEUNG has over 15 years of experience in the field of accounting, auditing, and finance.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

BOARD COMMITTEES

Audit Committee

Our Audit Committee was established by our Board on 11 September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of our Audit Committee are to review and supervise our financial reporting process and internal control system and to provide advice and comments to our Board. Our Audit Committee consists of Mr. NG Ming Wah, Charles (吳明華), Mr. ZHANG Chongqing (張重慶), Mr. GUO Zibin (郭子斌), and Mr. SUN Quan (孫泉). The chairman of our Audit Committee is Mr. NG Ming Wah, Charles (吳明華).

Remuneration Committee

Our Remuneration Committee was established by our Board on 11 September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. Our Remuneration Committee consists of Mr. FAN Yan Hok, Philip (范仁鶴), Mr. NG Ming Wah, Charles (吳明華), Mr. ZHANG Chongqing (張重慶), and Mr. SUN Quan (孫泉). Mr. FAN Yan Hok, Philip (范仁鶴) has been appointed as the chairman of our Remuneration Committee. The Remuneration Committee considers and recommends to our Board the remuneration and other benefits paid by us to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by our Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate.

Nomination Committee

Our Nomination Committee was established by our Board on 11 September 2013 with written terms of reference in compliance with paragraph A.5.1 of Appendix 14 to the Listing Rules. Our Nomination Committee consists of Mr. FAN Yan Hok, Philip (范仁鶴), Mr. NG Ming Wah, Charles (吳明華), Mr. ZHANG Chongqing (張重慶), and Mr. SUN Quan (孫泉). Mr. ZHANG Chong Qing (張重慶) has been appointed as the chairman of our Nomination committee. Our Nomination Committee considers and recommends to our Board suitably qualified persons to become our Board members and is responsible for reviewing the structure, size and composition of our Board on a regular basis.

Strategy Committee

Our Strategy Committee was established by our Board on 11 September 2013. Our Strategy Committee consists of Mr. CHEN Shuang (陳爽), Mr. POON, Ms. LIU Wanting (劉晚亭), and Mr. TANG Chi Chun (鄧子俊). Mr. CHEN Shuang has been appointed as the chairman of our Strategy Committee. Our Strategy Committee replaced our Investment Committee following the Reorganisation Date. Prior to the Reorganisation Date, our Investment Committee was responsible for approving the transactions entered into by the Group whereas our Strategy Committee was responsible for formulating the overall investment policies of our Group. Following the Reorganisation Date, the primary responsibilities of our Strategy Committee are to formulate the overall investment policies of our Group and establish investment guidelines in furtherance of policies. Our Strategy Committee is also responsible for monitoring the performance of our Group for compliance with the investment policies and guidelines.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

CORPORATE GOVERNANCE

We believe that our Board includes a balanced composition of executive and non-executive Directors (including the independent non-executive Directors) so that our Board can effectively exercise independent judgement. We are also committed that our independent non-executive Directors should be of appropriate calibre. Our independent non-executive Directors, further information of whom is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus, are free of any business or other relationships which could interfere in any material manner with the exercise of their independent judgement.

In view of the overlapping directorships of Mr. POON in our Company and FPAM and Mr. CHEN Shuang and Mr. TANG Chi Chun in our Company and CEL, the following measures have been adopted by us in respect of the enforceability of the Deed of Non-Competition and to strengthen our corporate governance practice to safeguard the interests of the Shareholders:–

- the Articles provide that any Director and his associates shall abstain from attending and voting at Board meetings in case of any issues of conflict of interests being put to be decided by members of the Board. In the event that any Director (including Mr. POON, Mr. CHEN Shuang and Mr. TANG Chi Chun) is required to abstain from participating in any relevant Board meetings as aforesaid, the other executive Directors together with all the non-executive and independent non-executive Directors will maintain the effective functioning of the Board by leveraging on their collective expertise and business experience;
- our independent non-executive Directors will hold an annual meeting to review the compliance of our Controlling Shareholders with the Deed of Non-Competition and to evaluate the effective implementation of the Deed of Non-Competition;
- we will disclose decisions on matters reviewed by independent non-executive Directors relating to the enforcement of the Deed of Non-Competition (if any) in our annual report or, where our Board considers it appropriate, by way of an announcement; and
- our Controlling Shareholders will make an annual confirmation as to compliance with the Deed of Non-Competition for inclusion in our annual report.

Further, any transaction that is proposed between us and our Controlling Shareholders or their respective associates will be required to comply with the then requirements of the Listing Rules, including, where applicable, the reporting, announcement and independent shareholders’ approval requirements.

COMPENSATION OF DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. The executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and other allowances and benefits in kind.

The aggregate amount of salaries and other allowances and benefits in kind paid by us to our five highest paid individuals, including our contribution to the pension schemes for such individuals, during the three years ended 31 December 2013 were HK\$1.3 million, HK\$3.6 million, and HK\$5.9 million, respectively.

In 2011, 2012, and 2013, the aggregate amount of salaries and other allowances, pension scheme contributions and benefits in kind paid by us to or on behalf of all of our Directors was HK\$4.6 million, HK\$1.8 million, and HK\$4.0 million, respectively.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Except as disclosed above, no other payments have been made or are payable in respect of the three years ended 31 December 2013 by us or any of our subsidiaries to or on behalf of any of our Directors, and no payments were made during the three years ended 31 December 2013 by us to any of our Directors as an inducement to join or upon joining our Company.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors payable for the year ending 31 December 2014 to be HK\$4.8 million.

On 25 April 2014, a bonus of HK\$12.3 million for recognition of the effort contributed by various levels of staff and senior management was approved by the Remuneration Committee and will be paid before the Listing Date. The payment of bonus of HK\$12.3 million will have the following immediate financial impact on us: (a) our gearing ratio will be slightly increased by 0.05% for the year ending 31 December 2014 assuming all other variables remain constant; (b) the net current liabilities will be increased by HK\$12.3 million, which represents 0.7% of our net current liabilities position of HK\$1,854.8 million as of 30 April 2014; and (c) there is no impact on our aircraft purchase commitment. After considering these factors, our Directors are of the view that the payment of the bonus of HK\$12.3 million would not materially affect our financial position.

COMPLIANCE ADVISER

We have appointed China Everbright Capital Limited as our compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance adviser agreement with China Everbright Capital Limited that includes the following material terms:–

- the appointment is for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier; and
- China Everbright Capital Limited will provide us with advice in the following circumstances:–
 - (a) before the publication of any regulatory announcement, circular or financial report;
 - (b) if a transaction, which might be a notifiable or connected transaction for our Company, is contemplated, including share issues and share repurchases;
 - (c) if we propose to use the proceeds from the Global Offering in a manner different from that disclosed in this prospectus or if our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
 - (d) if the Stock Exchange makes any inquiry to us regarding unusual movements in the price or trading volume of our Shares.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

FPAM and CE Aerospace are our registered Shareholders and will be interested in 30.94% and 35.33% of our Shares in issue upon Listing, respectively, assuming that the Over-allotment Option is not exercised and that no Shares are issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Post-IPO Share Option Scheme. FPAM is owned as to 0.000001% by Ms. NG and 99.999999% by Capella. CE Aerospace is a wholly-owned subsidiary of CEL. Hence, Capella, Mr. POON, Ms. NG, and CEL are considered as our Controlling Shareholders. Save for the indirect interests in the Shares through FPAM and CE Aerospace, none of Capella, Mr. POON, Ms. NG, and CEL has any direct interest in our Shares. The following sets forth further information of our Controlling Shareholders.

FPAM, Capella, Mr. POON, and Ms. NG

FPAM is owned as to 0.000001% by Ms. NG and 99.999999% by Capella. FPAM is an investment holding company for holding of our Shares. Mr. POON and Ms. NG are the directors of FPAM.

Capella is owned as to 90.0% by Mr. POON and 10.0% by Ms. NG. Capella is an investment holding company established for holding of the issued shares of FPAM. Mr. POON and Ms. NG are the directors of Capella.

Mr. POON is our Chief Executive Officer and an executive Director. Further information of Mr. POON is set forth in the section headed “Directors, Senior Management, and Employees” of this prospectus. Ms. NG is the spouse of Mr. POON.

CE Aerospace and CEL

CE Aerospace is a wholly-owned subsidiary of CEL and an investment holding company established for holding of our Shares. Mr. CHEN Shuang and Mr. TANG Chi Chun, who are our non-executive Directors, are the directors of CE Aerospace.

CEL is a company listed on the Stock Exchange (Stock code: 00165). According to its annual report, CEL provides financial services, including direct investment, assets management, brokerage, investment banking and industrial investment. Mr. CHEN Shuang and Mr. TANG Chi Chun are the directors of CEL.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, none of our Controlling Shareholders was engaged, nor interested, in any business which, directly or indirectly, competes or may compete with our business which is discloseable under Rule 8.10 of the Listing Rules. Other than the transactions set forth in the section headed “Continuing Connected Transactions” of this prospectus, our Directors confirm that there will not have other transactions between our Controlling Shareholders and us upon Listing. Our Directors confirm, with the bases set forth below, that we are capable of carrying on our business independently of and do not place undue reliance on our Controlling Shareholders.

Business independence

Our Directors confirm that none of our Controlling Shareholders is engaged in or otherwise interested in any business that competes or is likely to compete with our aircraft leasing business.

Save for the Consultancy Agreement, which has been entered into for the purpose of bringing new customer to us, FPAM and CE Aerospace have no other business interests in business which, directly or indirectly, competes or may compete with our business. We are conducting our business independently with independent departments, business and administrative units and focusing on our business line for the provision of aircraft leasing. These can be supported by our solid track record.

Having considered the above factors, and in light of the the Deed of Non-Competition, our Directors confirm that we are able to carry on our business independently of and does not place undue reliance on the Controlling Shareholders.

Management and administrative independence

Our business is managed by a dedicated management team. Our executive Directors have entered into service contracts with us pursuant to which Mr. POON and Ms. LIU Wanting will devote sufficient time to our business. Mr. POON is the founder and one of the directors of FPAM and its subsidiaries. Mr. POON is also a director of Sino Asset. Sino Asset is established for carrying on financing leasing businesses other than aircraft leasing business. Ms. LIU Wanting is a non-executive director of Sino Asset, but she is not involved in the daily management of Sino Asset.

Our Directors, including our independent non-executive Directors, consider that these concurrent directors would not affect our independence because of the following reasons:–

- (a) Mr. POON will allocate his time appropriately to discharge his duties as an executive Director and Chief Executive Officer of our Group.
- (b) Our day-to-day management is carried out by Ms. LIU Wanting and various members of our senior management team who are working for us on a full-time basis and are independent of our Controlling Shareholders. Our executive Directors and members of the senior management form the core management team of our Group which is and will continue to be responsible for our daily management, including assisting our Board in deriving sound management decisions, carrying out the decisions of our Board, performing overall strategic financial planning, risk management and analysis for our Group, overseeing the business development, project development and management, finance, and accounting issues, the sales and financial aspects of management of the business and other essential operations of our Group.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

- (c) Mr. CHEN Shuang and Mr. TANG Chi Chun are our non-executive Directors, and their principal roles are providing guidance and directions to us and assisting our Board in strategy and policy formulation.

Each of our Directors is aware of his or her fiduciary duties as a director of a listed issuer which requires, among other things, that he or she acts in the best interests of our Group and does not allow any conflict between his or her duties as a Director and his or her personal interests.

If there is any potential conflict of interests arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meetings of our Board in respect of such transactions and shall not be counted in the quorum. In particular, Mr. POON will not attend any Board meetings in respect of those matters or transactions relating to FPAM or which may otherwise give rise to any potential conflict of interests and would not be counted as quorum in the relevant meetings. Mr. CHEN Shuang and Mr. TANG Chi Chun will not attend any Board meetings in respect of those matters or transactions relating to CEL or which may otherwise give rise to any potential conflict of interests and would not be counted as quorum in the relevant meetings. Furthermore, our Controlling Shareholders will abstain from voting on such matters at Shareholders' meeting if required by the Listing Rules or other applicable laws and regulations.

Financial independence

In 2011, 2012 and 2013 and up to the Latest Practicable Date, we have our own internal control and accounting system, accounting and finance department, independent treasury function for receiving cash/making payments and independent access to third party financing. We make financial decisions according to our own business requirements.

Our Directors, including our independent non-executive Directors, confirm that we are financially independent from our Controlling Shareholders. Throughout our business development history and as part of our business model, we have obtained long-term bank borrowings from commercial banks and financial institutions, namely Industrial and Commercial Bank of China Limited, Industrial and Commercial Bank of China (Asia) Limited, China Development Bank, Hong Kong Branch, The Export-Import Bank of China, Bank of China, Bank of Taiwan, and China Everbright Bank Co., Ltd. (Hong Kong Branch), without reliance on corporate guarantees provided by any of our Controlling Shareholders. Although one of our Controlling Shareholders is an affiliate of China Everbright Bank Co., Ltd. (Hong Kong Branch), we are independent from and are not required to obtain our financing exclusively or on any preferential basis from China Everbright Bank Co., Ltd. (Hong Kong Branch) in 2011, 2012 and 2013. We did not obtain any aircraft financing from China Everbright Bank Co., Ltd. (Hong Kong Branch) in 2011, 2012 and 2013. Instead, we obtained aircraft financing from three, four, and six commercial banks, respectively and all of them are Independent Third Parties. Out of the PDP financing balance as of 31 December 2013, there was only one financing transaction in the amount of HK\$740.4 million among which we obtained a standby loan facility of US\$40 million from CE Finance for satisfaction of the indebtedness outstanding under that financing transaction. Such standby facility from CE Finance will be automatically released upon Listing.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

The term and revolving loan facilities provided by China Everbright Bank Co., Ltd. Hong Kong Branch in the aggregate amount of US\$30 million are subject to the following ongoing conditions (the “**Control Undertakings**”):–

- (a) Our Director nominated by CEL will remain as the chairman of our Board, and
- (b) CEL will remain as the substantial shareholder of the Company.

Our Directors confirm that the Control Undertakings will be released upon Listing. On this basis, our Directors believe that the Control Undertakings would not have any material impact on our financial independence.

The banking facilities are provided on a “no commitment” basis and subject to the bank’s review at its absolute discretion from time to time. Further, the banking facilities may be terminated by the bank by written notice at its sole discretion at any time without having to give any reason. In the event of termination, we have to repay all outstanding amount on demand or pay to the bank such cash amount to cover its contingent or future liabilities.

With respect to the PDP financing facility provided by Industrial and Commercial Bank of China (Asia) Limited, there is a condition on no change of control to the effect that prior to the Listing, CEL does not, or ceases to, control our Group. If there is a change of control, it will be deemed to be an event of default and the bank will have the right to cancel the available commitment and to require the loan outstanding balance, together with interests and other accrued amounts, be immediately payable.

Our Directors confirm that they have not discussed with other commercial banks for similar banking facility. Following the Listing, we will consider the then market conditions and would discuss with other commercial banks for other banking facilities that may be required by us from time to time.

Although our current liabilities exceeded our current assets by HK\$308.8 million, HK\$139.0 million, and HK\$1,421.4 million as of 31 December 2011, 2012, and 2013, respectively, our Directors believe that this is a result of our business model and the accounting treatment under the HKFRSs and our accounting policies. Our Directors are of the view that the net current liabilities position would not affect our financial independence from our Controlling Shareholders.

During the Track Record Period, we used short-term borrowings principally from CE Finance for bridging finance purpose. CE Finance is a registered money lender in Hong Kong and is carrying on the money lending business. As our business model involves the use of project finance techniques under which the acquisition finance of each aircraft is supported by its own future lease income, we may not use our asset base as collaterals for short-term financing. Our Directors consider that the use of short-term borrowings from CE Finance should not be considered to be unduly relying on CE Finance for our business operations. This is particularly relevant that all borrowings from CE Finance during the Track Record Period were short-term borrowings which were repaid by us within 65 days from the date of using the short-term borrowings. All terms and conditions of the short-term borrowings were negotiated on an arm’s length basis upon normal commercial terms. Furthermore, our Directors confirm that we will not request for any short-term borrowings following the Listing.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

In addition to the existing long-term bank borrowings and PDP financing, we have obtained, independent from our Controlling Shareholders, from two banks general banking facilities in the total amount of US\$40 million. We have also entered into an agreement with China Development Bank, Hong Kong Branch, pursuant to which the bank would provide to us a comprehensive loan facility amounting to US\$1.5 billion (equivalent to HK\$11.7 billion) during the period between 2013 and 2018. The granting of each facility will be subject to the credit assessment to be performed by the bank and the finalisation of terms and conditions of the loan agreements, which will only be confirmed shortly before the delivery of aircraft.

As of 31 December 2013, we have also signed PDP financing agreements with four banks, which are Independent Third Parties, to secure funding commitments for PDP of 23 aircraft. Subsequent to 31 December 2013, we have signed three additional PDP financing agreements with three banks, which are Independent Third Parties, to secure funding commitments for the PDP in eight additional aircraft. Based on the PDP financing agreements signed, the funding of approximately HK\$1,245.0 million will be provided by banks to fund part of the PDP to be paid in the next 12 months from 31 December 2013. The remaining balance of PDP amounting to approximately HK\$295.7 million will be funded by our internally generated financial resources and additional PDP financing which is expected to be obtained by us in July 2014.

In light of the foregoing, our Directors, including our independent non-executive Directors, are of the view that we are financially independent from our Controlling Shareholders. Our Directors also confirm that we will have sufficient working capital for our present requirements for the next 12 months from the date of this prospectus.

DEED OF NON-COMPETITION GIVEN BY OUR CONTROLLING SHAREHOLDERS

In order to protect our Group's interest in its current business activities, our Company and our Controlling Shareholders entered into the Deed of Non-Competition on 23 June 2014. Under the terms of the Deed of Non-Competition, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for ourselves and for the benefit of each of our subsidiaries from time to time) that with effect from the Listing Date and for so long as the Shares remain listed on the Stock Exchange and our Controlling Shareholders, whether individually or taken together, are interested directly or indirectly in 30% or more of the issued share capital of our Company, each of them will not, and will procure that its associates (other than our Group) will not, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of our Group or our associated companies), director, employee, partner, agent or otherwise in any business that compete or may compete, directly or indirectly or through nominees, with the business carried out by our Group from time to time, i.e. the provision of aircraft leasing and financing (the "**Restricted Business**") in any part in the world in which our Group carries out the Restricted Business.

Each of our Controlling Shareholders has also undertaken to our Company that:–

- (i) it shall provide, or procure the provision of, all information and do, or procure to be done, all such other acts as may be necessary for such annual review by such independent non-executive Directors and the enforcement of the rights of our Company under the Deed of Non-Competition; and
- (ii) it shall provide an annual confirmation to us confirming its full compliance with the terms of the Deed of Non-Competition, which confirmation will be disclosed in our annual reports to enable our Shareholders to appraise the competition issue.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

The above undertaking shall cease to have effect on the earlier of the date on which (i) in relation to Mr. POON, when he ceases to be Director and together with his associates, whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing as being the threshold for determining a controlling shareholder of our Company) or more of the issue share capital of our Company, or (ii) in relation to each of Ms. NG, Capella, FPAM, CE Aerospace and CEL, she/it ceases to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of our Company) or more of the issued share capital of our Company, or (iii) in relation to the Controlling Shareholders, the Shares cease to be listed and traded on the Stock Exchange.

NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

The initial lock-up period (the “**First Six-month Period**”) will commence on the date of this prospectus up to and including the date falling six months after the Listing Date. Additionally, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), each of our Controlling Shareholders will not enter into any of the transactions described in paragraphs (i) or (ii) below or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, each of our Controlling Shareholders will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company.

Until the expiry of the Second Six-month Period, in the event that each of our Controlling Shareholders enter into any such transactions or agree or contracts to, or publicly announce an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

In accordance with Rule 10.07(1)(a) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option, (i) it will not, except pursuant to the Stock Borrowing Agreement, the offer of sale of the Sale Shares by FPAM, and the transfer of the Exchangeable Shares from FPAM to Vandri Investments, at any time during the period commencing from the date of this prospectus, and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (ii) it will not, at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be the controlling shareholder (as defined under the Listing Rules) of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder (as defined under the Listing Rules) from using the shares owned by it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Each of our Controlling Shareholders has further undertaken to the Stock Exchange that it will, within a period of 12 months from the Listing Date, immediately inform us and the Stock Exchange of:–

- (a) any pledges or charges of any Shares or securities of our Company beneficially owned by it/him in favour of any authorised institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by him/it, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other share capital will be sold, transferred or disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders or their shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by our Controlling Shareholders or its shareholders.

UNDERTAKINGS BY FPAM TO CE AEROSPACE

On 23 June 2014, FPAM and CE Aerospace entered into a deed of undertakings, pursuant to which FPAM undertakes to CE Aerospace that:–

- (a) FPAM shall not dispose any Shares during a period of two years immediately after the Listing Date (the “**Undertaking Period**”) that would lead to FPAM’s failure to have its Shareholding maintained at such percentage of not less than the Shareholding percentage of CE Aerospace by more than five percent, except pursuant to the Stock Borrowing Agreement;
- (b) the Shares held by FPAM during the Undertaking Period shall not be pledged or charged to any third party and shall not be otherwise subject to any encumbrance or third-party right or interest;
- (c) notwithstanding the restriction under paragraph (b) above, FPAM may pledge Shares for bona fide commercial loans to the extent that the amount of loan shall not be more than one-third of prevailing market value of Shareholding held by FPAM from time to time during the Undertaking Period; and
- (d) FPAM shall notify CE Aerospace and shall keep CE Aerospace at all times fully aware of any action regarding any pledge, charge, encumbrance or disposal of any Shares held by it during the Undertaking Period to the extent that may cause FPAM’s failure in satisfying paragraph (a) above.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

PRINCIPAL TERMS OF THE EXCHANGEABLE NOTE

The following sets forth the principal terms of the Exchangeable Note issued by FPAM to Vandri Investments:—

Issue Date: 11 April 2013

Principal Amount: HK\$78,000,000

Issue Price: 100% of the principal amount of the Exchangeable Note

Interest Rate:

- (a) If Listing takes place within 2013, interest at the rate of (a) 4.0 per cent. per annum on simple interest basis for the first 12 months period from and including the Issue Date; and (b) 12.0 per cent. per annum calculated on simple interest basis for the period between 13th and 24th months from and including the Issue Date on the outstanding principal amount thereof. The interest is payable annually in arrears on the last Business Day of each calendar year and on the Maturity Date.
- (b) If Listing takes place after 2013, the Exchangeable Note shall bear interest from and including the Issue Date at the rate of 8.0 per cent. per annum calculated on simple interest basis on the outstanding principal amount thereof. Interest is payable annually in arrears on the last Business Day of each calendar year and on the Maturity Date.
- (c) The Exchangeable Note will cease to bear interest on the earlier of (a) the date on which the Exchangeable Shares are registered under the name of the noteholder who exercises the exchange right in the register of members of our Company or CALH (as the case may be) where the exchange right has been duly exercised; (b) the Maturity Date; and (c) the date when the early redemption take place.
- (d) In the event of non-payment by FPAM of any of the amounts when due, or expressed to be due, interest shall accrue on the overdue but unpaid amount under the Exchangeable Note from the due date to the date of actual payment (both before and after judgement) at an interest rate provided for in paragraph (a) or (b) above (as the case may be) within 3 Business Days after the due date; and in the event that the non-payment shall constitute an event of default, at 18.0 per cent. per annum or if less, the highest rate permitted by applicable law, and shall be payable on demand by the noteholder free and clear of and without set-off or deduction for taxes or otherwise.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Maturity date: The later of (a) 24 months from the date of issue of the Exchangeable Note, and (b) 3 months after the expiry of the period of 6 months from the Listing Date (the “**IPO Lock-up Period**”) if Listing occurs within 24 months from the date of issue of the Exchangeable Note.

Exchange right: The noteholder has the right to exchange the Exchangeable Note in whole or in part for the Exchangeable Shares at any time, provided that the noteholder shall refrain from exercising the exchange right:

- (a) during the period from the 30th day prior to the expected date of submission of application for Listing (as notified by FPAM) to the date of the Listing application (both days inclusive);
- (b) during the IPO Lock-up Period unless the Stock Exchange approves otherwise;
- (c) during any period which the Stock Exchange specifically advises in writing to our Company and/or the noteholder on or before the grant of the approval-in-principle for the Listing that the exercise of the exchange right would be in breach of the Listing Rules.

If FPAM defaults in making payment in full in respect of the Exchangeable Note on the due date for redemption thereof, the exchange right attached to such Exchangeable Note will continue to be exercisable up to and including the close of business on the date upon which the full amount of the monies payable in respect of such Exchangeable Note have been duly received by the noteholder.

Exchangeable Shares: The number of Exchangeable Shares shall be determined by dividing the principal amount of the Exchangeable Note to be exchanged by the exercise price in effect on the relevant exchange date and rounded up to the nearest whole number of Exchangeable Shares.

Exchange Price: The price at which the Exchangeable Shares will be issued upon exercise of the exchange right, as adjusted from time to time, will initially be HK\$4.30 per Exchangeable Share (subject to customary adjustment provisions, such as subdivision or consolidation of the Shares or CALH Shares (as the case may be), new issues and other usual dilutive events).

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

- Key undertakings:
- FPAM undertakes that, so long as the Exchangeable Note remains outstanding, it shall, among other things,
- (a) ensure that the Exchangeable Shares can and will be delivered pursuant to the Exchangeable Note and its instrument;
 - (b) ensure that the Exchangeable Shares will rank at least pari passu and carry the same rights and privileges as other Shares or CALH Shares (as the case may be) in issue on the relevant Exchange Date (except for any right excluded by mandatory provisions of applicable law);
 - (c) not create or purport to attempt to create, assume or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest over the Exchangeable Shares or any part thereof (except pursuant to the FPAM Share Mortgage);
 - (d) if FPAM becomes aware of an occurrence of an event of default or any fact which may lead to the occurrence of an event of default, FPAM shall forthwith notify the noteholder in writing within 1 Business Day and provide to the noteholder full details of any steps which it is taking or considering taking in order to remedy or mitigate the effect of the same or otherwise in connection with the same;
 - (e) at all times during 365 days following the completion of Listing, FPAM shall not directly or indirectly, dispose of or otherwise deal in the Shares which would result in its shareholding in our Company (taking into account and aggregating any Shares transferred to the noteholder upon exercise of its exchange right) being lower than 32.85% of the total issue share capital of our Company after the Listing without the prior written consent of the noteholder;
 - (f) procure its nominee directors of CALH and our Company to pass the relevant resolutions of the relevant board of directors to effect any transfer of CALH Shares or the Shares (as the case may be) pursuant to any exercise of exchange right and any enforcement under the FPAM Share Mortgage in accordance with the terms of the transaction documents in connection with the Exchangeable Note; and
 - (g) not borrow from or incur liabilities to our Company in excess of HK\$5,000,000 in aggregate without obtaining the consent of the noteholder.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Redemption: Unless previously exchanged, FPAM shall redeem the Exchangeable Note at a redemption amount on the Maturity Date. The redemption amount shall mean (a) if Listing occurs prior to the Maturity Date, the principal amount of the Exchangeable Note together with any interest as determined to be paid and amount (including default interest) accrued and unpaid; or (b) if Listing does not occur prior to the Maturity Date, the principal amount of the Exchangeable Note together with an amount equivalent to an interest at 12.5 per cent. per annum on the outstanding principal amount of the Exchangeable Note calculated on simple interest basis from the Issue Date of the Exchangeable Note until the date of actual payment and any amount (including default interest, if any) accrued and unpaid, less any amount of interest (other than default interest) received by the noteholder under the Exchangeable Note prior to the redemption.

FPAM shall be entitled to redeem the Exchangeable Note (in whole and not in part) after the end of the IPO Lock-up Period but prior to the Maturity Date at the early redemption amount by serving not less than 1 Business Day's prior written notice to the noteholder. The early redemption amount shall mean the aggregate of the outstanding principal amount of the Exchangeable Note together with the sum of an interest at 15.0 per cent. per annum on the outstanding principal amount of the Exchangeable Note calculated on simple interest basis from the Issue Date of the Exchangeable Note up to the date of redemption and any amount (including default interest, if any) accrued and unpaid. For the avoidance of doubt, any amount of interest (other than default interest) received by the noteholder under the Exchangeable Note prior to the early redemption shall be set off against and deducted from the early redemption amount.

Notwithstanding anything to the contrary herein, at any time and from time to time after the occurrence of an event of default, upon demand by the noteholder, FPAM shall redeem all or such part of the outstanding principal of the Exchangeable Note at the amount equals to the sum of (i) the outstanding principal amount of the Exchangeable Note and (ii) a return on such principal amount of the rate of 18.0 per cent. per annum thereon calculated from the Issue Date to (and including) the actual date of payment. For the avoidance of doubt, any amount of interest (other than default interest) received by the noteholder under the Exchangeable Note prior to the redemption shall be set off against and deducted from the redemption amount.

Transferability: The Exchangeable Note is not transferrable without the prior written consent of FPAM except that the noteholder may transfer the Exchangeable Note or any part thereof to any entity which is wholly-owned by CCB International (Holdings) Limited without the consent of FPAM or by operation of law.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Events of Default: The Exchangeable Note contains customary events of default provisions which provide that, on the occurrence of certain events of default specified in the terms of the Exchangeable Note, the noteholder shall be entitled to demand for immediate repayment of the principal amount of the Exchangeable Note together with any amount and interest applicable thereon.

Up to the Latest Practicable Date, the noteholder has not notified by FPAM any occurrence of event of default.

OUR SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, based on the information available as of the Latest Practicable Date, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued upon the exercise of options that have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme and assuming the Over-allotment Option is not exercised), the following persons have the following interests or short positions in the Shares or underlying shares of our Company who would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of shares carrying the right to vote in all circumstances at general meetings of any other member of our Group:—

Name	Capacity/Nature of interest	The relevant member of our Group	Class and number of securities ⁽¹⁾	Approximate percentage of shareholding in the relevant member of our Group
CE Aerospace ⁽²⁾	Beneficial owner	Our Company	206,979,479 (L)	35.33%
CEL ⁽²⁾	Interest of controlled corporation	Our Company	206,979,479 (L)	35.33%
FPAM ⁽³⁾	Beneficial owner	Our Company	181,254,589 (L)	30.94%
Capella ⁽⁴⁾	Interest of controlled corporation	Our Company	181,254,589 (L)	30.94%
Mr. POON ⁽⁴⁾	Interest of controlled corporation	Our Company	181,254,589 (L)	30.94%
Ms. NG ⁽⁵⁾	Interest of a spouse	Our Company	181,254,589 (L)	30.94%
Easy Smart ⁽⁶⁾	Beneficial owner	Our Company	37,773,755 (L)	6.45%
China Aerospace ⁽⁶⁾	Interest of controlled corporation	Our Company	37,773,755 (L)	6.45%

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Notes:—

- (1) The letter “L” denotes the entity/person’s long position in the Shares.
- (2) To the best of our Directors’ knowledge, information and belief and having made all reasonable enquiries, CE Aerospace is a limited liability Company incorporated under the laws of the Cayman Islands on 13 January 2009, the entire issued share capital of which is wholly-owned by CEL. Accordingly, CEL is deemed to be interested in all the Shares held by CE Aerospace.
- (3) To the best of our Directors’ knowledge, information and belief and having made all reasonable enquiries, FPAM is a limited liability company incorporated under the laws of the BVI on 24 May 2000 and the issued share capital of which is owned as to 0.000001% by Ms. NG and 99.999999% by Capella. Accordingly, Capella is deemed to be interested in all the Shares held by FPAM.
- (4) To the best of our Directors’ knowledge, information and belief and having made all reasonable enquiries, Capella is a limited liability company incorporated under the laws of the BVI on 23 July 2001, the share capital of which is owned as to 10% by Ms. NG and 90% by Mr. POON. Accordingly, Mr. POON is deemed to be interested in all the Shares held by Capella.
- (5) Ms. NG is the spouse of Mr. POON.
- (6) To the best of our Directors’ knowledge, information and belief and having made all reasonable enquiries, Easy Smart is a limited liability company incorporated under the laws of the Cayman Islands on 16 March 2011, the entire issued share capital of which is wholly-owned by China Aerospace. Accordingly, China Aerospace is deemed to be interested in all the Shares held by Easy Smart.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

CONTINUING CONNECTED TRANSACTIONS

CONNECTED PERSONS

Upon Listing, the following persons and companies will become connected persons of our Company with which we have entered into continuing connected transactions which will continue following Listing:—

光大控股創業投資(深圳)有限公司 (CEL Venture Capital (Shenzhen) Limited*) (“**CEL Venture**”) and Ever Alpha are associates of CEL and therefore connected persons of our Company.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Leasing of property from CEL Venture

Upon Listing, the following transaction will be regarded as continuing connected transaction for our Company exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under new Rule 14A.76(1) of the Listing Rules (which will come into effect on 1 July 2014).

On 14 January 2013, 中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited) (“**CALC Yongchun**”), one of our wholly-owned subsidiaries, as tenant entered into a tenancy agreement (the “**Shanghai Tenancy Agreement**”) with CEL Venture as landlord in relation to an office situated at 25/F, Area J, 21st Century Tower, No. 210 Century Avenue, Pudong New Area, Shanghai, the PRC, for a fixed term of one year commenced from 1 January 2013 to 31 December 2013 (with an option to renew for another two years) at a fixed monthly rental of RMB22,817.52 and a fixed monthly management fee of RMB2,062.95 (i.e. RMB298,565.64 on an annual basis). On 9 September 2013, CALC Yongchun and CEL Venture entered into a supplemental agreement (the “**Supplemental Agreement**”) to increase the floor area under the Shanghai Tenancy Agreement at a fixed monthly rental of RMB41,747.93 and a fixed monthly management fee of RMB3,864.88 commenced from 9 September 2013 to 31 December 2013.

After the Shanghai Tenancy Agreement expired, on 27 January 2014, 中永順融資租賃(上海)有限公司 (CALC Yongshun Limited*) (“**CALC Yongshun**”), one of our other wholly-owned subsidiaries, as a new tenant entered into a new tenancy agreement (together with the Shanghai Tenancy Agreement and the Supplemental Agreement, the “**Shanghai Tenancy Agreements**”) with CEL Venture as landlord in relation to an office situated at the above same property, for a fixed term of two year commenced from 1 January 2014 to 31 December 2015 (with an option to renew for another two years) at a fixed monthly rental of RMB71,028.70 and a fixed monthly management fee of RMB6,010.10.

Our Directors believe that the Shanghai Tenancy Agreements are beneficial to us as a whole as we have occupied the premises as our office since 1 January 2013 and the rental payable by us is comparable with the prevailing market rent of office premises at similar location and of similar quality.

Our Directors confirm that the rental charge under the Shanghai Tenancy Agreement was determined by arm’s length negotiations between the respective parties with reference to the prevailing market rental at the time when the Shanghai Tenancy Agreements were entered into and on normal commercial terms which are fair and reasonable. In addition, our Directors confirm that, with the advice of our Group’s independent property valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, that the rental receivable and payable pursuant to the Shanghai Tenancy Agreements is fair and reasonable and consistent with and comparable to the current market rent for similar premise in similar location.

CONTINUING CONNECTED TRANSACTIONS

Based upon the fixed annual rental, the applicable percentage ratios (other than the profits ratio) under the Listing Rules will, on an annual basis, be less than 0.1%. The transaction under the Shanghai Tenancy Agreements constitutes a continuing connected transaction exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under new Rule 14A.76(1) of the Listing Rules (which will come into effect on 1 July 2014).

Our Directors, including our independent non-executive Directors, consider that the above exempted continuing connected transactions are conducted on normal commercial terms and are fair and reasonable and in the interests of our Group and our Shareholders.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the following transactions will be regarded as non-exempt continuing connected transactions for our Company which are subject to new Rule 14A.35, 14A.36, 14A.39 and 14A.71 of the Listing Rules (which will come into effect on 1 July 2014).

Consultancy and logistics services to be provided by Ever Alpha

On 27 September 2013, CALC (BVI) and Ever Alpha entered into the Consultancy Agreement pursuant to which Ever Alpha has agreed to support us by providing onsite supporting services to facilitate Qingdao Airlines Co., Ltd. ("**Qingdao Airlines**") to lease current generation of A320 aircraft from us. The onsite supporting services to be provided by Ever Alpha under the Consultancy Agreement include 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. In this connection, we have entered into five aircraft lease agreements for the lease and delivery of two aircraft in 2014 and three aircraft in 2015. Qingdao Airlines is a new customer to us, and to the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, it is their first time to use *Airbus* aircraft as part of their fleet. Hence, it is important that Qingdao Airlines will be guided through the entire process to ensure that the aircraft to be leased and delivered to Qingdao Airlines will be used properly in accordance with the terms of the relevant aircraft lease agreements.

In addition, Ever Alpha has the connection and prior experience working with Qingdao Airlines and it facilitated Qingdao Airlines to develop business plan by choosing to use *Airbus* aircraft, through its local affiliates. Ever Alpha will help us to ensure that Qingdao Airlines will pay us the lease payments on time in accordance with the terms of the relevant aircraft lease agreements. Pursuant to the Consultancy Agreement, Ever Alpha has undertaken to CALC (BVI) that if there is any default in lease payments, together with related interests and fees, by Qingdao Airlines up to the amount of US\$200,000 for a period of 24 months, Ever Alpha will pay us the outstanding amount. Our Directors believe that engaging Ever Alpha in the provision of consultancy services assists the Group in securing Qingdao Airlines as a new customers and ensuring a smooth and unobstructed completion of the transaction.

CONTINUING CONNECTED TRANSACTIONS

The Consultancy Agreement is for a term of two years commenced on 27 September 2013 and expiring on 31 December 2015. Subject to mutual agreement and compliance with the requirements of the Listing Rules, the Consultancy Agreement is renewable for a further term to be determined by the parties. The Consultancy Agreement shall automatically be terminated in the event that no aircraft lease agreements are entered into between CALC (BVI) and Qingdao Airlines within 12 months from the date of the Consultancy Agreement.

Reasons and benefits of the transactions and pricing basis

The consultancy fees charged by Ever Alpha will be at the rate of 2.5% of the total lease income for each leased aircraft over its entire lease term pursuant to the relevant aircraft lease agreement subject to a cap of US\$1.0 million per aircraft delivered to Qingdao Airlines. Our Directors consider that the services required to be provided by Ever Alpha are necessary for Qingdao Airlines to use the aircraft leased and delivered by us. Our Directors, including our independent non-executive Directors, have reviewed the fee quotations provided by Independent Third Parties for similar supporting and lease payment assurance services and confirm that the proposed fee level charged by Ever Alpha is generally consistent with the fee quotations. There is no published information on the generally accepted fee levels, and our Directors' views are based on their knowledge in the industry.

Historical figures

In 2011, 2012 and 2013, we did not pay any consultancy fee to CALC (BVI) or Ever Alpha.

Annual caps

In determining the annual caps for these non-exempt continuing connected transactions, our Directors assume, with the support of the five aircraft lease agreements, we will be able to complete the lease and the delivery of five A320 aircraft to Qingdao Airlines. Our Directors also use the maximum amount of US\$1.0 million as the amount of fee payable by us to Ever Alpha. Based on these factors, our Directors consider that the following annual caps will be applicable to the non-exempt continuing connected transactions under the Consultancy Agreement:–

	Proposed annual caps for the years ending 31 December		
	2014	2015	2016
	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>
Total consultancy fee payable	<u>2.0</u>	<u>3.0</u>	<u>Nil</u>

If for whatever reason the delivery of any of the five aircraft can only be completed after the end of 2015, the Consultancy Agreement may be extended subject to mutual agreement of the parties and strict compliance with the applicable disclosure or Shareholders' approval requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS – APPLICATION FOR WAIVER

We will continue to enter into or carry out the transactions set out in this section. These transactions will constitute continuing connected transactions for us under the Listing Rules once our Shares are listed on the Stock Exchange. According to the Listing Rules, such transactions may, depending on the nature and value of the transactions, require disclosure and prior approval by our independent Shareholders. With respect to such transactions that are not exempt continuing connected transactions under the Listing Rules, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements under new Rule 14A.105 of the Listing Rules (which will come into effect on 1 July 2014) for such non-exempt continuing connected transactions. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

CONFIRMATION FROM OUR DIRECTORS

Our Directors, including our independent non-executive Directors, confirm that:–

- (1) each of the continuing connected transactions described above has been entered into, and will be carried out, in the ordinary and usual course of business and on normal commercial terms,
- (2) the terms of each of the continuing connected transactions disclosed above are fair and reasonable and is in the interests of our Shareholders as a whole, and
- (3) the annual caps for the non-exempt continuing connected transactions are fair and reasonable and are in the interest of our Company and our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that (a) the non-exempt continuing connected transactions for which waiver is sought have been and shall be entered into in our ordinary and usual course of business, on normal commercial terms and are fair and reasonable, and in the interests of our Company and our Shareholders as a whole and (b) the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering and Capitalisation Issue (without taking into account Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option and pursuant to any exercise of options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme):–

Authorised share capital:–

<u>10,000,000,000</u>	Shares with nominal value of HK\$0.10 each	<u>HK\$1,000,000,000</u>
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Issued and to be issued, fully paid or credited as fully paid:

468,951,929	Shares in issue as of the date of this prospectus	HK\$46,895,192.90
29,071	Shares to be issued pursuant to the Capitalisation Issue .	HK\$2,907.10
	Shares to be issued pursuant to the Global Offering	
<u>116,800,000</u>	(before any exercise of Over-allotment Option).	<u>HK\$11,680,000</u>

Total:–

<u>585,781,000</u>	Shares	<u>HK\$58,578,100</u>
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ASSUMPTIONS

The above table assumes that the Global Offering and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.

RANKING

The Offer Shares will rank equally with all our Shares now in issue or to be issued and will qualify for all dividends, income and other distributions and any other rights and benefits attaching or accruing to our Shares after the completion of the Global Offering.

GENERAL MANDATE

Assuming the Global Offering becomes unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares with a total nominal value of not more than 20.0% of the total nominal amount of our share capital in issue immediately following the completion of Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any option which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme and the total amount of our share capital repurchased by us (if any) pursuant to the Repurchase Mandate.

SHARE CAPITAL

The General Mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with the Articles of Association, or pursuant to the exercise of any subscription rights attached to any warrants which may be issued by us from time to time, or upon the exercise of options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme. The General Mandate does not include any Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

The General Mandate will expire:–

- at the end of our next annual general meeting;
- at the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

REPURCHASE MANDATE

Subject to the conditions stated in the section headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” of this prospectus, our Directors have been granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10.0% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering, excluding any Shares which may be issued pursuant to the exercise of any option which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules.

The Repurchase Mandate will expire:–

- at the end of our next annual general meeting;
- at the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

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Hong Kong Underwriters

China Everbright Securities
CCBI
China International Capital Corporation Hong Kong Securities Limited
Taiping Securities (HK) Co Limited

International Underwriters

China Everbright Securities
CCBI
China International Capital Corporation Hong Kong Securities Limited
Taiping Securities (HK) Co Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering initially 13,180,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the relevant Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the relevant Application Forms.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering are subject to termination by notice to our Company from the Joint Global Coordinators (acting for themselves and on behalf of the other Hong Kong Underwriters) if prior to 8:00 a.m. on the Listing Date:–

- (1) there shall develop, occur, exist or come into effect:–
 - (a) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, but without limitation to, conditions affecting stock and bond markets, money and foreign exchange markets, interbank markets and credit markets or a change in the system under which the value of Hong Kong currency is linked to that of the currency of the US or the RMB is linked to any foreign currency(ies) in or affecting any of the Relevant Jurisdictions (as defined below));

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- (b) any change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, but without limitation to, a devaluation of the Hong Kong dollar or the RMB against any foreign currencies (including, but without limitation to, the US dollars)), or the implementation of any exchange control in Hong Kong, the PRC, the United States, the United Kingdom, the European Union (taking as a whole or any member thereof), Ireland, British Virgin Islands, Cayman Islands, Netherlands, Malaysia, Singapore or any other jurisdiction relevant to any member of our Group (the “**Relevant Jurisdictions**”);
- (c) any event, or series of events, in the nature of force majeure (including, but without limitation to, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemics, pandemics, outbreaks of diseases, economic sanction, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting any of the Relevant Jurisdictions;
- (d) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions;
- (e) any moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the federal or New York state level or other competent authority), London, the European Union (taking as a whole or any member thereof), Japan, the PRC or in any of the Relevant Jurisdictions;
- (f) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ National Markets, the American Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or any disruption in monetary or trading or securities settlement or clearance services, procedures or matters;
- (g) the imposition of economic sanctions, in whatever form, directly or indirectly, on any of the Relevant Jurisdictions;
- (h) the commencement by any governmental, law enforcement agency, regulatory or political body or organisation of any investigation or other action against a Director or any of the Covenantors (as defined in the Hong Kong Underwriting Agreement) or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action;
- (i) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against a Director or any member of our Group or any of the Covenantors;
- (j) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;

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- (k) the chairman or chief executive officer of our Company vacating his or her office;
- (l) a contravention by any Director or any member of our Group or any of the Covenantors (as defined in the Hong Kong Underwriting Agreement) of the Listing Rules, the SFO, the Companies Ordinance, the Companies (Miscellaneous Provisions) Ordinance or any other applicable laws and regulations;
- (m) any non-compliance with this prospectus (or any other documents used in connection with the Hong Kong Public Offering) or any aspect of the Global Offering with the Listing Rules, the SFO, the Companies Ordinance, the Companies (Miscellaneous Provisions) Ordinance or any other applicable laws or regulations;
- (n) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus of PHIP (as defined in the Listing Rules) (or any other documents used in connection with the Hong Kong Public Offering) pursuant to the SFO, the Companies Ordinance, the Companies (Miscellaneous Provisions) Ordinance, and the Listing Rules or any applicable law and regulation or any requirement or request of the Stock Exchange or SFC;
- (o) a prohibition by a competent authority on our Company for whatever reason from allotting and issuing the Shares (including any additional Shares that may be allotted and issued under the Over-allotment Option) or on the Selling Shareholder from selling the Sale Shares under the Global Offering;
- (p) any change or prospective change in, or materialisation of, any of the risks set forth in the section headed “Risk Factors” of this prospectus; or
- (q) an order or petition for the winding-up of any member of our Group or any of the Covenantors or any composition or arrangement made by any member of our Group or any of the Covenantors with its creditors or a scheme of arrangement entered into by any member of our Group or any of the Covenantors or any resolution for the winding-up of any member of our Group or any of the Covenantors or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or any of the Covenantors or anything analogous thereto occurring in respect of any member of our Group or any of the Covenantors,

which, any of the above events, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators, (i) has or will or may have an adverse effect on the business, financial or other condition or prospects of our Group, (ii) has or will have or may have an adverse impact on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering, (iii) makes or will make or may make it inadvisable or inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus or (iv) has or would or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting the Hong Kong Public Offering and/or the Global Offering) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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- (2) there has come to the notice of the Joint Global Coordinators:–
- (a) that any statement contained in this prospectus, offering circular, the Application Forms and/or any announcement or advertisement or document issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become untrue or incorrect or misleading in any respect, or that any forecast, expression of opinion, intention or expectation expressed in this prospectus and/or any announcements or documents issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest based on reasonable assumptions;
 - (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto);
 - (c) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company and the other members of our Group; or
 - (d) any breach of, or any event rendering untrue or incorrect or inaccurate or misleading in any respect, any of the warranties given by our Company or any of the Covenantors under the Hong Kong Underwriting Agreement;
 - (e) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than on any of the Hong Kong Underwriters or the International Underwriters);
 - (f) any claim or demand from, any third party being threatened or instigated against our Company or any member of our Group including any demand for repayment or payment of any indebtedness of our Company or any member of our Group;
 - (g) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued (including any additional Shares that may be issued and sold pursuant to the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Post-IPO Share Option Scheme) under the Global Offering and the Capitalisation Issue, on or before the date of the listing is refused or not granted, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
 - (h) that our Company withdraws this prospectus (and any other documents used in connection with the Global Offering) or suspends the Global Offering; or

UNDERWRITING

- (i) any expert (other than the Joint Sponsors) named in the section headed “Appendix IV — Statutory and General Information — Other Information — Consents of experts” of this prospectus, has withdrawn its consent to being named in any of this prospectus and the Application Forms or to the issue of any of this prospectus and the Application Forms.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), we will not, without the prior written consent of the Joint Global Coordinators (acting for themselves and on behalf of the other Hong Kong Underwriters), at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date:—

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of our share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or
- (d) offer to or agree to enter into, any such transaction described in paragraphs (a), (b) or (c) above; whether any such transaction described in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise.

Similar undertakings are expected to be given by us to the International Underwriters under the International Underwriting Agreement.

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Each of the Warranting Shareholders has undertaken with the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters that: –

- (i) during the first six months immediately following the Listing Date (the “**First Six-Month Period**”), except pursuant to (A) the Global Offering, (B) the Over-allotment Option or (C) if applicable, the Stock Borrowing Agreement, each of the Warranting Shareholders will not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Joint Global Coordinators (acting for themselves and on behalf of the other Hong Kong Underwriters), at any time:–
 - (a) offer, mortgage, hypothecate, pledge, charge, sell, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of) the Shares, either directly or indirectly, conditionally or unconditionally, or any of our share or debt capital or our other securities or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly or indirectly by each of the Warranting Shareholders (including holding as a custodian) or with respect to which each of the Warranting Shareholders have beneficial ownership) (collectively the “**Lock-up Shares**”). The foregoing restriction is expressly agreed to preclude each of the Warranting Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than each of the Warranting Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares (except for certain Lock-up Shares pledged in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan) or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
 - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
 - (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise; or
- (ii) at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), entered into any of the transactions specified in paragraphs (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction such that any Controlling Shareholder, directly or indirectly, would cease to be a controlling shareholder (within the meaning defined in the Listing Rules) of the Company.

The Selling Shareholder is expected to give similar undertakings under the International Underwriting Agreement.

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International Offering

International Underwriting Agreement

In connection with the International Offering, the International Underwriting Agreement is expected to be entered into between our Company, the Selling Shareholder, the Warranting Shareholders, our executive Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares.

The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors will be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. Pursuant to the International Underwriting Agreement, our Company and the Warranting Shareholders will give undertakings similar to as those given under the Hong Kong Underwriting Agreement as described in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Undertakings” of this prospectus.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Joint Global Coordinators from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to allot and issue up to an aggregate of 17,793,000 additional Shares, representing approximately 13.5% of the number of Offer Shares initially available under the Global Offering at the Offer Price to, amongst other things, cover over-allocations in the International Offering, if any.

Underwriting commission and expenses

The Hong Kong Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable for all the Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commissions. The Joint Global Coordinators may also be entitled to an incentive fee of or up to, as the case maybe, 1.0% of the final Offer Price multiplied by the number of Hong Kong Offer Shares as underwritten by the respective Joint Global Coordinator at our discretion. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, if any, the International Underwriters will be paid an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters, but not the Hong Kong Underwriters. The Selling Shareholder is expected to bear the commissions, fees, SFC transaction levy and Stock Exchange trading fees with respect to the Sale Shares sold by the Selling Shareholder in the Global Offering as well as certain other expenses as agreed or to be agreed in the Underwriting Agreements.

If the Over-allotment Option is exercised by the Joint Global Coordinators, the commission, SFC transaction levy and Stock Exchange trading fee, relating thereto shall be borne by us.

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Hong Kong Underwriters' interests in our Company

Save as disclosed in this prospectus and other than pursuant to the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters is interested directly or indirectly in any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

JOINT SPONSORS' INDEPENDENCE

China Everbright Capital does not satisfy the independence criteria applicable to sponsors as set forth in Rule 3A.07 of the Listing Rules because China Everbright Capital is controlled by CEL which is one of our Controlling Shareholder. CE Aerospace is a wholly-owned subsidiary of CEL. As such, CEL, which controls China Everbright Capital, through CE Aerospace, holds and will continue to hold more than 5% of number of our Shares in issue before and immediately after the Listing.

CCBI satisfies the independence criteria applicable to sponsors as set forth in Rule 3A.07 of the Listing Rules, notwithstanding the following Pre-IPO investment made by its fellow subsidiary.

On 10 April 2013, Vandí Investments, a fellow subsidiary of CCBI, subscribed for the Exchangeable Note in the principal amount of HK\$78.0 million issued by FPAM, pursuant to which Vandí Investments may exchange the Exchangeable Note for 18,139,535 Shares, representing 3.10% of the number of Shares in issue following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme or may be granted under the Post-IPO Share Option Scheme). Vandí Investments will request for the transfer 18,139,535 Shares from FPAM pursuant to the Exchangeable Note within the last two Business Days before the Listing Date. Pursuant to the Exchangeable Note, Vandí Investments is entitled to exercise its exchange rights provided that its Shareholding would not exceed 4.48% of the number of our Shares in issue.

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "**Syndicate Members**", may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:—

- (a) under the agreement among the Syndicate Members, all of them (except for China Everbright Securities and its affiliates as the stabilizing manager) must not, in connection with the distribution of our Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to our Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of our Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

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The Syndicate Members and their affiliates are diversified financial institutions with relationships in different countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, fund management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to our Shares, those activities could include acting as agent for buyers and sellers of our Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in our Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have our Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities who are involved in directly or indirectly, the buying and selling our Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our Share, in baskets of securities or indices including the Shares, in units of funds that may purchase our Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having our Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in our Shares in most cases. All of these activities may occur both during and after the end of the stabilizing period described under “Structure of the Global Offering — Over-allocation and stabilisation”. These activities may affect the market price or the value of our Shares, the liquidity or trading volume in our Shares and the volatility of their share price, and the extent to which this occurs on a day to day basis cannot be estimated.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):—

- (i) the Hong Kong Public Offering of 13,180,000 Shares (subject to adjustment) in Hong Kong as described below under the paragraphs under “The Hong Kong Public Offering” below; and
- (ii) the International Offering of 118,620,000 Shares (comprising 103,620,000 New Shares and 15,000,000 Sale Shares) (subject to adjustment and the Over-allotment Option) outside the United States in reliance on Regulation S.

You may apply for the Hong Kong Offer Shares or if qualified to do so, indicate an interest in the International Offer Shares, but you may not apply in both.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described below under the paragraphs under “Pricing and allocation” below.

PRICING AND ALLOCATION

Indicative range of the Offer Price

The Offer Price will not be more than HK\$7.82 per Offer Share and is expected to be not less than HK\$5.53 per Offer Share, unless otherwise announced no later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative range of the Offer Price stated in this prospectus.**

Price payable on application

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$7.82 for each Hong Kong Offer Share (plus brokerage, SFC transaction levy and Stock Exchange trading fees). If the Offer Price is less than HK\$7.82, appropriate refund payments (including brokerage, SFC transaction levy and the Stock Exchange trading fees attributable to the surplus application monies) will be made to successful applicants. Further information is set forth in the section headed “How to Apply for Hong Kong Offer Shares – 14. Despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques” of this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of the International Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, but to cease on or around, Friday, 4 July 2014.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company (acting for itself and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 4 July 2014 and in any event, no later than Saturday, 5 July 2014.

If, for any reason, the Joint Global Coordinators (acting for itself and on behalf of the other Underwriters) and our Company (acting for itself and on behalf of the Selling Shareholder) are unable to reach agreement on the Offer Price on or before Saturday, 5 July 2014, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If the Joint Global Coordinators (acting for itself and on behalf of the other Underwriters) consider it appropriate, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering without the consent of the Company and the Selling Shareholder.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Offer Shares, cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) an announcement of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such announcements will also be available at the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.calc.com.hk. Such notice will also include confirmation or revision, as appropriate, of the working capital statement as currently disclosed in the section headed “Financial Information – Capital expenditure and capital commitment – Working capital”, the offering statistics as currently disclosed in the section headed “Summary and Highlights”, the use of proceeds in the section headed “Future Plans and Use of Net Proceeds from the Global Offering” of this prospectus, and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative range of the Offer Price and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the indicative range of the Offer Price and/or number of Offer Shares is so reduced.

Allocation

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation of the Offer Shares under the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Offer Shares to under the Hong Kong Public Offering will be based solely on the level of applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of Offer Price and basis of allocations

The Offer Price is expected to be announced on Thursday, 10 July 2014, and the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Thursday, 10 July 2014, in both cases in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese).

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:–

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued and sold as mentioned herein (including any additional shares which may be issued and sold pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Sponsors (acting for itself and on behalf of other Underwriters)) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), and on the website of our Company at www.calc.com.hk and the Stock Exchange at www.hkexnews.hk.

In the above situation, we will return all application monies to the applicants, without interest and on the terms set forth in the section headed “How to Apply for the Hong Kong Offer Shares” of this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue Share certificates for the Offer Shares on Thursday, 10 July 2014. However, these Share certificates will only become valid certificates of title if (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the section headed “Underwriting” of this prospectus has not been exercised, which is expected to be at 8:00 a.m. (Hong Kong time) on the Listing Date.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement including those described in the paragraphs under “Conditions of the Global Offering” above) for the subscription in Hong Kong of, initially, 13,180,000 Offer Shares at the Offer Price, representing 10.0% of the initial number of the Offer Shares (before any exercise of the Over-allotment Option). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.25% of the enlarged number of our Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue but before any exercise of the Over-allotment Option.

The total number of the Offer Shares available under the Hong Kong Public Offering will initially be divided into two pools for allocation purposes as follow:–

- Pool A: The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Offer Shares with a total subscription amount of HK\$5 million (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee payable thereon) or less; and
- Pool B: The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Offer Shares with a total subscription amount of more than HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B. In addition, any applications for more than 50.0% of the 13,180,000 Hong Kong Offer Shares initially included in the Hong Kong Public Offering (that is, 6,590,000 Hong Kong Offer Shares) will be rejected.

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment.

Paragraph 4.2 of Practise Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. In the event of over applications, a clawback mechanism following the closing of the Application Lists shall be applied on the following basis:—

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 39,540,000 Offer Shares, representing 30.0% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 52,720,000 Offer Shares, representing 40.0% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 65,900,000 Offer Shares, representing 50.0% of the Offer Shares initially available under the Global Offering.

Allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. Allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering. The Joint Global Coordinators also have the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offer Shares, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue. Our Company, our Directors and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offering.

The Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) may require any investor who has been offered Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators of the Hong Kong Public Offering so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

References in this prospectus to applications, application forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The number of the Offer Shares to be initially offered for subscription and sale under the International Offering will be 118,620,000 Offer Shares, representing 90.0% of the initial number of the Offer Shares (before the exercise of the Over-allotment Option). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent 20.25% of the enlarged number of our Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but before any exercise of the Over-allotment Option.

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on behalf of us by the International Underwriters or through selling agents appointed by them. International Offer Shares will be placed with certain professional and institutional investors and other investors anticipated to have sizeable demand for the International Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions meeting the requirements of, and in reliance on Regulation S or another exemption from registration requirements under the US Securities Act. Prospective investors may be required to give an undertaking and confirmation that they have not applied for or taken up any Hong Kong Offer Shares. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

We are expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators at any time from the date of signing of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, to require us to issue up to 17,793,000 additional Shares, representing 13.5% of the initial number of the Offer Shares. These Shares will be issued at the same price per Share under the International Offering to cover, among other things, over-allocations in the International Offering, if any. An announcement will be made in the event that the Over-allotment Option is exercised.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, China Everbright Securities as the stabilising manager (the “**Stabilising Manager**”) or any person acting for it may choose to borrow Shares from FPAM under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:–

- such stock borrowing arrangement with FPAM will only be effected by the Stabilising Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from FPAM under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to FPAM or its nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to FPAM by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

OVER-ALLOCATION AND STABILISATION

Stabilisation is a practise used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, China Everbright Securities, as stabilising manager (the “**Stabilising Manager**”), or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 17,793,000 Shares, which is 13.5% of the Offer Shares initially available under the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Stabilising action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the Securities and Futures Ordinance includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:–

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall; and
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period. In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 17,793,000 Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted into the CCASS.

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 11 July 2014, dealings in Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, 11 July 2014.

The Shares will be traded in board lots of 500 Shares each and the stock code is 01848.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:–

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online through the designated website of the **HK eIPO White Form** Service Provider, referred to herein as the “**HK eIPO White Form**” service at **www.hkeipo.hk**; or
- (c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the HK eIPO White Form Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are:–

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States (as defined in Regulation S) or a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- (d) are not a legal or natural person of China (other than Hong Kong, Macau and Taiwan).

If you are a firm, the application must be in the names of the individual members. If you are a body corporate, the application form must be stamped with your corporation’s chop and signed by a duly authorised officer, who must state his representative capacity.

If an application is made by a person duly authorised under a power of attorney, the Joint Global Coordinators (or their agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of the attorney.

The number of joint applicants may not exceed four and they may not apply by means of HK eIPO White Form for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you wish to apply for Hong Kong Offer Shares online through the **HK eIPO White Form** service, in addition to the above you must also:–

- (a) have a valid Hong Kong identity card number; and
- (b) be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **HK eIPO White Form**, service.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:–

- (a) an existing beneficial owners of Shares in our Company;
- (b) our Director or chief executive of our Company or any of our subsidiaries;
- (c) an associate (as defined in the Listing Rules) of any of the above;
- (d) a US person (as defined in Regulation S); or
- (e) a connected person (as defined in the Listing Rules) of our Company or persons who will become our connected persons immediately following completion of the Global Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **HK eIPO White Form**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, 30 June 2014 until 12:00 noon on Friday, 4 July 2014 (not including Tuesday, 1 July 2014) from:–

any one of the addresses of the Hong Kong Underwriters:–

China Everbright Securities (HK) Limited

36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

CCB International Capital Limited

12th Floor, CCB Tower
3 Connaught Road Central
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Taiping Securities (HK) Co Limited

2901 China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:—

	<u>Branch name</u>	<u>Address</u>
Hong Kong	Sheung Wan Branch	Shop F, G/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
	Causeway Bay Branch	Shop A, G/F, Jardine Center, 50 Jardine's Bazaar, Causeway Bay
	North Point Branch	G/F, 436-438 King's Road, North Point
Kowloon	Tsimshatsui Branch	Shop 1 & 2, G/F, No. 35-37 Hankow Road, Tsimshatsui
	Yaumatei Branch	542 Nathan Road, Yaumatei
	Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
	Kwun Tong Branch	Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong
New Territories	Shatin Branch	Shop 22J, Level 3, Shatin Centre
	Tseung Kwan O Branch	Shop Nos. 2011-2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:–

	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Hong Kong Branch King's Road Sub-Branch	20 Pedder Street, Central 67-71 King's Road
Kowloon	Cheung Sha Wan Plaza Sub-Branch Mongkok Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
New Territories	Tsuen Wan Sub-Branch Ma On Shan Sub-Branch	G/F., Shop G9B-G11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan Shop No. 3062, Level 3, Sunshine City Plaza, Ma On Shan

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, 30 June 2014 until 12:00 noon on Friday, 4 July 2014 (not including Tuesday, 1 July 2014) from:–

- (1) the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) your stockbroker, who may have such Application Forms and this prospectus available.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with one cheque or one banker's cashier order attached and marked payable to "**ICBC (Asia) Nominee Limited – China Aircraft Leasing Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of Industrial and Commercial Bank of China (Asia) Limited and Bank of Communications Co., Ltd. Hong Kong Branch listed above at the following times:–

Monday, 30 June 2014 – 9:00 a.m. to 5:00 p.m.
Wednesday, 2 July 2014 – 9:00 a.m. to 5:00 p.m.
Thursday, 3 July 2014 – 9:00 a.m. to 5:00 p.m.
Friday, 4 July 2014 – 9:00 a.m. to 12:00 noon

The Application Lists will be open from 11:45 a.m. to 12:00 noon on Friday, 4 July 2014, the last application day or such later time described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Application Lists" below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions on the Application Form carefully, otherwise your application may be rejected.

By signing on the Application Form or applying through the **HK eIPO White Form** service, among other things, you:–

- (a) **undertake** to sign all documents and **instruct** and **authorise** us and/or the Joint Global Coordinators (or their agents or nominees) as agents for us to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name(s) or HKSCC Nominees Limited, as required by the Memorandum of Association and Articles of Association;
- (b) **agree** to comply with the Companies Law, the Companies Ordinance, the Companies (Miscellaneous Provisions) Ordinance and the Memorandum of Association and the Articles of Association;
- (c) **confirm** that you have read the conditions and application procedures set out in this Prospectus and in the Application Form and agree to bound by them;
- (d) **confirm** that you have received and read this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations except those in any supplement to this prospectus;
- (e) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) **agree** that our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in the prospectus and any supplement to the prospectus;
- (g) **undertake** and **confirm** that, you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted any Offer Shares under the International Offering nor participated in the International Offering;
- (h) **agree** to disclose to us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving bankers and/or their respective advisers and agents personal data which they require about you or the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (j) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) **agree** that your application will be governed by the laws of Hong Kong;
- (l) **represent** and **warrant** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the US Securities Act and you and any person for whose benefit you are applying for the Hong Kong Offer Shares are non U.S. persons outside the United States (as defined in Regulation S) or persons described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) **warrant** that the information you have provided is true and accurate;
- (n) **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under this application;
- (o) **authorise** our Company to place your name(s) or HKSCC Nominees Limited on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our Company's agents to send any Share certificate(s) and/or any refund cheque to you or the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your **WHITE** and **YELLOW** Application Form or **HK eIPO White Form** application, unless you have applied for 1,000,000 Hong Kong Offer Shares or more and have chosen to collect your refund cheque and/or Share certificates in person and have provided all information required by your application form;
- (p) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) **understand** that we and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.
- (t) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (u) **agree** with our Company and each shareholder of our Company that the Shares are freely transferable by the holders thereof; and
- (v) **agree** that neither HKSCC nor HKSCC nominees shall be liable to you in any way.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLICATION BY USING HK eIPO WHITE FORM

General information

- (i) Individuals who meet the criteria in set forth in “2. Who can apply for Hong Kong Offer Shares” above may apply through **HK eIPO White Form** by submitting an application through the designated website at **www.hkeipo.hk**. If you apply through **HK eIPO White Form** the Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **HK eIPO White Form** service are on the designated website at **www.hkeipo.hk**. If you do not follow the instructions, your application may be rejected and may not be submitted to our company.
- (iii) If you apply through the **HK eIPO White Form** service, you authorise the designated **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.
- (iv) You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Monday, 30 June 2014 until 11:30 a.m. on Friday, 4 July 2014. The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 4 July 2014 or such later time and date stated in the paragraph headed “10. Effect of Bad Weather on the Opening of the Applications Lists” below.
- (v) If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.
- (vi) If you are suspected of submitting more than one application through the **HK eIPO White Form** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General information

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:–

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to us and our Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:–

- (i) HKSCC Nominees will only be acting as a nominee for you and is not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:–
 - **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant on your behalf or your CCASS Investor Participant stock account;
 - **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up or indicate, an interest for any Offer Shares under the International Offering;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if the electronic application instructions are given for your benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the benefit of that other person and are duly authorised to give those instructions as their agent;
- **confirm** and **understand** that we, our Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- **authorise** us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirm** that you have received and/or read a copy of this prospectus and have only relied on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- **agree** that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, employee, partners, agents or advisers is or will be liable for the information and representations not contained in this prospectus and any supplement thereto;
- **agree** to disclose your personal data to us, the Hong Kong Share Registrar, the receiving bankers, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and/or any of their advisers and agents;
- **agree** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the Application Lists (excluding any day which is a Saturday, Sunday or public holiday on Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of us agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the Application Lists (excluding any day which is a Saturday, Sunday or public holiday on Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding any day which is a Saturday, Sunday or public holiday on Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Miscellaneous Provisions) Ordinance

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(as applied by Section 342E of the Companies (Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by us;
- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **electronic application instructions** to apply for the Hong Kong Offer Shares;
- **agree** with us, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, the Companies (Miscellaneous Provisions) Ordinance and the Memorandum of Association and the Articles of Association; and
- **agree** that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to us or any other person in respect of the things mentioned below:–

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the maximum Offer Price initially paid application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such

HOW TO APPLY FOR HONG KONG OFFER SHARES

instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum subscription amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Such instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the specified times on the following dates:–

Monday, 30 June 2014	– 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 2 July 2014	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 3 July 2014	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 4 July 2014	– 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:–

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 June 2014 until 12:00 noon on Friday, 4 July 2014 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 4 July 2014 the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” under this section.

Section 40 of the Companies (Miscellaneous Provisions) Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation in this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies (Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Miscellaneous Provisions) Ordinance)).

Personal Data

The section in the Application Form headed “Personal Data” applies to any personal data held by us, the Hong Kong share registrar, the receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data and any other information about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Hong

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Kong Offer Shares through the **HK eIPO White Form** is also only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. We, our Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 4 July 2014 or such later time as described in the paragraphs under "10. Effect of bad weather on the Opening of the Application Lists.

8. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:–

- an account number; or
- some other identification code

for **each** beneficial owner (or, in the case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service at **www.hkeipo.hk** is made for your **benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:–

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:–

- control the composition of the board of directors of a company; or
- control more than half of the voting power of a company; or
- hold more than half of the issued share capital of a company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy, and the Stock Exchange trading fee in full upon application for Shares under the terms set forth in the Application Form.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage is paid to participants of the Stock Exchange, the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

Further information on the Offer Price is set forth in the section headed “Structure and Conditions of the Global Offering – Pricing and allocation” of this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:–

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 July 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

For the purpose of this section, business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

If the Application Lists do not open and close on Friday, 4 July 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” of this prospectus, such dates mentioned in the section headed “Expected Timetable” of this prospectus may be affected. A press announcement will be made in such event.

11. PUBLICATION OF RESULTS

We expect to release and announce the Offer Price, an indication of the level of interest in the International Offering and the level of application under the Hong Kong Public Offering, the results of allocations under the Hong Kong Public Offering and the basis of allotment under the Hong Kong Public Offering on Thursday, 10 July 2014 in South China Morning Post (in English), Hong Kong Economic Times (in Chinese), on our website at **www.calc.com.hk**, and the website of the Stock Exchange at **www.hkexnews.hk**.

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where appropriate) under the Hong Kong Public Offering will be made available at the times and date and in the manner specified below:–

- on our website at www.calc.com.hk on Thursday, 10 July 2014, and the website of the Stock Exchange at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, 10 July 2014;
- from our Hong Kong Public Offering results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 10 July 2014 to 12:00 midnight on Wednesday, 16 July 2014;
- from our Hong Kong Public Offering allocation results telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 10 July 2014 to Tuesday, 15 July 2014 (excluding Saturday, Sunday and public holiday in Hong Kong); and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and subbranches from Thursday, 10 July 2014 to Saturday, 12 July 2014 at all the receiving banks branches and sub-branches.

If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further information is set forth in the section headed “Structure and Conditions of the Global Offering” of this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allotted to you:–

If your application is revoked

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), unless a person responsible for this prospectus under Section 40 of the Companies (Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with us.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be

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notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis in this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise our discretion to reject your application

We and the Joint Global Coordinators or the designated **HK eIPO White Form** Service Provider, or our respective agents or nominees, have full discretion to reject or accept any application, or to accept only part of any application, without giving any reason.

If the allotment of Hong Kong Offer Shares is void

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Hong Kong Offer Shares either:–

- within three weeks from the closing of the Application Lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within three weeks of the closing date of the Application Lists.

If:–

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through **HK eIPO White Form** service are not completed in accordance with the terms and conditions on the designated website at **www.hkeipo.hk**;
- we believe that by accepting your application, this would violate the applicable securities or other laws, rules or regulations;
- your application is for more than 50% of the Hong Kong Offer Shares initially offered in the Hong Kong Public Offering; or
- the Underwriting Agreements do not become unconditional or are terminated.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$7.82 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure and

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Conditions of the Global Offering – Conditions of the Global Offering” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 10 July 2014.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES/E-AUTO REFUND PAYMENT INSTRUCTIONS/REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price of HK\$7.82 per Offer Share (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one Share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary documents of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:–

- (a) Share certificates for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for and/or (ii) the difference between the Offer Price and the maximum Offer Price initially paid on application in the event that the Offer Price is less than the maximum Offer Price initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque.

Subject to personal collection as mentioned below, any refund cheques and Share certificates are expected to be posted on or before around Thursday, 10 July 2014. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

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Share certificates will only become valid at at 8:00 a.m. on Friday, 11 July 2014 provided that the Hong Kong Public Offering has become unconditional and the right of termination described in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Grounds for termination” of this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated stock account of the CCASS Participant or your CCASS Investor Participant stock account on Thursday, 10 July 2014 or, upon a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, where supplied), your Hong Kong Identity Card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in “How to Apply for Hong Kong Offer Shares – 11. Publication of Results” and to publish the basis of allotment of the Hong Kong Public Offering in the newspapers on Thursday, 10 July 2014. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on 10 July 2014 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on 10 July 2014. Immediately following the credit of Hong Kong Offer Shares credited to your stock account and credit of the refund monies (if any) to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Hong Kong Offer Share paid on application including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 10 July 2014.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal collection

(a) If you apply using a **WHITE** Application Form:–

- If you apply for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) from Tricor Investor Services Limited, our Hong Kong Share Registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 10 July 2014 or any other date as notified by us on our website at www.calc.com.hk and the website of the Stock Exchange at www.hkexnews.hk and in the newspapers.
- If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.
- If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be sent to the address as specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Offer Shares, your Share certificate(s) and/or refund cheque(s) will be sent to the address on your Application Form on Thursday, 10 July 2014 by ordinary post at your own risk.

(b) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for less than 1,000,000 Offer Shares, your refund cheque(s) will be sent to the address on your Application Form on Thursday, 10 July 2014 by ordinary post at your own risk.

If you apply using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 10 July 2014 or upon contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "How to Apply for Hong Kong Offer Shares – 11. Publication of results" of this prospectus on Thursday, 10 July 2014. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 10 July 2014 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check the number of Hong Kong Offer Shares allocated to you via the CCASS Phone System and the CCASS Internet System.

(c) If you apply using HK eIPO White Form

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) in person from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 10 July 2014, or such other date as notified by us in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/ refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 10 July 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, refund monies (if any) will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in the your application instructions in the form of refund cheque(s), by ordinary post at your own risk.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

30 June 2014

The Directors
China Aircraft Leasing Group Holdings Limited

China Everbright Capital Limited
CCB International Capital Limited

Dear Sirs,

We report on the financial information of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at 31 December 2011, 2012 and 2013, balance sheets of the Company as at 31 December 2012 and 2013, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 30 June 2014 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

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. Pursuant to a group reorganisation as described in Note 1(b) of Section II headed "Reorganisation" below, which was completed on 21 December 2012, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

No audited financial statements have been prepared by the Company as it has not been involved in any significant business transaction since the date of its incorporation other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2012 and 2013, and of the state of affairs of the Group as at 31 December 2011, 2012 and 2013, and of the Group's results and cash flows for the Relevant Periods then ended.

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2011, 2012 and 2013, and for each of the years ended 31 December 2011, 2012 and 2013 (the "Financial Information"):

(a) Consolidated Balance Sheets

	Note	As at 31 December		
		2011	2012	2013
		HKD'000	HKD'000	HKD'000
ASSETS				
Property, plant and equipment	5	911	1,540,829	1,487,127
Finance lease receivables – net	7	3,135,670	4,388,375	7,678,876
Derivative financial assets	16	–	–	13,620
Prepayments and other receivables	8	105,666	807,854	2,183,474
Restricted cash	9	7,558	78,691	102,411
Cash and cash equivalents	10	89,954	73,499	1,367,344
Total assets		3,339,759	6,889,248	12,832,852
EQUITY				
Equity attributable to owners of the Company				
Share capital	11	–	–	78
Reserves	12	234,273	618,716	737,727
Currency translation differences		378	72	5,372
Retained earnings		13	75,921	195,421
		234,664	694,709	938,598
Non-controlling interests	1(b)	–	–	19,500
Total equity		234,664	694,709	958,098
LIABILITIES				
Deferred income tax liabilities	13	10,048	13,966	26,267
Bank borrowings	14	2,622,832	6,087,162	11,436,394
Long-term borrowing	15	–	–	155,172
Derivative financial liabilities	16	–	6,438	7,488
Borrowings from related parties	29	234,000	–	–
Income tax payables		–	5,901	8,613
Interest payable		2,709	21,856	34,547
Other payables and accruals	17	235,506	59,216	206,273
Total liabilities		3,105,095	6,194,539	11,874,754
Total equity and liabilities		3,339,759	6,889,248	12,832,852

(b) Balance Sheets of the Company

	<i>Note</i>	As at 31 December	
		2012	2013
		<i>HKD'000</i>	<i>HKD'000</i>
ASSETS			
Investment in a subsidiary	6	695,977	785,587
Prepayments	8	679	3,931
Total assets		696,656	789,518
EQUITY			
Share capital	11	–	78
Reserves	12	695,977	785,109
Accumulated losses		(1,268)	(12,166)
Total equity		694,709	773,021
LIABILITIES			
Amount due to the shareholder		–	428
Amounts due to subsidiaries		1,879	13,935
Other payables and accruals	17	68	2,134
Total liabilities		1,947	16,497
Total equity and liabilities		696,656	789,518

(c) Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December		
		2011	2012	2013
		HKD'000	HKD'000	HKD'000
Revenues				
Finance lease income	18	223,075	363,727	477,966
Operating lease income	18	–	83,840	145,359
Other income	19	149	296	63,610
		<u>223,224</u>	<u>447,863</u>	<u>686,935</u>
Expenses				
Interest expense	20	(124,291)	(249,903)	(329,906)
Depreciation		(132)	(31,098)	(54,147)
Other operating expenses	21	(23,985)	(39,393)	(91,405)
		<u>(148,408)</u>	<u>(320,394)</u>	<u>(475,458)</u>
Operating profit		74,816	127,469	211,477
Foreign exchange gain/(losses)		3,496	847	(1,517)
Profit before income tax		78,312	128,316	209,960
Income tax expense	23	(26,842)	(33,184)	(37,460)
Profit for the year, all attributable to owners of the Company		<u>51,470</u>	<u>95,132</u>	<u>172,500</u>
Other comprehensive income for the year:				
Items that may be reclassified subsequently to profit or loss				
Change in fair value of interest rate swaps – cash flow hedges	16	–	(6,438)	13,538
Effect of termination of interest rate swap – cash flow hedges	16	–	–	15,187
Currency differences on translation of financial statements of overseas subsidiaries		484	(306)	5,300
Total other comprehensive income for the year, net of tax		<u>484</u>	<u>(6,744)</u>	<u>34,025</u>
Total comprehensive income for the year, all attributable to owners of the Company		<u>51,954</u>	<u>88,388</u>	<u>206,525</u>
Earnings per share for profit attributable to owners of the Company (expressed in HKD per share)				
– Basic earnings per share	26	<u>0.153</u>	<u>0.253</u>	<u>0.376</u>
– Diluted earnings per share	26	<u>0.153</u>	<u>0.253</u>	<u>0.376</u>
Dividends	27	<u>55,353</u>	<u>19,224</u>	<u>53,000</u>

(d) Consolidated Statements of Changes in Equity

	Attributable to the owners of the Company					Non-controlling interests	Total equity
	Share capital	Reserves	Currency translation differences	Retained earnings	Total		
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000		
Balance at 1 January 2011	-	234,000	(106)	3,896	237,790	-	237,790
Comprehensive income							
Profit for the year	-	-	-	51,470	51,470	-	51,470
Other comprehensive income							
Currency translation differences	-	-	484	-	484	-	484
Total comprehensive income	-	-	484	51,470	51,954	-	51,954
Transactions with owners							
Employee share option scheme:							
- Value of employee services							
(Note 12(i))	-	273	-	-	273	-	273
Dividends (Note 27)	-	-	-	(55,353)	(55,353)	-	(55,353)
Total transactions with owners	-	273	-	(55,353)	(55,080)	-	(55,080)
Balance at 31 December 2011	-	234,273	378	13	234,664	-	234,664
Balance at 1 January 2012	-	234,273	378	13	234,664	-	234,664
Comprehensive income							
Profit for the year	-	-	-	95,132	95,132	-	95,132
Other comprehensive income							
Change in fair value of interest rate swaps							
- cash flow hedges (Note 16)	-	(6,438)	-	-	(6,438)	-	(6,438)
Currency translation differences	-	-	(306)	-	(306)	-	(306)
Total comprehensive income	-	(6,438)	(306)	95,132	88,388	-	88,388
Transactions with owners							
Issue of ordinary shares by a subsidiary	-	389,720	-	-	389,720	-	389,720
Employee share option scheme:							
- Value of employee services							
(Note 12(i))	-	1,161	-	-	1,161	-	1,161
Dividends (Note 27)	-	-	-	(19,224)	(19,224)	-	(19,224)
Total transactions with owners	-	390,881	-	(19,224)	371,657	-	371,657
Balance at 31 December 2012	-	618,716	72	75,921	694,709	-	694,709

	Attributable to the owners of the Company					Non-controlling interests	Total equity
	Share capital	Reserves	Currency translation differences	Retained earnings	Total		
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000		
Balance at 1 January 2013	-	618,716	72	75,921	694,709	-	694,709
Comprehensive income							
Profit for the year	-	-	-	172,500	172,500	-	172,500
Other comprehensive income							
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
Total comprehensive income	-	28,725	5,300	172,500	206,525	-	206,525
Transactions with owners							
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(i))	-	1,154	-	-	1,154	-	1,154
Dividends (Note 27)	-	-	-	(53,000)	(53,000)	-	(53,000)
Total transactions with owners	78	90,286	-	(53,000)	37,364	19,500	56,864
Balance at 31 December 2013	78	737,727	5,372	195,421	938,598	19,500	958,098

(e) Consolidated Statements of Cash Flows

	Note	Year ended 31 December		
		2011	2012	2013
		HKD'000	HKD'000	HKD'000
Cash flows from operating activities				
Profit after income tax		51,470	95,132	172,500
Adjustments for:				
– Depreciation of property, plant and equipment . . .		132	31,098	54,147
– Interest expense of bank borrowings		124,096	245,570	328,022
– Interest expense of borrowings from related parties		195	4,333	1,884
– Share-based payments		273	1,161	1,154
– Unrealised foreign exchange (gain)/losses		(3,501)	837	(3,641)
– Fair value loss on currency swap		–	–	968
		<u>172,665</u>	<u>378,131</u>	<u>555,034</u>
Changes in working capital				
– Finance lease receivables – net		(476,430)	(1,252,705)	(3,290,501)
– Prepayments and other receivables		(149,987)	12,551	(12,343)
– Other payables and accruals		214,270	(196,670)	153,878
– Income tax payables		–	5,901	2,712
– Deferred income tax liabilities		5,659	3,918	12,301
Net cash flows used in operating activities		<u>(233,823)</u>	<u>(1,048,874)</u>	<u>(2,578,919)</u>
Cash flows from investing activities				
Purchase of property, plant and equipment		(947)	(1,571,008)	(425)
Disposal of a subsidiary	25	(1,669)	–	–
Deposits paid for acquisition of aircraft		–	(714,738)	(1,363,281)
Net cash flows used in investing activities		<u>(2,616)</u>	<u>(2,285,746)</u>	<u>(1,363,706)</u>
Cash flows from financing activities				
Proceeds from issuance of new shares		–	389,720	89,210
Capital contribution by non-controlling interests		–	–	19,500
Proceeds from bank borrowings		324,870	3,681,171	6,092,551
Proceeds from borrowings from related parties		234,000	663,000	120,120
Proceeds from long-term borrowing		–	–	155,172
Repayments of bank borrowings		(122,669)	(216,841)	(743,319)
Repayments of borrowings from related parties		–	(897,000)	(120,120)
Interest paid on bank borrowings		(123,746)	(226,229)	(315,331)
Interest paid on borrowings from related parties		–	(4,528)	(1,884)
Proceeds from disposal of a derivative financial instrument		–	–	15,187
Deposits pledged in respect of bank borrowings		(3,565)	(65,437)	(23,056)
Deposits pledged in respect of derivative financial instruments		–	(5,696)	(664)
Dividend paid to shareholders	24, 27	–	–	(53,000)
Net cash flows generated from financing activities . . .		<u>308,890</u>	<u>3,318,160</u>	<u>5,234,366</u>
Net increase/(decrease) in cash and cash equivalents				
		72,451	(16,460)	1,291,741
Cash and cash equivalents at beginning of the year . .		16,586	89,954	73,499
Foreign exchange difference on cash and cash equivalents		917	5	2,104
Cash and cash equivalents at end of the year . . .		<u><u>89,954</u></u>	<u><u>73,499</u></u>	<u><u>1,367,344</u></u>

II NOTES TO THE FINANCIAL INFORMATION

1 General information, reorganisation and basis of presentation

(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, Uglund 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.

(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"). CALH was owned as to 45.72%, 44.13%, 8.05% and 2.1% by Friedmann Pacific Asset Management Limited ("FPAM"), China Everbright Aerospace Holdings Limited ("CE Aerospace"), Easy Smart Limited ("Easy Smart") and Prosper Victory Limited ("Prosper Victory"), respectively.

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, and the Company issued to CALH 9 ordinary shares of USD1 each in the Company in exchange.
- (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, and the Company issued to CALH 10 ordinary shares of USD1 each in the Company in exchange.

The directors of the Company consider the above share exchanges are, in substance, one transaction completed on 21 December 2012. The completion of share exchange on 29 April 2013 was merely an administrative process. CALC (BVI) was treated as a subsidiary of the Company from 21 December 2012 when the Company acquired control.

As a result of the above Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, 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				Principal activities	Type of legal entity	Note
			31 December			The date of this report			
			2011	2012	2013				
<i>Directly owned:</i>									
CALC (BVI)	BVI 24 March 2006	USD91,488,500	100%	100%	100%	100%	Investment holding	Limited liability entity	(1)
<i>Indirectly owned:</i>									
CALC 1 Limited	Cayman Islands 13 August 2007	USD1,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(2)
CALC 2 Limited	Cayman Islands 13 August 2007	USD1,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(2)
CALC 3-Aircraft Limited	Ireland 14 April 2008	EUR1	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
CALC 4 Limited	Cayman Islands 27 June 2008	USD250	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(2)

Company name	Country /place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held				Principal activities	Type of legal entity	Note
			31 December			The date of this report			
			2011	2012	2013				
CALC 5 Limited	Cayman Islands 13 October 2008	USD250	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (2)	
CALC 6-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	
CALC 8-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	
CALC 9-Aircraft Limited	Ireland 20 May 2011	EUR100	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	
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	HKD500,000	100%	100%	100%	100%	Provision of management services	Limited liability entity (5)	
China Aircraft Leasing Limited	Hong Kong 21 October 2010	HKD10,000	100%	100%	100%	100%	Investment holding	Limited liability entity (5)	
CALC Jianqing Limited	Hong Kong 30 March 2012	HKD1	N/A	100%	100%	100%	For future business purpose	Limited liability entity (5)	
China Aircraft Asset Limited	BVI 8 April 2013	USD1	N/A	N/A	100%	100%	Aircraft trading	Limited liability entity (2)	
CALC Manta Limited	BVI 25 April 2013	USD1	N/A	N/A	100%	100%	Provision of financing	Limited liability entity (2)	
China Aircraft Assets Ltd	Labuan 29 April 2013	USD100	N/A	N/A	100%	100%	Aircraft trading	Limited liability entity (5)	
China Aircraft Assets Limited	Hong Kong 3 May 2013	HKD1	N/A	N/A	100%	100%	Provision of management services	Limited liability entity (5)	
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HKD1	N/A	100%	100%	100%	Provision of management services	Limited liability entity (5)	
Sino Teamwork Limited	Hong Kong 9 January 2013	HKD1	N/A	N/A	100%	100%	Provision of financing	Limited liability entity (5)	
China Corporate Jet Investment Limited	Hong Kong 22 May 2013	HKD1	N/A	N/A	75%	75%	Corporate jet business	Limited liability entity (4), (5)	
China Aircraft Purchase Limited	BVI 28 August 2012	USD1	N/A	100%	100%	100%	Provision of financing	Limited liability entity (2)	
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR100	N/A	100%	100%	100%	Provision of financing	Partnership (5)	
China Corporate Jet Leasing Limited	BVI 6 July 2012	USD10,000,000	N/A	100%	75%	75%	Corporate jet leasing	Limited liability entity (2), (4)	
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	USD154,500,000	100%	100%	100%	100%	Investment holding	Limited liability entity (5)	
中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited)	PRC 29 June 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited)	PRC 8 November 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited)	PRC 8 November 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	

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ACCOUNTANT'S REPORT

Company name	Country /place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held			The date of this report	Principal activities	Type of legal entity	Note
			31 December						
			2011	2012	2013				
中飛建慶租賃(天津)有限公司 (CALC Jianqing Limited)	PRC 8 November 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited)	PRC 8 November 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛建德租賃(天津)有限公司 (CALC Jiande Limited)	PRC 4 November 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛開耀租賃(天津)有限公司 (CALC Kaiyao Limited)	PRC 1 February 2012	RMB100,000	N/A	100%	100%	100%	For future business purpose	Limited liability entity	(5)
中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited)	PRC 1 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛調露租賃(天津)有限公司 (CALC Diaolu Limited)	PRC 3 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛通天租賃(天津)有限公司 (CALC Tongtian Limited)	PRC 3 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited)	PRC 3 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛干封租賃(天津)有限公司 (CALC Ganfeng Limited)	PRC 1 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛總章租賃(天津)有限公司 (CALC Zongzhang Limited)	PRC 1 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	PRC 8 November 2011	RMB100,000	100%	100%	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛永徽租賃(天津)有限公司 (CALC Yonghui Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity	(5)
中飛龍朔租賃(天津)有限公司 (CALC Longshuo Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity	(5)
中飛麟德租賃(天津)有限公司 (CALC Linde Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity	(5)
中飛永昌租賃(天津)有限公司 (CALC Yongchang Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity	(5)
中飛長安租賃(天津)有限公司 (CALC Changan Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity	(5)
中飛神龍租賃(天津)有限公司 (CALC Shenlong Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity	(5)
中飛永泰租賃(天津)有限公司 (CALC Yongtai Limited)	PRC 24 June 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity	(5)
中飛天寶租賃(天津)有限公司 (CALC Tianbao Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity	(5)

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Company name	Country /place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held			Principal activities	Type of legal entity	Note	
			31 December						The date of this report
			2011	2012	2013				
中飛至德租賃(天津)有限公司 (CALC Zhide Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛廣德租賃(天津)有限公司 (CALC Guangde Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛元和租賃(天津)有限公司 (CALC Yuanhe Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛咸通租賃(天津)有限公司 (CALC Xiantong Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛寶曆租賃(天津)有限公司 (CALC Baoli Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	PRC 25 June 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited)	PRC 10 October 2012	RMB100,000	N/A	100%	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛弘道租賃(上海)有限公司 (CALC Hongdao Limited)	PRC 28 March 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
Airbusac Limited	Hong Kong 13 March 2012	HKD1	N/A	100%	100%	100%	Provision of financing	Limited liability entity (5)	
Airbusac Limited	Cayman Islands 14 March 2012	USD1	N/A	100%	100%	100%	Investment holding	Limited liability entity (2)	
CALC AC Limited	Cayman Islands 14 August 2012	USD1	N/A	100%	100%	100%	Provision of financing	Limited liability entity (2)	
CALC Asset Limited	Cayman Islands 22 August 2012	USD1	N/A	100%	100%	100%	Provision of financing	Limited liability entity (2)	
Airbusz Limited	Hong Kong 25 January 2013	HKD1	N/A	N/A	100%	100%	Provision of financing	Limited liability entity (5)	
CALC Satu Limited	Labuan 21 June 2013	USD100	N/A	N/A	100%	100%	Aircraft trading	Limited liability entity (5)	
CALC Dua Limited	Labuan 21 June 2013	USD100	N/A	N/A	100%	100%	Aircraft trading	Limited liability entity (5)	
China Aircraft Leasing (HK) Company Limited*	Hong Kong 12 April 2006	HKD10,000	N/A	N/A	N/A	N/A	Provision of accounting services	Limited liability entity	
中飛廣明租賃(天津)有限公司 (CALC Guangming Limited)	PRC 15 August 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛文德租賃(天津)有限公司 (CALC Wende Limited)	PRC 15 August 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛景福租賃(天津)有限公司 (CALC Jingfu Limited)	PRC 15 August 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛龍紀租賃(天津)有限公司 (CALC Longji Limited)	PRC 15 August 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	
中飛大順租賃(天津)有限公司 (CALC Dashun Limited)	PRC 15 August 2013	RMB100,000	N/A	N/A	100%	100%	Aircraft leasing	Limited liability entity (5)	

Company name	Country /place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held			Principal activities	Type of legal entity	Note	
			31 December						The date of this report
			2011	2012	2013				
中飛景龍租賃(上海)有限公司 (CALC Jinglong Limited)	PRC 29 September 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛景雲租賃(上海)有限公司 (CALC Jingyun Limited)	PRC 29 September 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中永順融資租賃(上海)有限公司 (CALC Limited)	PRC 27 November 2013	USD20,000,000	N/A	N/A	100%	100%	Investment holding	Limited liability entity (5)	
中飛如意租賃(天津)有限公司 (CALC Ruyi Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛唐隆租賃(天津)有限公司 (CALC Tanglong Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛文明租賃(天津)有限公司 (CALC Wenming Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛聖曆租賃(天津)有限公司 (CALC Shengli Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛天佑租賃(天津)有限公司 (CALC Tianyou Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛太和租賃(天津)有限公司 (CALC Taihe Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛登封租賃(天津)有限公司 (CALC Dengfeng Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛興元租賃(天津)有限公司 (CALC Xingyuan Limited)	PRC 4 December 2013	RMB100,000	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (5)	
中飛建炎租賃(天津)有限公司 (CALC Jianyan Limited)	PRC 5 May 2014	RMB100,000	N/A	N/A	N/A	100%	Aircraft leasing	Limited liability entity (3)	
中飛隆興租賃(天津)有限公司 (CALC Longxing Limited)	PRC 5 May 2014	RMB100,000	N/A	N/A	N/A	100%	Aircraft leasing	Limited liability entity (3)	
China Aircraft Leasing Shanghai Limited	Hong Kong 18 November 2013	HKD1	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (3)	
CALC Nemo Limited	BVI 12 August 2013	USD1	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (2)	
CALC PDP Limited	BVI 11 October 2013	USD1	N/A	N/A	100%	100%	Provision of financing	Limited liability entity (2)	
CALC BFE Limited	BVI 17 December 2013	USD1	N/A	N/A	100%	100%	For future business purpose	Limited liability entity (2)	
CALC ENG Limited	Cayman Islands 15 October 2013	USD1	N/A	N/A	100%	100%	Provision of financing	Limited liability entity (2)	
CALC Leasing Limited	BVI 20 January 2014	USD1	N/A	N/A	N/A	100%	For future business purpose	Limited liability entity (2)	

* The Group disposed of its investment in China Aircraft Leasing (HK) Company Limited on 31 March 2011 (Note 25).

Notes:

- (1) The financial statements of CALC (BVI) for the years ended 31 December 2011, 2012 and 2013 were audited by PricewaterhouseCoopers Hong Kong.
- (2) No audited financial statements have been prepared for these companies for the years ended 31 December 2011, 2012 and 2013 as there are no statutory audit requirements in the Cayman Islands and the BVI.
- (3) No audited financial statements have been prepared for these companies as they were not subject to statutory audit requirement during the Relevant Periods.
- (4) On 12 December 2013, a shareholders' agreement was entered into by CALC (BVI), China Corporate Jet Leasing Limited ("CCJLL"), Ever Fly Holdings Limited ("Ever Fly") and King Dynasty Group Limited ("King Dynasty") pursuant to which CALC (BVI), Ever Fly and King Dynasty injected cash of USD7.5 million, USD2.0 million and USD500,000 into CCJLL for 75%, 20% and 5% equity interests in CCJLL, respectively. Ever Fly is owned by Mr. Wong Kin Tian, who wholly owns Prosper Victory. China Corporate Jet Investment Limited is a wholly owned subsidiary of CCJLL.

As at 31 December 2013, CCJLL's equity attributable to non-controlling interests amounted to USD2,500,000 (equivalent to HKD19,500,000). CCJLL has not commenced any significant business activities since its incorporation and the amount of non-controlling interests is unchanged from the initial capital injections. As this is not material to the Group, no summarised financial information on CCJLL is provided in this report.

- (5) The statutory auditors of the principal companies for the years ended 31 December 2011, 2012 and 2013 are as follows:

	2011	2012	2013
CALC 3-Aircraft Limited	BDO	PricewaterhouseCoopers – Ireland	PricewaterhouseCoopers – Ireland
CALC 6-Aircraft Limited	PricewaterhouseCoopers – Ireland	PricewaterhouseCoopers – Ireland	PricewaterhouseCoopers – Ireland
CALC 8-Aircraft Limited	PricewaterhouseCoopers – Ireland	PricewaterhouseCoopers – Ireland	PricewaterhouseCoopers – Ireland
CALC 9-Aircraft Limited	N/A	PricewaterhouseCoopers – Ireland	PricewaterhouseCoopers – Ireland
中機租投資諮詢(深圳)有限公司 (CALC (Shenzhen) Limited)	深圳光明會計師事務所 有限責任公司	深圳中企華南會計師事務所	深圳中企華南會計師事務所
China Aircraft Leasing Limited	PricewaterhouseCoopers – Hong Kong	Cheng & Cheng Limited	Cheng & Cheng Limited
CALC Jianqing Limited	N/A	Cheng & Cheng Limited	Cheng & Cheng Limited
China Aircraft Assets Ltd	N/A	N/A	Pannell Kerr Forster (PKF) Malaysia
China Aircraft Assets Limited	N/A	N/A	Cheng & Cheng Limited
China Aircraft CALC Management Limited	N/A	N/A	Cheng & Cheng Limited
Sino Teamwork Limited	N/A	N/A	Cheng & Cheng Limited
China Corporate Jet Investment Limited	N/A	N/A	Cheng & Cheng Limited
CALC Finance Cooperatief U.A.	N/A	N/A	PricewaterhouseCoopers – Netherlands
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	中匯會計師事務所有限公司	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛建昭租賃(天津)有限公司 (CALC Jianzhao Limited)	中匯會計師事務所有限公司	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛建鳳租賃(天津)有限公司 (CALC Jianfeng Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛建享租賃(天津)有限公司 (CALC Jianxiang Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司

	2011	2012	2013
中飛建慶租賃(天津)有限公司 (CALC Jianqing Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛建章租賃(天津)有限公司 (CALC Jianzhang Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛建德租賃(天津)有限公司 (CALC Jiande Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛開耀租賃(天津)有限公司 (CALC Kaiyao Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛上元租賃(天津)有限公司 (CALC Shangyuan Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛調露租賃(天津)有限公司 (CALC Diaolu Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛通天租賃(天津)有限公司 (CALC Tongtian Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛永隆租賃(天津)有限公司 (CALC Yonglong Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛干封租賃(天津)有限公司 (CALC Ganfeng Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛總章租賃(天津)有限公司 (CALC Zongzhang Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛永徽租賃(天津)有限公司 (CALC Yonghui Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛龍朔租賃(天津)有限公司 (CALC Longshuo Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛麟德租賃(天津)有限公司 (CALC Linde Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛永昌租賃(天津)有限公司 (CALC Yongchang Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛長安租賃(天津)有限公司 (CALC Changan Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛神龍租賃(天津)有限公司 (CALC Shenlong Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛永泰租賃(天津)有限公司 (CALC Yongtai Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛天寶租賃(天津)有限公司 (CALC Tianbao Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛至德租賃(天津)有限公司 (CALC Zhide Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛廣德租賃(天津)有限公司 (CALC Guangde Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛元和租賃(天津)有限公司 (CALC Yuanhe Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛咸通租賃(天津)有限公司 (CALC Xiantong Limited)	N/A	N/A	中匯會計師事務所有限公司

	2011	2012	2013
中飛寶曆租賃(天津)有限公司 (CALC Baoli Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited)	N/A	中匯會計師事務所有限公司	中匯會計師事務所有限公司
中飛弘道租賃(上海)有限公司 (CALC Hongdao Limited)	N/A	N/A	中匯會計師事務所有限公司
Airbusac Limited	N/A	Cheng & Cheng Limited	Cheng & Cheng Limited
Airbussz Limited	N/A	N/A	Cheng & Cheng Limited
CALC Satu Limited	N/A	N/A	Pannell Kerr Forster (PKF) Malaysia
CALC Dua Limited	N/A	N/A	Pannell Kerr Forster (PKF) Malaysia
中飛廣明租賃(天津)有限公司 (CALC Guangming Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛文德租賃(天津)有限公司 (CALC Wende Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛景福租賃(天津)有限公司 (CALC Jingfu Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛龍紀租賃(天津)有限公司 (CALC Longji Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛大順租賃(天津)有限公司 (CALC Dashun Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛景龍租賃(上海)有限公司 (CALC Jinglong Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛景雲租賃(上海)有限公司 (CALC Jingyun Limited)	N/A	N/A	中匯會計師事務所有限公司
中永順融資租賃(上海)有限公司 (CALC Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛如意租賃(天津)有限公司 (CALC Ruyi Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛唐隆租賃(天津)有限公司 (CALC Tanglong Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛文明租賃(天津)有限公司 (CALC Wenming Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛聖曆租賃(天津)有限公司 (CALC Shengli Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛天佑租賃(天津)有限公司 (CALC Tianyou Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛太和租賃(天津)有限公司 (CALC Taihe Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛登封租賃(天津)有限公司 (CALC Dengfeng Limited)	N/A	N/A	中匯會計師事務所有限公司
中飛興元租賃(天津)有限公司 (CALC Xingyuan Limited)	N/A	N/A	中匯會計師事務所有限公司

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

Immediately prior to and following the Reorganisation, there were no changes in the business and operations of the Group, and the Group's shareholders and management remained unchanged. The operations of the Group were and will continue to be conducted through CALC (BVI) and its subsidiaries after completion of the Reorganisation. The Company was not involved in any business before the Reorganisation. The Reorganisation involved only the insertion of the Company into the Group structure as the holding company of CALC (BVI) and its subsidiaries and therefore the Reorganisation is not accounted for as a business combination but as a capital reorganisation. Consequently, the consolidated financial statements of the Company have been prepared using merger accounting principles and are presented using the existing carrying amounts of the assets, liabilities and operating results of the companies now comprising the Group for all periods presented.

The Financial Information includes the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence since 1 January 2011, or since their respective dates of incorporation/establishment, if later. For companies acquired from (or disposed of to) a third party during the Relevant Periods, their financial information has been included in (or excluded from) the Financial Information from the dates of acquisition (or disposal).

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The Group's current liabilities exceeded its current assets by HKD308,800,000, HKD139,035,000 and HKD1,421,421,000 as at 31 December 2011, 2012 and 2013, respectively (Note 3.1.3). As at 31 December 2013, the Group had capital commitments amounting to HKD10.2 billion in relation to the acquisition of aircraft (Note 30(b)). The directors of the Company have given due consideration to the liquidity of the Group and adopted a going concern basis in preparing the Financial Information based on the following assessments:

- For the aircraft under lease contracts, 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 bank borrowings for aircraft acquisition over the entire lease term of the aircraft.
- The net current liabilities position of the Group is mainly due to the fact that the Group used short-term borrowings to finance its aircraft acquisition and pre-delivery payments ("PDP") made to the aircraft manufacturer when the new aircraft ordered by the Group are being built. As at 31 December 2012 and 2013, PDP amounting to HKD714,738,000 and HKD2,078,019,000 respectively had been paid (Note 8). According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next 12 months from 31 December 2013 amounted to HKD1,540,689,000. As at 31 December 2013, the Group had already signed PDP financing agreements with 4 banks to secure funding commitments for the PDP for 23 aircraft. Subsequent to 31 December 2013, the Group signed 3 additional PDP financing agreements with 3 banks to secure funding commitments for the PDP for 8 additional aircraft (Note 31). Based on the PDP financing agreements signed, the funding of HKD1,244,953,000 will be provided by banks to fund part of the PDP to be paid in the next 12 months from 31 December 2013. The remaining balance of PDP amounting to HKD295,736,000 will be funded by internally generated financial resources of the Group and additional PDP financing which is expected to be obtained in July 2014.
- As at 31 December 2012 and 2013, the balance of PDP financing amounted to HKD551,028,000 and HKD1,820,074,000 respectively (Note 14). The Group will replace PDP financing with long-term bank borrowings upon the delivery of aircraft as scheduled, which includes 11 aircraft in 2014. As at the date of this report, the Group has entered into lease agreements with 4 airlines in China for the leasing of 11 aircraft expected to be delivered in 2014.
- The Group has entered into a cooperative agreement with a bank, pursuant to which the bank provides a comprehensive loan facility amounting to USD1.5 billion to the Group during the period between 2013 and 2018. The granting of each specific loan will be subject to the credit assessment to be performed by the bank and the finalisation of the terms and conditions of the loan agreements, which will only be confirmed shortly before the delivery of aircraft.
- Under aircraft purchase agreements, CALC (BVI) has an obligation to have net asset values of USD150 million as at 30 June 2013 and USD300 million as at 31 December 2013 respectively. The net asset value of CALC (BVI) as at 31 December 2013 was HKD971 million (equivalent to USD124 million). The vendor of the aircraft purchase agreements has the right to defer the delivery of the aircraft if CALC (BVI) is unable to satisfy the vendor with remediation actions within a given period. The vendor has confirmed to CALC (BVI) that it will not exercise its right to defer the delivery of aircraft until 30 June 2015. Therefore, the directors of the Company believe that the delivery of the aircraft will be in accordance with the schedule and the Group should be able to obtain long-term borrowings as planned for the aircraft to be delivered in the coming 12 months.

Accordingly, the Group expects to have sufficient working capital for its present requirements for at least the next 12 months from the date of this report. Based on the above considerations, the directors of the Company are of the opinion that the Group will be in a position to continue as a going concern and have prepared the financial statements on a going concern basis.

The preparation of Financial Information in conformity with HKFRS 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 Financial Information are disclosed in Note 4.

Changes in accounting policy and disclosure

The following new accounting standards, interpretation and amendments to standards that are relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2013, and have not been early adopted by the Group.

- Amendment to HKAS 32 "Financial Instruments: Presentation" on asset and liability offsetting, these amendments are made to the application guidance in HKAS 32, "Financial Instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective for annual periods beginning on or after 1 January 2014.
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 on "Investment Entities" provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.
- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. In December 2013, the HKICPA issued HKFRS 9: Financial instruments (Hedge accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39), which sets out the requirements related to hedge accounting (other than specific accounting for open portfolios or macro hedging) and replaces those contained in HKAS39. The guidance in HKAS 39 on impairment of financial assets continues to apply. The HKICPA will determine the effective date for HKFRS 9 once it has completed the impairment of financial assets phase. The Group is yet to assess HKFRS 9's full impact.
- Amendments to HKAS 39, Novation of Derivatives and Continuation of Hedge Accounting, which introduces a narrow scope exception to the requirement for the discontinuation of hedge accounting in IAS 39. Specifically, an exception is proposed when a derivative that has been designated as a hedging instrument, is novated from one counterparty to a central counterparty, as a consequence of new laws or regulations if specific conditions are met. This amendment is effective for annual periods beginning on or after 1 January 2014.
- HK(IFRIC) 21 'Levies', which is an interpretation of HKAS 37, 'Provisions, contingent liabilities and contingent assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Management's preliminary assessment is that the application of the above standard, interpretation and amendments will not result in a material impact to the Group.

2.2 *Subsidiaries*

(a) *Consolidation*

Subsidiaries are all 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.

(b) *Merger accounting for capital reorganisation*

The Financial Information incorporates the financial statements of the consolidated entities as if they had been consolidated from the date when the consolidated entities first came under the control of the Group.

The net assets of the consolidated entities are consolidated using the existing book values from the Group's perspective. No amount is recognised for goodwill on excess of the Groups' interest in the net fair value of consolidated entities' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the Group's interest.

The Financial Information includes the results of each of the consolidated entities from the earliest date presented or since the date when the consolidated entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the capital reorganisation.

The comparative amounts in the Financial Information are presented as if the consolidated entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

(c) *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.

(d) 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 plan which acquired certain finance lease receivables from the Group is a structured entity but not controlled by the Group and is therefore not consolidated. It is referred to as an unconsolidated structured entity.

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 Financial Information is presented in HK Dollar ("HKD"), 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 HKD.

(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/period-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 sheets 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 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.

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	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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Group classifies its financial assets in 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 Relevant Periods, 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.

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 sheets.

Loans and receivables are initially recognised at fair value which is the cash 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 realised the asset and settle the liability simultaneously.

In 2012 and 2013, certain financial assets and financial liabilities of the Group were 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 HKFRS.

As at 31 December 2012 and 2013, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements were not material to the Group.

2.9 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.

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.

2.11 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 flight equipment in the process of construction on forward order are capitalised and such amounts are added to prepayments on flight equipment. 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.

(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 sheets 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 substantively 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.

(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.

2.15 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

Equity-settled share-based payment transactions

The Group previously engaged in an equity-settled share-based compensation plan, under which the Group receives services from directors, eligible employees, consultants and related parties as consideration for equity instruments (options) of the Company's immediate holding company. The aforesaid equity-settled share-based compensation plan was subsequently taken over by the Company effective from 23 June 2014 in connection with the Reorganisation as stated in Note 1 (b). The fair value of the services of the directors, eligible employees, consultants and related parties 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 stay).

Non-market performance and service conditions are included in assumptions about the number of shares under the options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of shares under 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 profit or loss, with a corresponding adjustment to equity.

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.

2.18 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 at the same time. 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 sheets 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.

(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.

2.21 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 within Mainland 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) Foreign exchange risk

The Group is exposed to foreign exchange risks as certain portion of cash and cash equivalents, financial assets included in prepayments and other receivables, finance lease receivables, other payables and accruals and bank borrowings held by entities within the Group are denominated in currencies other than the entity's functional currency. The functional currencies of entities within the Group are principally USD. The Group currently does not have a currency hedging policy as the directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

(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 2011, 2012 and 2013, there are three, five and ten 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. 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 two and five of the aircraft lease projects as at 31 December 2012 and 2013, respectively. 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 2011, 2012 and 2013. 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 HKD2,935,000, HKD8,912,000 and HKD22,353,000 respectively; and would also have increased/decreased the Group's reserves by approximately nil, HKD22,084,000 and HKD29,574,000, respectively 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 sheets 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 sheets 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 sheets 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(i)). 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. The interest rate swaps were secured by pledged deposits placed by the Group (Notes 9 and 16).

(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 2011, 2012 and 2013.

(d) Concentration of risks of financial assets with credit exposure

During the Relevant Periods, all the lessees of the Group are state-owned airline companies located in Mainland 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 dates:

	As at 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Current assets			
Finance lease receivables – net	104,161	164,957	262,544
Prepayments and other receivables	105,666	83,532	19,199
Cash and cash equivalents	89,954	73,499	1,367,344
	<u>299,781</u>	<u>321,988</u>	<u>1,649,087</u>
Current liabilities			
Other payables and accruals	235,506	59,216	206,273
Income tax payables	–	5,901	8,613
Interest payable	2,709	21,856	34,547
Bank borrowings	136,366	374,050	2,820,997
Borrowing from related parties	234,000	–	–
Long term borrowings – current portion	–	–	78
	<u>608,581</u>	<u>461,023</u>	<u>3,070,508</u>
Net current liabilities	<u>(308,800)</u>	<u>(139,035)</u>	<u>(1,421,421)</u>

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 dates.

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 sheets 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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
At 31 December 2013					
Financial assets					
Finance lease receivables (Note (i))	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
	<u>2,322,542</u>	<u>938,696</u>	<u>2,789,594</u>	<u>7,349,949</u>	<u>13,400,781</u>

APPENDIX I
ACCOUNTANT'S REPORT

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<u>HKD'000</u>	<u>HKD'000</u>	<u>HKD'000</u>	<u>HKD'000</u>	<u>HKD'000</u>
Financial liabilities					
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
	<u>3,790,988</u>	<u>1,464,404</u>	<u>2,534,892</u>	<u>7,841,706</u>	<u>15,631,990</u>
Net.	<u>(1,468,446)</u>	<u>(525,708)</u>	<u>254,702</u>	<u>(491,757)</u>	<u>(2,231,209)</u>
At 31 December 2012					
Financial assets					
Finance lease receivables (Note (i))	482,095	482,095	1,422,635	3,550,277	5,937,102
Other receivables excluding prepayments	82,853	–	–	–	82,853
Restricted cash	–	–	–	78,691	78,691
Cash and cash equivalents	73,499	–	–	–	73,499
Off-balance sheet – operating lease receivables (Note (ii))	145,436	145,436	436,307	928,987	1,656,166
	<u>783,883</u>	<u>627,531</u>	<u>1,858,942</u>	<u>4,557,955</u>	<u>7,828,311</u>
Financial liabilities					
Bank borrowings	692,667	1,007,067	1,774,181	5,325,507	8,799,422
Other payables and accruals (Note (iii)) . .	48,697	–	–	–	48,697
Off-balance sheet – operating lease commitments (Note (iv))	5,808	5,457	2,361	–	13,626
Derivative financial instruments	–	7,518	17,692	(21,531)	3,679
	<u>747,172</u>	<u>1,020,042</u>	<u>1,794,234</u>	<u>5,303,976</u>	<u>8,865,424</u>
Net.	<u>36,711</u>	<u>(392,511)</u>	<u>64,708</u>	<u>(746,021)</u>	<u>(1,037,113)</u>
At 31 December 2011					
Financial assets					
Finance lease receivables (Note (i))	334,957	334,038	1,003,411	2,619,374	4,291,780
Other receivables excluding prepayments	3,596	–	–	–	3,596
Restricted cash	–	–	–	7,558	7,558
Cash and cash equivalents	89,954	–	–	–	89,954
	<u>428,507</u>	<u>334,038</u>	<u>1,003,411</u>	<u>2,626,932</u>	<u>4,392,888</u>
Financial liabilities					
Bank borrowings	268,809	264,508	822,055	2,371,617	3,726,989
Borrowings from related parties	235,690	–	–	–	235,690
Other payables and accruals (Note (iii)) . .	231,716	–	–	–	231,716
Off-balance sheet – operating lease commitments (Note (iv))	2,481	241	–	–	2,722
	<u>738,696</u>	<u>264,749</u>	<u>822,055</u>	<u>2,371,617</u>	<u>4,197,117</u>
Net.	<u>(310,189)</u>	<u>69,289</u>	<u>181,356</u>	<u>255,315</u>	<u>195,771</u>

- (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 PDP 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 2012 and 2013, the Group placed PDP amounting to HKD714,738,000 and HKD2,078,019,000 respectively. PDP 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 HKD551,028,000 and HKD1,820,074,000 as at 31 December 2012 and 2013 respectively. 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 entity and transferred finance lease receivables

As detailed in Note 19, CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with a trust plan 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 the trust plan. The gross, undiscounted amount of the finance lease receivables due and payable up to 27 May 2025, i.e. the end of lease term of the aircraft leasing agreement, was USD121,133,226 (equivalent to HKD944,839,000). The discounted carrying amount of these finance lease receivables at the date of the transfer was HKD615,010,000 and the consideration for the transfer was RMB540,304,581 (equivalent to HKD687,213,000). This amount was settled in full in cash by the trust plan on 30 December 2013, resulting in a gain to the Group (Note 19(i)).

The trust plan also appointed CALC Baoli as the service agent to collect the lease rentals from the airline. The services to be provided include maintaining relationship with the airline, collection of rentals on behalf the trust plan, follow-up assessments of the lease item, inquiry and reporting on lease rentals collection, and other services, which include conversion from USD to RMB at the then current spot exchange rates for certain future lease rentals to be collected on behalf of the trust plan during the period from 27 February 2014 to 27 November 2023 and at a pre-determined exchange rate for future lease rentals to be collected during the period from 27 February 2024 to 27 May 2025. The service fee is RMB2,000,000 (equivalent to HKD2,544,000) for the lease servicing period. It was paid in cash in full settlement by the trust plan to CALC Baoli on 31 December 2013 and is included in the consolidated balance sheet at 31 December 2013 in cash and cash equivalents with a corresponding liability for the deferred income in other payables and accruals. The deferred income will be recognised as service fee income by CALC Baoli over the lease servicing period and will be included in revenues in the Group's consolidated statement of comprehensive income.

No member of the Group has any option or obligation to reacquire the transferred lease receivables.

There were no transfers of finance lease receivables in 2011, 2012 or earlier parts of 2013.

The trust plan was not established by the Group and the Group has no control of the trust plan. It is an unconsolidated structured entity of the Group. The Group's funding and maximum exposure of the Group are as follows:

- The beneficiary of the trust plan 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. CALC Baoli has placed a pledge deposit of RMB5,000,000 (equivalent to HKD6,360,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2013 (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.
- CALC Baoli will convert the USD lease rentals received on behalf of the trust plan during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own cost or benefit as the above mentioned currency swap arrangement covers the period up to 27 November 2023 only. This arrangement constitutes a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to USD15,684,296 (equivalent to HKD122,338,000). As at 31 December 2013, the fair value loss of this currency swap contract amounted to HKD968,000 (Note 16).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plan as at 31 December 2013. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

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 Relevant Periods.

The Group monitors capital risk using an asset-liability ratio, which is calculated as total liabilities divided by total assets. The asset-liability ratio as at each of the reporting dates are as follows:

	As at 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Total liabilities	3,105,095	6,194,539	11,874,754
Total assets	3,339,759	6,889,248	12,832,852
Gearing ratio	93.0%	89.9%	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 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).

As at 31 December 2011, no financial assets or financial liabilities that were measured at fair value. The following table presents the Group's financial assets and financial liabilities that were measured at fair value at 31 December 2012 and 2013.

	Level 1	Level 2	Level 3	Total
	HKD'000	HKD'000	HKD'000	HKD'000
At 31 December 2012				
Liabilities				
Interest rate swaps for hedging	–	6,438	–	6,438
Total liabilities	–	6,438	–	6,438
At 31 December 2013				
Assets				
Interest rate swaps for hedging	–	13,620	–	13,620
Liabilities				
Interest rate swaps for hedging	–	6,520	–	6,520
Currency swap	–	968	–	968
Total liabilities	–	7,488	–	7,488

The fair values of the interest rate swaps for hedging and currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select a variety of methods and make 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.

The carrying amounts and fair values of the finance lease receivables and bank and long-term borrowings are as follows:

	31 December 2011		31 December 2012		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Finance lease receivables	3,135,670	3,258,153	4,388,375	4,972,529	7,678,876	8,135,697
Bank borrowings	2,622,832	2,797,973	6,087,162	6,396,426	11,436,394	11,669,027
Long-term borrowing	–	–	–	–	155,172	155,172
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 as 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 previously recognised unguaranteed residual value as at 31 December 2011, 2012 and 2013.

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 10, 14, and 23 finance lease aircraft as at 31 December 2011, 2012 and 2013, were approximately HKD1,175,870,000, HKD1,675,253,000 and HKD2,880,398,000, respectively. A 5% decrease in the expected residual value from management's estimations would result in a decrease in profit before income tax for the years ended 31 December 2011, 2012 and 2013 by approximately HKD2,614,000, HKD4,633,000 and HKD9,521,000 respectively.

(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 accumulated earnings of approximately HKD8,218,000, HKD43,292,000 and HKD117,219,000 as at 31 December 2011, 2012, and 2013, respectively 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 to the Group's directors, eligible employees, consultants and related parties. 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 (i)).

(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.

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 a variety of methods and make 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 entity

The Group considers that the trust plan as described in Note 3.1.4 is a structured entity, which is run according to the trust plan 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 plan as the Group (i) does not have the power to direct the relevant activities of the trust plan and (ii) does not significantly affect the variable returns of the trust plan. Accordingly, the trust plan is not consolidated by the Group. The determination of whether there is control over the trust plan depends on an assessment of the relevant arrangements relating to the trust and this has involved critical judgements by management. For further details about this unconsolidated structured entity, 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 sheets and has instead, recognised finance lease receivables in their place (Note 7). 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	Leasehold improvements	Motor vehicles	Office equipment	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January 2011					
Cost	–	–	–	174	174
Accumulated depreciation	–	–	–	(82)	(82)
Net book amount.	–	–	–	92	92
Year ended 31 December 2011					
Opening net book amount	–	–	–	92	92
Additions.	–	–	692	255	947
Depreciation	–	–	(57)	(75)	(132)
Currency translation difference	–	–	–	4	4
Closing net book amount.	–	–	635	276	911
At 31 December 2011					
Cost	–	–	692	433	1,125
Accumulated depreciation	–	–	(57)	(157)	(214)
Net book amount.	–	–	635	276	911
Year ended 31 December 2012					
Opening net book amount	–	–	635	276	911
Additions.	1,569,537	948	–	523	1,571,008
Depreciation	(30,626)	(147)	(174)	(151)	(31,098)
Currency translation difference	–	–	–	8	8
Closing net book amount.	1,538,911	801	461	656	1,540,829
At 31 December 2012					
Cost	1,569,537	948	692	964	1,572,141
Accumulated depreciation	(30,626)	(147)	(231)	(308)	(31,312)
Net book amount.	1,538,911	801	461	656	1,540,829
Year ended 31 December 2013					
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
At 31 December 2013					
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

Lease rentals amounting to nil, HKD83,840,000 and HKD145,359,000 relating to the lease of aircraft for the year ended 31 December 2011, 2012 and 2013, respectively, are included in "operating lease income" in the consolidated statement of comprehensive income.

6 Investment in a subsidiary – Company

Investment in a subsidiary is recorded at cost, which is the fair value of the consideration paid.

	31 December	
	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>
Unlisted investment, at cost	695,977	785,587

Notes:

- (i) The Company was incorporated on 21 December 2012. For the purpose of the financial statements, the cost of investment in a subsidiary of the Company as at 31 December 2012 amounting to HKD695,977,000 represents the total equity of CALC (BVI), the previous holding company of the Group acquired through the Reorganisation (see Notes 1(b) and 12 for details).
- (ii) In April and July 2013, the Company injected capital of HKD78,000,000 and HKD11,610,000 respectively into CALC (BVI).

7 Finance lease receivables – net – Group

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Finance lease receivables	3,948,580	5,308,843	8,586,841
Guaranteed residual values	343,200	628,259	1,800,365
Unguaranteed residual values	1,175,870	1,675,253	2,880,398
Gross investment in leases	5,467,650	7,612,355	13,267,604
Less: unearned finance income	(2,331,980)	(3,223,980)	(5,588,728)
Net investment in leases	3,135,670	4,388,375	7,678,876
Less: accumulated allowance (Note (i))	–	–	–
Finance lease receivables – net	3,135,670	4,388,375	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 2011, 2012, and 2013. 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:

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Gross investment in finance leases	5,467,650	7,612,355	13,267,604
Less: Unguaranteed residual values	(1,175,870)	(1,675,253)	(2,880,398)
Minimum lease payments receivable	4,291,780	5,937,102	10,387,206
Less: Unearned finance income related to minimum lease payments receivable	(1,598,989)	(2,200,100)	(3,894,212)
Present value of minimum lease payments receivable	2,692,791	3,737,002	6,492,994

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of the reporting period:

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Gross investment in finance leases			
– Not later than 1 year	334,957	482,095	797,122
– Later than 1 year and not later than 5 years	1,337,449	1,904,730	3,149,314
– Later than 5 years	3,795,244	5,225,530	9,321,168
	<u>5,467,650</u>	<u>7,612,355</u>	<u>13,267,604</u>

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:

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
– Not later than 1 year	137,783	214,501	350,180
– Later than 1 year and not later than 5 years	631,927	915,490	1,433,253
– Later than 5 years	1,923,081	2,607,011	4,709,561
	<u>2,692,791</u>	<u>3,737,002</u>	<u>6,492,994</u>

The carrying amounts of the Group's finance lease receivables are denominated in USD.

The following table sets forth the finance lease receivables attributable to individual airlines:

	31 December					
	2011		2012		2013	
	<i>HKD'000</i>	%	<i>HKD'000</i>	%	<i>HKD'000</i>	%
Customer:						
Airline Company – A	1,719,963	55%	1,670,013	38%	2,301,170	30%
Airline Company – B	1,078,318	34%	1,356,362	31%	1,648,771	21%
Airline Company – C	337,389	11%	1,362,000	31%	1,692,276	22%
Airline Company – D	–	–	–	–	970,851	13%
Airline Company – E	–	–	–	–	733,706	10%
Airline Company – F	–	–	–	–	332,102	4%
	<u>3,135,670</u>	<u>100%</u>	<u>4,388,375</u>	<u>100%</u>	<u>7,678,876</u>	<u>100%</u>

8 Prepayments and other receivables

Group

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
PDP (Note (i))	–	714,738	2,078,019
Interest capitalised	–	4,903	46,448
Deposits paid	–	–	7,914
Prepayments for aircraft acquisition	–	4,681	39,808
Prepayments for listing expenses	–	679	3,931
Amounts due from related parties (Note 29(i))	–	81,044	–
Deposits placed by CALH on behalf of the Group for acquisition of aircraft (Note 29(f))	102,070	–	–
Others	3,596	1,809	7,354
	<u>105,666</u>	<u>807,854</u>	<u>2,183,474</u>

- (i) In 2012, the Group entered into aircraft purchase agreements with Airbus S.A.S, which related to the acquisition of 36 aircraft for future lease projects. Such prepayments were made according to the payment schedules set out in the aircraft purchase agreements. One of the 36 aircraft was delivered during 2013. Eleven aircraft are due to be delivered in 2014.

The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
USD	104,410	805,367	2,174,435
RMB	569	361	4,280
HKD	557	488	592
Other currencies	130	1,638	4,167
	<u>105,666</u>	<u>807,854</u>	<u>2,183,474</u>

The "Amounts due from related parties" and "Others" above were unsecured, interest-free and repayable on demand.

Company

	31 December	
	2012	2013
	HKD'000	HKD'000
Prepayments for listing expenses	679	3,931
	<u>679</u>	<u>3,931</u>

The carrying amounts of the Company's prepayments are denominated in HKD.

9 Restricted cash – Group

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Pledged for bank borrowings (Note 14)	7,558	46,555	70,579
Pledged for letters of guarantee issued by a bank	–	20,439	19,362
Pledged for acquisition of aircraft (Note 14)	–	6,001	6,110
Pledged for interest rate swap contracts (Note 16)	–	5,696	–
Pledged for a currency swap contract (Note (3.1.4))	–	–	6,360
	<u>7,558</u>	<u>78,691</u>	<u>102,411</u>

As at 31 December 2011, 2012 and 2013, the carrying amounts of the Group's restricted cash are denominated in the following currencies:

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
USD	1,560	47,958	46,438
RMB	5,998	30,733	55,973
	<u>7,558</u>	<u>78,691</u>	<u>102,411</u>

The average effective interest rates as at 31 December 2011, 2012 and 2013, were 0.52%, 0.54% and 0.49% respectively.

10 Cash and cash equivalents – Group

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Cash at bank and on hand	89,954	73,499	1,367,344
	<u>89,954</u>	<u>73,499</u>	<u>1,367,344</u>

As at 31 December 2011, 2012 and 2013, the carrying amounts of the Group's cash and cash equivalents were denominated in the following currencies:

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
USD	69,497	49,481	452,317
RMB	20,045	23,756	909,222
HKD	412	212	5,400
Other currencies	–	50	405
	<u>89,954</u>	<u>73,499</u>	<u>1,367,344</u>

The average effective interest rates as at 31 December 2011, 2012 and 2013, were 0.59%, 0.56% and 0.47% respectively.

11 Share capital – Group and Company

Movements of the ordinary share capital of the Company are as follows:

	Number of shares of USD1 each		Share capital in HKD	
	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013
Authorised				
Beginning of year	–	50,000	–	390,000
Incorporation of the Company	50,000	–	390,000	–
End of year	<u>50,000</u>	<u>50,000</u>	<u>390,000</u>	<u>390,000</u>

	Number of shares of USD1 each		Share capital in HKD	
	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013
Issued				
Beginning of year	–	10	–	78
Issue of ordinary shares (Note (i)).	10	9,990	78	77,922
End of year	<u>10</u>	<u>10,000</u>	<u>78</u>	<u>78,000</u>

- (i) On 21 December 2012, the Company issued 1 ordinary share of USD1 to CALH upon its incorporation and 9 ordinary shares of USD1 each to CALH in exchange for 30,000,000 shares of USD1 each in CALC (BVI), representing 37.5% equity interest in CALC (BVI) for the time being.

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 HKD89,610,300, recognised share capital of approximately HKD78,000 and share premium of approximately HKD89,132,000 after deducting related share issuance cost.

The total number of issued shares of the Company was 10,000 shares as at 31 December 2013.

12 Reserves

Group

	Share premium	Merger reserve	Share- based payment	Cash flow hedges	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Balance at 1 January 2011	–	234,000	–	–	234,000
Employee share option scheme:					
– Value of employee services (Note (i))	–	–	273	–	273
Balance as at 31 December 2011	–	234,000	273	–	234,273
Balance as at 1 January 2012	–	234,000	273	–	234,273
Issue of ordinary shares by CALC (BVI)	–	389,720	–	–	389,720
Employee share option scheme:					
– Value of employee services (Note (i))	–	–	1,161	–	1,161
Net effect of cash flow hedges					
– Change of fair value of interest rate swaps – cash flow hedges (Note 16).	–	–	–	(6,438)	(6,438)
Balance as at 31 December 2012	–	623,720	1,434	(6,438)	618,716
Balance as at 1 January 2013	–	623,720	1,434	(6,438)	618,716
Issue of ordinary shares (Note 11(i))	89,132	–	–	–	89,132
Employee share option scheme:					
– Value of employee services (Note (i))	–	–	1,154	–	1,154
Net effect of cash flow hedges					
– Change of 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
Balance as at 31 December 2013	89,132	623,720	2,588	22,287	737,727

The Company was incorporated on 21 December 2012. For the purpose of the consolidated financial statements, the merger reserve in the consolidated balance sheets represented the share capital of CALC (BVI), the previous holding company of the business acquired through the Reorganisation (Note 1(b)).

(i) Share-based payments

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 Option 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, of which 26,700,000 shares were to its directors and employees, 1,300,000 shares were to FPAM, 2,000,000 shares were to CE Aerospace and 15,000,000 shares were to the consultants of the Group under this scheme, respectively. Of the options to subscribe for 45,000,000 shares, options to subscribe for 30,000,000 shares were allocated to Tranche A and options to subscribe for 15,000,000 shares were allocated to Tranche B.

For Tranche A options, subject to the Group achieving the performance targets and the holders of options achieving individual performance targets, if any, 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 initial public offering ("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.

The exercise price is calculated from a base price of USD0.121 each adjusted by a required time value cost of 10% per annum. 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 Group has no legal or constructive obligation to repurchase or settle the options in cash.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the Relevant Periods are as follows:

	For the year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Employees and directors	160	678	681
Consultants	93	397	387
FPAM	8	34	34
CE Aerospace	12	52	52
	<u>273</u>	<u>1,161</u>	<u>1,154</u>

The weighted average fair value of the option on one share granted during the Relevant Periods determined using the Binomial valuation model was USD0.0071.

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:

Spot share price at the grant date	USD0.12
Risk free rate	0.943%
Dividend yield	17.5%
Expected volatility	45%
Suboptimal exercise factor	<u>2.5</u>

The movement of share options outstanding is as follows:

	Employee and directors	Consultants	China Everbright Aerospace Holdings	FPAM	Total
	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
At 1 January 2011.	–	–	–	–	–
Granted	26,700,000	15,000,000	2,000,000	1,300,000	45,000,000
At 31 December 2011	<u>26,700,000</u>	<u>15,000,000</u>	<u>2,000,000</u>	<u>1,300,000</u>	<u>45,000,000</u>
At 1 January 2012.	26,700,000	15,000,000	2,000,000	1,300,000	45,000,000
Lapsed	(144,000)	–	–	–	(144,000)
At 31 December 2012	<u>26,556,000</u>	<u>15,000,000</u>	<u>2,000,000</u>	<u>1,300,000</u>	<u>44,856,000</u>
At 1 January 2013.	26,556,000	15,000,000	2,000,000	1,300,000	44,856,000
Lapsed	(326,000)	(2,500,000)	–	–	(2,826,000)
At 31 December 2013	<u>26,230,000</u>	<u>12,500,000</u>	<u>2,000,000</u>	<u>1,300,000</u>	<u>42,030,000</u>

As at 31 December 2013, options to subscribe for 2,970,000 shares granted to employees and directors had lapsed (2012: 144,000 shares).

Company

	Share premium	Capital surplus	Total
	HKD'000	HKD'000	HKD'000
Balance at 1 January 2012	–	–	–
Share swaps (Note (i)).	–	695,977	695,977
Balance as at 31 December 2012	–	695,977	695,977
Balance as at 1 January 2013	–	695,977	695,977
Issue of ordinary shares (Note 11(i))	89,132	–	89,132
Balance as at 31 December 2013	<u>89,132</u>	<u>695,977</u>	<u>785,109</u>

- (i) As stated in Notes 1(b) and 11, the Company acquired 100% equity interest in CALC (BVI) by the issue of 9 and 10 ordinary shares of USD1 each in the Company on 21 December 2012 and 29 April 2013, respectively. CALC (BVI) was treated as a subsidiary of the Company from 21 December 2012. The difference between the carrying amount of the net assets of CALC (BVI) and its subsidiaries and the par value of the 9 ordinary shares in the Company amounting to HKD695,977,000 was credited as contributed surplus in the balance sheet of the Company on 21 December 2012. On 29 April 2013, the Company issued 10 ordinary shares of USD1 each at par which was credited as fully paid out of the contributed surplus of the Company.

13 Deferred income tax – Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Deferred tax assets:			
– To be recovered after 12 months	(22,710)	–	–
Deferred tax liabilities:			
– To be settled after 12 months	32,758	13,966	26,267
	<u>10,048</u>	<u>13,966</u>	<u>26,267</u>

The movement of the deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses
	<i>HKD'000</i>
Deferred tax assets	
At 1 January 2011	11,635
Credited to profit or loss	11,075
As at 31 December 2011	<u>22,710</u>
At 1 January 2012	22,710
Charged to profit or loss	(22,710)
As at 31 December 2012	<u>–</u>
At 1 January 2013	–
Credited to profit or loss	–
As at 31 December 2013	<u>–</u>
Accelerated depreciation of leased assets	
	<i>HKD'000</i>
Deferred tax liabilities	
At 1 January 2011	16,024
Charged to profit or loss	16,734
As at 31 December 2011	<u>32,758</u>
At 1 January 2012	32,758
Credited to profit or loss	(18,792)
As at 31 December 2012	<u>13,966</u>
At 1 January 2013	13,966
Charged to profit or loss	12,301
As at 31 December 2013	<u>26,267</u>

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 2011, 2012, and 2013, certain subsidiaries of the Group had unused tax losses of approximately HKD20,519,000, HKD40,228,000 and HKD90,295,000 respectively available to offset against future profits, for which deferred tax asset of HKD3,127,000, HKD6,080,000 and HKD12,823,000 respectively had not been recognised as their future realisation is uncertain.

The expiry dates of the unused tax losses are as follows:

Year	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
2013	2,774	2,774	–
2014	–	–	–
2015	1,650	1,650	1,650
2016	3,340	3,340	3,340
2017	–	4,291	4,291
2018	–	–	12,306
No expiry date	12,755	28,173	68,708
	<u>20,519</u>	<u>40,228</u>	<u>90,295</u>

14 Bank borrowings – Group

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Secured bank borrowings for aircraft acquisition financing			
(Note (i))	2,622,832	5,536,134	9,195,670
PDP financing (Note (ii))	–	551,028	1,820,074
Working capital borrowings (Note (iii))	–	–	420,650
	<u>2,622,832</u>	<u>6,087,162</u>	<u>11,436,394</u>

- (i) Secured bank borrowings for aircraft acquisition financing are based on fixed or floating USD LIBOR rates. 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 HKD7,558,000, HKD46,555,000 and HKD70,579,000 as of 31 December 2011, 2012, and 2013 respectively.
- (ii) As at 31 December 2012 and 2013, the bank borrowings for deposit/pre-delivery payments for the acquisition of aircraft amounting to HKD551,028,000 and HKD1,820,074,000, respectively were secured by the Group companies' certain rights and benefits in respect of the acquisition of the aircraft, guarantees from CALC(BVI), pledge of the shares in CALC Asset Limited and China Aircraft Purchase Limited and pledge of deposits of HKD6,001,000 and HKD6,110,000 respectively.

Included in borrowings for PDP financing are borrowings of HKD136,236,000 and HKD740,435,000 from China Development Bank ("CDB") under a facility agreement ("CDB Facility Agreement") as at 31 December 2012 and 2013 respectively. The Group has obtained a standby loan facility of USD40,000,000 from CE Finance in 2012 for the sole purpose of paying CDB in satisfaction of the indebtedness outstanding under the CDB Facility Agreement (Note 29(h)).

- (iii) As at 31 December 2013, the Group borrowed an aggregate amount of USD44,000,000 (equivalent to HKD343,200,000) from a bank which was secured by guarantees from CALC (BVI). The Group also borrowed a short-term working capital financing of USD10,000,000 (equivalent to HKD78,000,000) from another bank which was secured by guarantees from CALC (BVI) and China Aircraft Assets Limited.

The borrowings are repayable as follows:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Within 1 year	136,366	374,050	2,820,997
Between 1 and 2 years	144,978	741,650	1,406,198
Between 2 and 5 years	490,254	998,322	1,505,101
Over 5 years	1,851,234	3,973,140	5,704,098
	<u>2,622,832</u>	<u>6,087,162</u>	<u>11,436,394</u>

The exposure of bank borrowings to interest rate changes and the contractual repricing dates at the end balance sheet date are as follows:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Fixed-interest rate	1,257,108	2,082,263	3,426,992
Floating-interest rate			
– 6 months or less	1,365,724	4,004,899	8,009,402
	<u>2,622,832</u>	<u>6,087,162</u>	<u>11,436,394</u>

The average effective interest rate as at 31 December 2011, 2012 and 2013 of bank borrowings were 4.99%, 5.15% and 4.45%, respectively. The carrying amounts of borrowings are denominated in USD.

15 Long-term borrowing – Group

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Borrowing from a trust plan	–	–	155,172

The borrowing of RMB122,000,000 (equivalent to HKD155,172,000) was provided by a trust plan to a wholly-owned subsidiary of the Group, China Asset Leasing Company Limited, at a fixed interest rate of 6.43% per annum for a term of 12 years from 30 December 2013 with an aircraft held by another wholly-owned subsidiary, CALC Baoli being pledged as security. The trust plan is also a counterparty to a transfer of finance lease receivable transaction entered into with CALC Baoli (Notes 3.1.4 and 19).

16 Derivative financial instruments – Group

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Derivative financial assets			
– Interest rate swaps-cash flow hedges (Note (i))	–	–	13,620
Derivative financial liabilities			
– Interest rate swaps – cash flow hedges (Note (i))	–	6,438	6,520
– Currency swap (Note 3.1.4)	–	–	968
	<u>–</u>	<u>6,438</u>	<u>7,488</u>

- (i) In 2012, we entered into two interest rate swap contracts which will expire on 21 March 2024 and 21 September 2026, respectively. The contracts are to exchange floating interest rate from LIBOR into fixed interest rate of 2.147% and 2.247%, respectively. In 2013, we entered into four new interest rate swap contracts which will expire on 21 September 2018, 21 September 2018, 21 September 2018, and 19 September 2019, respectively. The contracts are to exchange floating interest rates from LIBOR into fixed interest rates of 1.55%, 1.75%, 1.95% and 2%, respectively.

The above interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective in 2012 and 2013.

In December 2013, the Group terminated one of the interest rate swap contracts entered into in 2012, with a realised gain of USD1,947,000 (equivalent to HKD15,187,000). This realised gain was recognised in cash flow hedges reserve and will remain in the reserve until the hedged bank borrowing repayments occur during the period from 2014 to 2026, when the associated realised gain in the reserve will be progressively reclassified from equity to profit.

As of 31 December 2012 and 2013, the notional principal of outstanding interest rate swap contracts (31 December 2012: 2 swaps, 31 December 2013: 5 swaps) amounted to USD75,912,000 (equivalent to HKD592,114,000) and USD187,276,000 (equivalent to HKD1,460,753,000), respectively. These interest rate swap contracts were secured by pledged deposits of HKD5,696,000 and nil, as at 31 December 2012 and 2013, respectively. Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

For the year ended 31 December 2011, 2012 and 2013, the fair value changes of financial instruments recognised in other comprehensive income and profit or loss are as follows:

	year ended 31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Recognised in other comprehensive income	–	(6,438)	13,538
Recognised in profit or loss	–	–	(968)

17 Other payables and accruals

Group

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Deposits received (Note (i)).	26,269	30,490	90,326
Amounts due to related parties (Note 29(j)).	198,207	–	845
Consultant and professional fees payable	5,552	12,219	43,940
Business tax, value-added tax and withholding tax payables	–	5,209	40,552
Operating lease rentals received in advance	–	5,310	5,300
Bonus payable.	3,790	–	–
Director fee payable	–	–	1,110
Rentals received to be paid (Note (ii))	–	–	14,401
Others	1,688	5,988	9,799
	<u>235,506</u>	<u>59,216</u>	<u>206,273</u>

- (i) Deposits received from airline companies for lease projects.
- (ii) 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

	31 December	
	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>
Accrual	68	2,134

The above amounts were unsecured, interest-free and repayable on demand.

18 Lease rental income and segment information

During the Relevant Periods, the Group is engaged in a single business segment, i.e. provision of aircraft leasing services to airline companies within Mainland 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 3, 4 and 6 airline companies for the years ended 31 December 2011, 2012 and 2013, respectively.

The following table sets forth the amounts of rentals attributable to individual airline companies:

	Year ended 31 December					
	2011		2012		2013	
	HKD'000	%	HKD'000	%	HKD'000	%
Customer:						
Airline Company – A	144,699	65%	141,206	32%	153,511	25%
Airline Company – B	67,156	30%	117,832	26%	124,403	20%
Airline Company – C	11,220	5%	104,689	23%	127,654	20%
Airline Company – D	–	–	83,840	19%	192,333	31%
Airline Company – E	–	–	–	–	23,165	4%
Airline Company – F	–	–	–	–	2,259	–
Total finance and operating lease income	<u>223,075</u>	<u>100%</u>	<u>447,567</u>	<u>100%</u>	<u>623,325</u>	<u>100%</u>

19 Other income

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Gain from disposal of finance lease receivable (Note (i))	–	–	57,075
Government subsidies (Note (ii))	–	–	5,507
Others	149	296	1,028
	<u>149</u>	<u>296</u>	<u>63,610</u>

(i) As described in Note 3.1.4, CALC Baoli signed a contract with the trust plan on 30 December 2013, to transfer its future aircraft lease receivable under an aircraft lease agreement with an airline company to the trust plan, for a cash consideration of RMB540,304,581 (equivalent to HKD687,213,000). As the Group has transferred substantially all the risks and rewards related to the lease receipts to the trust plan, it de-recognised the corresponding finance lease receivable. The Group does not control the trust plan and it is therefore an unconsolidated structured entity (Note 4.2(a)). The Group recognised a gain of HKD57,075,000, determined by comparing the net proceeds with the carrying amount of the finance lease receivable of HKD615,010,000 de-recognised, less transaction costs and business tax and surcharges of HKD14,010,000 accrued.

(ii) Government subsidies represent the grants and subsidies received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone.

20 Interest expense

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Interest expense on bank borrowings	124,096	250,473	374,399
Interest expense on loans from related parties	195	4,333	1,884
Less: Interest capitalised	–	(4,903)	(46,377)
	<u>124,291</u>	<u>249,903</u>	<u>329,906</u>

21 Other operating expenses

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Key management and employee expenses (Note 22)	8,856	7,392	18,574
Listing expenses	–	1,200	9,783
Business tax and surcharges	–	5,316	21,376
Professional service expenses	5,179	6,219	9,132
Auditors' remuneration	950	1,796	2,891
Rental and utilities expenses	1,316	3,380	7,149
Office and meeting expenses	3,077	6,682	7,071
Travelling and training expenses	2,377	4,543	5,948
Fair value loss on currency swap (Note 16)	–	–	968
Others	2,230	2,865	8,513
	<u>23,985</u>	<u>39,393</u>	<u>91,405</u>

22 Employee benefit expenses

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Wages, salaries and bonuses	8,407	5,876	16,393
Share-based compensation (Note 12(i))	253	1,075	1,068
Welfare, medical and other expenses	196	441	1,113
	<u>8,856</u>	<u>7,392</u>	<u>18,574</u>

23 Income tax expense

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Current income tax:			
Mainland China, Hong Kong and others	21,183	29,266	25,159
Deferred income tax	5,659	3,918	12,301
	<u>26,842</u>	<u>33,184</u>	<u>37,460</u>

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 Relevant Periods. 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 Relevant Periods. 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 Relevant Periods.

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 12.5% in 2011 and are subject to income tax at a rate of 25% in 2012 and 2013 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 to be taxed at Malaysian Ringgit 20,000 if annual election is made.

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 Relevant Periods, 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		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Profit before income tax	78,312	128,316	209,960
Tax calculated at a tax rate of 25%	19,578	32,079	52,490
Effects of:			
– Different tax rates applicable to different subsidiaries of the Group	4,975	5,617	(6,541)
– Income not subject to tax	–	(7,755)	(15,536)
– Non-deductible expenses	393	290	304
– Tax losses for which no deferred income tax assets were recognised	1,896	2,953	6,743
Tax charge	<u>26,842</u>	<u>33,184</u>	<u>37,460</u>

24 Non-cash transactions

During the Relevant Periods, the Group entered into certain major non-cash transactions set out below:

- the settlement of HKD3,122,000 payable, for the Group's disposal of China Aircraft Leasing (HK) Company Limited, a subsidiary in a net liability position, to Friedmann Pacific Asset Management (Hong Kong) Limited that was under the common control of Mr POON Ho Man ("Mr. Poon") before the Reorganisation (Note 25), by offsetting against other receivable due from Mr. Poon.
- the settlement of dividend of HKD55,353,000 in respect of the year ended 31 December 2011 and HKD19,224,000 in respect of the year ended 31 December 2012, payable to CALH, the then immediate holding company, by offsetting against other receivable due from CALH.

25 Disposal of a subsidiary

On 31 March 2011, the Group disposed of its entire equity interest in China Aircraft Leasing (HK) Company Limited, a subsidiary in a net liability position, to Friedmann Pacific Asset Management (Hong Kong) Limited, a subsidiary of FPAM for a consideration of HKD3,122,000, which was settled by offsetting against another receivable due from Mr. Poon (Note 24).

	HKD'000
Total consideration payable	3,122
Net liabilities disposed of	<u>(3,122)</u>
Gain or loss on disposal	<u>–</u>

The effects of the disposal on the cash flows of the Group were as follows:

	<i>HKD'000</i>
Cash and cash equivalents	1,669
Prepayments and other receivables	27,517
Other payables and accruals	(32,308)
Net liabilities disposed of	<u>(3,122)</u>
Cash consideration received or paid	–
Less: Cash and cash equivalents in the subsidiary disposed of	<u>(1,669)</u>
Net cash outflow on disposal	<u><u>(1,669)</u></u>

26 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. 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 14.88 ordinary shares had been in issue since 1 January 2011 and 5.12 ordinary shares as being issued during 2012 to reflect the impact of the share issues by CALC (BVI) (Note 12). The number of ordinary shares (5.12 shares) issued by the Company in 2012 was determined by reference to the fair value of CALC (BVI)'s outstanding shares prior to its issue of shares during 2012 and the total amount of consideration received as a result of those share issues;
- (ii) of the 9,980 ordinary shares of the Company to CALH issued on 23 July 2013 (Note 11), 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 2011; and
- (iii) the additional 468,941,929 ordinary shares of the Company issued on 23 June 2014 as shown in Note 31(b)(ii) have been adjusted retrospectively to the numbers of ordinary shares issued under (i) and (ii) above as if the proportionately higher numbers of shares had been in issue since the relevant dates indicated.

It has not taken into account the proposal capitalisation issue of 29,071 shares as described in Note 31(d) because the proposed capitalisation issue has not become effective as at the date of this report.

	Year ended 31 December		
	2011	2012	2013
Profit attributable to owners of the Company (HKD'000)	<u>51,470</u>	<u>95,132</u>	<u>172,500</u>
Weighted average number of ordinary shares in issue	<u>335,531,584</u>	<u>376,371,042</u>	<u>458,879,806</u>
Basic earnings per share (HKD per share)	<u>0.153</u>	<u>0.253</u>	<u>0.376</u>

(b) Diluted

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares for the Relevant Periods as the performance-based share options (Note 12(i)) could not be exercised until the Company completes its IPO. As at the date of this report, such contingent event had not taken place.

27 Dividends

Pursuant to the resolutions passed by the Board of Directors on 15 June 2011 and 30 June 2011, the first and second interim dividends amounting to HKD31,939,000 in aggregate in respect of the year ended 31 December 2011 were declared by CALC (BVI) to CALH, its then shareholder.

Pursuant to the resolutions passed by the Board of Directors on 31 December 2011, a final dividend in respect of the year ended 31 December 2011 amounting to HKD23,414,000 in respect of the year ended 31 December 2011 was declared by CALC (BVI) to CALH, its then shareholder.

Pursuant to the resolutions passed by the Board of Directors on 31 March 2012, an interim dividend amounting to HKD19,224,000 in respect of year ended 31 December 2012 was declared by CALC(BVI) to CALH, its then shareholder.

The above dividends were settled by offsetting against other receivable due from CALH (Note 24).

Pursuant to the resolutions passed by the Board of Directors on 22 November 2013, an interim dividend amounting to HKD53,000,000 in respect of the year ended 31 December 2013 was declared by the Company and paid in cash to its shareholder in 2013.

28 Emoluments of directors and five highest paid individuals

(a) Directors' emoluments

	Fees	Basic salaries and allowances	Discretionary bonus	Retirement benefits and others	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Year ended 31 December 2011					
Mr. Poon	–	126	3,416	6	3,548
Ms. Liu Wanting	–	635	459	6	1,100
	–	761	3,875	12	4,648
Year ended 31 December 2012					
Mr. Poon	–	252	–	12	264
Ms. Liu Wanting	–	650	917	14	1,581
	–	902	917	26	1,845
Year ended 31 December 2013					
<i>Chairman, non-executive director</i>					
Mr. Chen Shuang (i)	117	–	–	–	117
<i>Executive directors</i>					
Mr. Poon	300	252	–	13	565
Ms. Liu Wanting	117	912	1,665	14	2,708
<i>Non-executive directors</i>					
Mr. Tang Chi Chun (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 (ii)	92	–	–	–	92
	1,111	1,164	1,665	27	3,967

(i) Appointed on 12 August 2013

(ii) Appointed on 11 September 2013

(iii) Appointed on 11 September 2013 and resigned on 7 March 2014.

Certain directors also received emoluments from FPAM, China Everbright Limited and certain related parties of the Group for the Relevant Periods, 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 Relevant Periods, the five individuals whose emoluments were the highest in the Group include two, one and one directors for the years ended 31 December 2011, 2012 and 2013, respectively, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining individuals (year ended 31 December 2011: three, 2012: four; 2013: four) are as follows:

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Basic salaries and allowances	1,136	3,362	4,162
Discretionary bonus	148	160	1,648
Share-based payment	2	28	28
Other benefits including pension.	6	28	32
	<u>1,292</u>	<u>3,578</u>	<u>5,870</u>

The emoluments fell within the following bands:

	Year ended 31 December		
	2011	2012	2013
Nil – HKD1,000,000	3	1	1
HKD1,000,001 to HKD1,500,000	–	3	1
HKD1,500,001 to HKD2,000,000	–	–	2
	<u>–</u>	<u>–</u>	<u>2</u>

During the years ended 31 December 2011, 2012 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.

29 Related party transactions

As at 31 December 2013, the Company was 100% owned by CALH, which was owned as to 45.72%, 44.13%, 8.05% and 2.1% by FPAM, CE Aerospace, Easy Smart and Prosper Victory, respectively. FPAM is owned by Mr. Poon. CE Aerospace is a subsidiary of China Everbright Limited.

Apart from the share option arrangement with key management and related parties as disclosed in Note 12(i), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

(a) Other services provided by FPAM – discontinued

For cost efficiency, part of the Group's rental, management and personnel were shared and supported by FPAM prior to 30 June 2011 at no charge. Starting from 1 July 2011, these costs have been borne by the Group. The expenses borne by FPAM are shown below:

	Year ended 31 December 2011
	HKD'000
Salaries, discretionary bonus and other short-term employee benefits	542
Rental and utilities	359
	<u>901</u>

(b) Management fee and consultancy fee charged by related parties – discontinued

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Management fee and consultancy fee charged by:			
– China Everbright Global Investment Advisors Company Limited (“CEGIA”)	–	–	1,170
– Friedmann Pacific Financial Services Limited (“FPFS”)	789	929	480
– Beijing Fujing Investment Limited Company (“Beijing Fujing”)	858	2,405	856
	<u>1,647</u>	<u>3,334</u>	<u>2,506</u>

CEGIA is a subsidiary of China Everbright Limited.

FPFS and Beijing Fujing are subsidiaries of FPAM.

(c) Disposal of a subsidiary – discontinued

As stated in Note 25, the Group disposed of its entire equity interest in China Aircraft Leasing (HK) Company Limited to Friedmann Pacific Asset Management (Hong Kong) Limited, a subsidiary of FPAM, on 31 March 2011.

(d) Purchase of motor vehicle from FPFS – discontinued

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
FPFS	692	–	–
	<u>692</u>	<u>–</u>	<u>–</u>

(e) Operating lease expenses on office premises – continuing

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
CEL Venture Capital (Shenzhen) Limited	–	36	577
	<u>–</u>	<u>36</u>	<u>577</u>

CEL Venture Capital (Shenzhen) Limited is a subsidiary of China Everbright Limited.

(f) Deposits placed by CALH on behalf of the Group – discontinued

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
CALH	102,070	–	–
	<u>102,070</u>	<u>–</u>	<u>–</u>

The deposits were placed by CALH on behalf of the Group for acquisition of aircraft. Such deposits were subsequently refunded to CALH by the counterparties after either the delivery of aircraft or the cancellation of purchase orders.

(g) Borrowings from related parties – discontinued**(i) Borrowings from CE Finance – discontinued**

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
At 1 January	–	234,000	–
Proceeds from borrowings during the year	234,000	663,000	73,320
Repayments of borrowings during the year	–	(897,000)	(73,320)
At 31 December	234,000	–	–

The borrowings were obtained from CE Finance, which is a fellow subsidiary of China Everbright Aerospace Holdings Limited. These borrowings were guaranteed by Mr. Poon, and bore fixed interest rate of 5% per annum from 2011 to 2012 and an interest rate ranged from 10% to 12% in 2013. During the years ended 31 December 2011, 2012 and 2013, interest expense charged by CE Finance amounted to HKD195,000, HKD4,333,000 and HKD1,156,000, respectively.

(ii) Borrowings from FPAM – discontinued

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'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 and bore a fixed interest rate ranged from 10% to 12% in 2013. During the year ended 31 December 2013, interest expense charged by FPAM amounted to HKD728,000.

(h) Standby facilities provided by CE Finance and FPAM – discontinued

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 HKD312,000,000) 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 2012 and 2013, the facility fee charged by CE Finance amounted to HKD4,754,000 and HKD1,180,000, respectively.

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 have 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 has been provided by CALC (BVI) in favour of each of FPAM and CE Finance. An arrangement fee of USD25,000 is payable on the acceptance date of the revolving loan agreement and a standby fee of USD62,500 is payable quarterly to each of FPAM and CE Finance during the availability period. The revolving loan facility agreement was terminated on 25 April 2014.

(i) Amounts due from related parties

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
CALH	–	79,619	–
CE Finance	–	1,425	–
	–	81,044	–

The above amounts due from related parties were unsecured, interest-free and repayable on demand.

(j) Amounts due to related parties:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
FPAM	–	–	317
CALH	198,207	–	–
CE Finance	–	–	512
Beijing Fujing	–	–	16
	<u>198,207</u>	<u>–</u>	<u>845</u>

The amounts due to related parties have been settled before the Listing.

The above amounts due to related parties were unsecured, interest-free and repayable on demand.

(k) Key management compensation

Key management includes directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Salaries, discretionary bonus and other short-term employee benefits	4,857	4,980	10,205
Share-based compensation expenses	185	812	673
	<u>5,042</u>	<u>5,792</u>	<u>10,878</u>

30 Contingent liabilities and commitments – Group*(a) Contingencies*

The Group had no material contingent liabilities outstanding at the end of each of the Relevant Periods.

(b) Capital commitments

Capital expenditures contracted for at the end of the reporting period but not yet incurred is as follows:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Acquisition of aircraft	5,845,749	16,359,250	10,162,469

(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:

	31 December		
	2011	2012	2013
	HKD'000	HKD'000	HKD'000
Not later than one year	2,481	5,808	5,592
Later than one year and not later than five years	241	7,818	2,363
	<u>2,722</u>	<u>13,626</u>	<u>7,955</u>

(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:

	31 December		
	2011	2012	2013
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Not later than one year	–	145,436	145,436
Later than one year and not later than five years	–	581,743	581,743
Later than five years	–	928,987	783,552
	<u>–</u>	<u>1,656,166</u>	<u>1,510,731</u>

31 Events after the end of the reporting period

Save as disclosed elsewhere in the report, the following significant events took place after 31 December 2013:

- (a) Subsequent to 31 December 2013, the Group obtained 3 additional PDP facilities and an additional working capital facility by 4 banks in an aggregate amount of USD125.7 million (equivalent to HKD980.5 million) to finance its payments of PDP and working capital purpose.
- (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 HKD1,000,000,000 by the creation of 10,000,000,000 new shares of HKD0.1 each. The Company repurchased from CALH all of the 10,000 shares of USD1 each then in issue in the consideration of allotment and issue of 10,000 new shares of HKD0.1 each to CALH. Immediately thereafter, the Company cancelled 50,000 shares of USD1 each in the authorised capital of the Company.
- (ii) the Company allotted and issued 468,941,929 new shares (the “Capitalisation 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 reserves of the Company.
- (iii) CALH transferred the 10,000 shares it owned and the Capitalisation Shares to FPAM, CE Aerospace, Easy Smart and Prosper Victory. After the transfer, FPAM, CE Aerospace, Easy Smart, and Prosper Victory owned 214,381,959 shares, 206,966,648 shares, 37,771,413 shares and 9,831,909 shares of the Company, respectively. The number of issued shares of the Company was 468,951,929 shares.
- (c) On 19 May 2014, the Company proposed to declare a final dividend of HKD69.0 million to CALH for the year ended 31 December 2013. Such dividends will be paid before the Listing.
- (d) 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 HKD2,907.10 standing on 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.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2013 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2013.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The information set forth in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 as if the Global Offering had taken place on that date assuming the over-allotment is not exercised.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the Global Offering been completed as of 31 December 2013 or at any future dates. The unaudited pro forma statement of adjusted net tangible assets is prepared based on the audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 as set out in the Accountant's Report, the text of which is set forth in Appendix I to this prospectus, and adjusted as described below:–

	Audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity owners of our Company as of 31 December 2013	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾
	HK\$'000	HK\$'000	HK\$'000	HK\$
Based on an Offer Price of HK\$5.53 per Share	938,598	602,114	1,540,712	2.63
Based on an Offer Price of HK\$7.82 per Share	938,598	862,899	1,801,497	3.08

Notes:–

- (1) The audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as of 31 December 2013 is extracted from the Accountant's Report, the text of which is set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity owners of our Company as of 31 December 2013 set forth in the Appendix I to this prospectus.

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$5.53 and HK\$7.82 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately HK\$11.0 million which have been accounted for prior to 31 December 2013) and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Post-IPO Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate, respectively.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 585,781,000 Shares were in issue assuming that the Global Offering has been completed on 31 December 2013 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Post-IPO Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate, respectively.
- (4) The unaudited pro forma adjusted consolidated net tangible assets does not take into account the final dividend of HK\$69.0 million proposed on 19 May 2014 for the year ended 31 December 2013. Such dividend will be paid before the Listing. Had such dividend been taken into account, the unaudited consolidated pro forma adjusted net tangible assets per Share would be approximately HK\$2.51 (assuming an Offer Price of HK\$5.53 per Share) and approximately HK\$2.96 (assuming an Offer Price of HK\$7.82 per Share) respectively.
- (5) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2013.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANTS ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**TO THE DIRECTORS OF CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Aircraft Leasing Group Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2013, and related notes (the “Unaudited Pro Forma Financial Information”) as set out on pages II-1 to II-2 of the Company’s prospectus dated 30 June 2014, in connection with the proposed initial public offering of the shares in the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group’s financial position as at 31 December 2013 as if the proposed initial public offering had taken place at 31 December 2013. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s financial information for the year ended 31 December 2013, on which an accountant’s report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Reporting Accountant’s Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously issued by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the HKICPA. This standard requires that the

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reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 June 2014

Set forth below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 December 2012 under the Companies Law. Our Company was incorporated under the name of CHINA AIRCRAFT LEASING COMPANY LIMITED which was changed to our current name on 19 September 2013. The Memorandum of Association and the Articles of Association comprise its constitution.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 23 June 2014 and effective on the Listing Date and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for public inspection at the address specified in Appendix V to this prospectus.

2 Articles of Association

The Articles of Association were conditionally adopted on 23 June 2014 and effective on the Listing Date and are available for public inspection at the address specified in Appendix V to this prospectus include provisions to the following effect:–

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK\$1,000,000,000 divided into 10,000,000,000 shares of a par value of \$0.10 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to

the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies (Miscellaneous Provisions) Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary

relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:–
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit;
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person

to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:—

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:–

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in

particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 days and any other extraordinary general meeting shall be called by notice of not less than 14 days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:—

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:—

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:—

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts

paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company and after such forfeiture no member or other person shall have any right to claim in respect of such dividends or bonuses.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form that complies with the Listing Rules as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**1 Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 December 2012 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:–

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account including, where applicable, material underlying documentation including contracts and invoices with respect to:—

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Takeovers

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:–

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:–
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (2011 Revision).

The undertaking is for a period of twenty years from 8 January 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of the Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 December 2012 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. Our Company was incorporated under the name of China Aircraft Leasing Company Limited which was changed to our current name on 19 September 2013. On 21 December 2012, 1 share of US\$1.0 was allotted, issued and credited as fully paid to our Company's initial subscriber, which was subsequently transferred to CALH on the same day.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and to its constitution, which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set forth in Appendix III to the prospectus.

2. Changes in share capital of our Company

The following sets out the changes in the share capital of our Company since the date of its incorporation:–

- (a) on 21 January 2012, our Company allotted and issued, credited as fully paid, 9 shares of US\$1.0 each to CALH in exchange for the transfer of the 37.5% of the entire issued capital of CALC (BVI) from CALH dated 21 December 2012;
- (b) on 20 May 2013, our Company allotted and issued, credited as fully paid, 10 shares of US\$1.0 each to CALH in exchange for the transfer of the remaining 62.5% of the entire issued capital of CALC (BVI) from CALH dated 29 April 2013;
- (c) on 23 July 2013, our Company allotted and issued 9,980 shares of US\$1.0 each to CALH at the subscription price of HK\$89,610,300;
- (d) on the Reorganisation Date, the following changes in the share capital of our Company took place concurrently:–
 - (i) the authorised share capital of our Company was increased to HK\$1,000,000,000 by the creation of 10,000,000,000 new Shares. Our Company repurchased from CALH all of the 10,000 Shares of US\$1.0 each then in issue in the consideration of allotment and issue of 10,000 new Shares to CALH. Immediately thereafter, our Company then cancelled 50,000 shares of US\$1.0 each in the authorised capital of our Company. Immediately following such steps, the number of issued Shares and the number of unissued Shares (both then having a par value of HK\$0.10 each) in the share capital of our Company were 10,000 and 9,999,990,000; and
 - (ii) as part of the consideration for the repurchase by CALH of an aggregate of its 468,951,928 shares from FPAM, CE Aerospace, Easy Smart and Prosper Victory, our Company allotted and issued 214,371,959 Shares, 206,966,648 Shares, 37,771,413 Shares and 9,831,909 Shares to FPAM, CE Aerospace, Easy Smart, and Prosper Victory, respectively (under the direction of CALH).

Immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme), the authorised share capital of our Company will be HK\$1,000,000,000 divided into 10,000,000,000 Shares and the issued share capital will be HK\$58,578,100 divided into 585,781,000 Shares, of which 585,781,000 Shares will be issued fully paid or credited as fully paid, and 9,414,219,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of the Company, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this paragraph and in paragraphs 2 and 5 of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all Shareholders passed on 23 June 2014

Pursuant to the resolutions in writing of all Shareholders passed on 23 June 2014:–

- (a) our Company approved and adopted the Memorandum of Association and the Articles of Association;
- (b) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms thereof or otherwise, and (iii) the Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date, in each case on or before the day falling 30 days after the date of this prospectus:–
 - (i) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Post-IPO Share Option Scheme were approved and adopted and our Directors or any such committee thereof were authorised to approve any amendments to the rules of the Post-IPO Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of any options which may be granted under the Post-IPO Share Option Scheme and to take all such steps as may be necessary, expedient or desirable to implement the Post-IPO Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;

- (iii) conditional on the share premium account of our Company being credited as a result of the Offer Shares pursuant to the Global Offering, our Directors were authorised to capitalise the amount of HK\$2,907.10 standing on the credit of the share premium account of our Company to pay up in full at par value 29,071 Shares for allotment and issue to the person whose name appears on the register of members of our Company at the date it/they may direct, pro-rata to its existing shareholdings in our Company and the Directors were authorised to effect the same and to allot and issue the Shares pursuant thereto;
- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, (otherwise than by way of rights issue, or scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to the Global Offering or Capitalisation Issue) additional Shares with a total nominal amount not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following the completion of the Global Offering and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of options that have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme); and (bb) the aggregate nominal amount of the share capital of our Company which may be repurchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (v) below, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held, or until revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, at such price and on such terms as may be determined by the Directors in their sole discretion, in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchange), and provided that immediately following the date on which any payment out of capital is proposed to be made in respect of any such repurchase the Company shall be able to pay its debts as they fall due in the ordinary course of business, such number of Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of options that have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and

- (vi) the general unconditional mandate granted to our Directors pursuant to paragraph (v) above be extended by the aggregate nominal value of share capital of our Company repurchased pursuant to the Repurchase Mandate referred to in paragraph (v) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option and any options that have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme; and
- (c) the Pre-IPO Share Option Scheme, the principal terms of which are set out in the section headed “E. Pre-IPO Share Option Scheme” in this Appendix below, were approved and adopted and our Directors or any committee established by our Board were authorised, at their sole discretion, to (i) administer the Pre-IPO Share Option Scheme; (ii) grant options to subscribe for Shares under the Pre-IPO Share Option Scheme up to the limits referred to in the Pre-IPO Share Option Scheme; (iii) allot, issue and deal with the Shares pursuant to the exercise of any option which may be granted under the Pre-IPO Share Option Scheme; (iv) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may here after from time to time be issued and allotted pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme; and (v) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Pre-IPO Share Option Scheme.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise the Group's structure in preparation for the Listing. For information with regard to our Reorganisation, please refer to the section headed “History, Development and Reorganisation” of this prospectus for further information.

5. Changes in the share capital of the subsidiaries of our Company

Our subsidiaries are listed in the Accountant's Report set out in Appendix I to this prospectus.

The following alterations in the capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:–

(a) *CALC (Tianjin)*

On 8 August 2012, the registered capital of CALC (Tianjin) was increased from US\$20 million to US\$50 million, US\$26 million of which was issued and paid-up. On 12 March 2013, US\$40 million of the then registered capital was paid-up and the then registered capital was fully paid-up on 23 May 2013.

On 4 July 2013, the registered capital of CALC (Tianjin) was increased from US\$50 million to US\$100 million, US\$61.5 million of which was issued and paid-up. The remaining US\$38.5 million of the then registered capital was fully paid up on 30 October 2013. On 30 October 2013, the registered capital of CALC (Tianjin) was increased from US\$100 million to US\$200 million, US\$132 million of which was issued and fully paid-up as of the Latest Practicable Date.

(b) *CCJL*

on 12 December 2013, 2,000,000 shares and 500,000 shares of CCJL were subscribed by and allotted, issued and credited as fully paid to Ever Fly and King Dynasty, the details of which are set out in the sub-section headed “Developing our corporate jet leasing business” in the section headed “Business” to this prospectus.

Save as described above and in the section headed “History, Development and Reorganisation” of this prospectus, there has been no other alteration in the share capital of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:—

(i) Shareholders’ approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by a specific approval of a particular transaction.

Note:—

Pursuant to the written resolutions passed by all Shareholders on 23 June 2014, a general unconditional mandate (the “**repurchase mandate**”) was granted to our Directors authorising them to exercise all powers for and on behalf of our Company to repurchase its Shares on the Stock Exchange, or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme) at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Hong Kong to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of the shareholders of our Company in a general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for such purpose in accordance with the Articles of Association, the applicable laws of Hong Kong and the Listing Rules. A company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase the Shares in the market. Repurchases of the Shares will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

(c) Exercise of the purchase mandate

Exercise in full of the purchase mandate on the basis of 585,781,000 Shares in issue immediately after the listing of the Shares (assuming the Over-allotment Option is not exercised and no options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are exercised) could accordingly result in up to 58,578,100 Shares being purchased by our Company during the period prior to (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general of our Company is required by the Hong Kong law or the Articles of Association; or (3) the revocation or variation of the purchase mandate by ordinary resolution of the shareholders of our Company in a general meeting, whichever occurs first.

(d) Funding of repurchases

Repurchases pursuant to the repurchase mandate would be financed out of funds of our Company legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of Hong Kong. Our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels.

(e) Director's undertaking

Our Directors have undertaken to the Stock Exchange that, they will exercise the power of our Company to make purchases of our Company's securities in accordance with the Listing Rules, the applicable laws of Hong Kong and the Articles of Association.

(f) Disclosure of interests

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, as defined in the Listing Rules, has any present intention to sell any Shares to our Company or our subsidiaries. No connected person, as defined in the Listing Rules, has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

(g) Takeovers Code consequences

If, as a result of a securities repurchase pursuant to the repurchase mandate, a shareholder's proportionate interest in the voting rights of the company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code.

Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of shareholders' interest, could obtain or consolidate control of the company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, the Directors are not aware of any consequences which may arise under the Takeovers Code if the repurchase mandate is exercised.

The Directors have no present intention to exercise the repurchase mandate to such an extent as would result in takeover obligations under the Takeovers Code.

7 Registration under Part XI of the then in force Companies Ordinance

Our Company has established its head office and a principal place of business in Hong Kong at 28th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong and was registered on 23 December 2013 as a non-Hong Kong company under Part XI of the then in force Companies Ordinance (Chapter 32 of the laws of Hong Kong), with Mr. POON of Flat D, 51/F., Block 6, Park Avenue, 18 Hoi Ting Road, Tai Kok Tsui, Kowloon, Hong Kong as an authorised person of our Company for the acceptance of service of process and notices in Hong Kong. The address for service of process and notices on our Company is the same as the address of the head office and principal place in Hong Kong.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of our subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:–

- (a) the share redemption agreement dated 23 June 2014 entered into between FPAM, CE Aerospace, Easy Smart, Prosper Victory, CALH and our Company, pursuant to which CALH repurchased its 214,381,958 shares, 206,966,648 shares, 37,771,413 shares and 9,831,909 shares from FPAM, CE Aerospace, Easy Smart and Prosper Victory respectively in consideration of (i) transfer of 10,000 Shares from CALH to FPAM and (ii) allotment and issue of 214,371,959 Shares, 206,966,648 Shares, 37,771,413 Shares and 9,831,909 Shares to FPAM, CE Aerospace, Easy Smart and Prosper Victory, respectively (under the direction of CALH);
- (b) the Deed of Non-Competition;
- (c) the Deed of Indemnity; and
- (d) the Hong Kong Underwriting Agreement.

2. Our material intellectual property rights

(a) Trademarks

As of the Latest Practicable Date, our Group had registered the following material trademarks with the relevant authorities:–




Trade mark	Owner	Territory	Class	Registration	Registration	Expiry Date
				No.	Date	
(A) CALC 中國飛機租賃有限公司 <small>China Aircraft Leasing Company Limited</small>	CALC (BVI)	Hong Kong	12, 36, 37	302229705	20-04-2012	19-04-2022
(B) CALC 中國飛機租賃有限公司 <small>China Aircraft Leasing Company Limited</small>						
(A) CALC 中飛租賃租賃有限公司 <small>CHINA ASSET LEASING COMPANY LIMITED</small>	CALC (BVI)	Hong Kong	12, 36, 37	302229714	20-04-2012	19-04-2022
(B) CALC 中飛租賃租賃有限公司 <small>CHINA ASSET LEASING COMPANY LIMITED</small>						
(A) CALC	CALC (BVI)	Hong Kong	12, 36, 37	302229723	20-04-2012	19-04-2022
(B) CALC						
(A) CALC 中國飛機租賃有限公司 <small>China Aircraft Leasing Company Limited</small>	CALC (BVI)	Hong Kong	39	302308617	09-07-2012	08-07-2022
(B) CALC 中國飛機租賃有限公司 <small>China Aircraft Leasing Company Limited</small>						
(A) CALC 中飛租賃租賃有限公司 <small>CHINA ASSET LEASING COMPANY LIMITED</small>	CALC (BVI)	Hong Kong	39	302308626	09-07-2012	08-07-2022
(B) CALC 中飛租賃租賃有限公司 <small>CHINA ASSET LEASING COMPANY LIMITED</small>						
(A) CALC	CALC (BVI)	Hong Kong	39	302308635	09-07-2012	08-07-2022
(B) CALC						
CALC	CALC (BVI)	PRC	12	10927975	21-08-2013	20-08-2023
CALC	CALC (BVI)	PRC	36	10927974	07-09-2013	06-09-2023
CALC	CALC (BVI)	PRC	37	10927973	21-08-2013	20-08-2023

Notes:–

International classification of Goods/Services:–

- Class 12: Vehicles; apparatus for locomotion by land, air or water; aircraft; parts and fittings for all the aforesaid goods.
- Class 36: Insurance; financial affairs; monetary affairs; real estate affairs; financing services; lease-purchase financing; financial leasing services; loans.
- Class 37: Building construction; repair; installation services; aircraft maintenance and repair.
- Class 39: Transport; packaging and storage of goods; travel arrangement; rental of vehicles; rental of aircraft; leasing of vehicles; leasing of aircraft.

As of the Latest Practicable Date, our Group has the following trademark applications with the relevant authority:—

Trade mark	Owner	Territory	Class	Application No.	Application Date
	CALC (BVI)	Hong Kong	12,36,37	302965933	16-04-2014
					
	CALC (BVI)	PRC	39	11205118	13-07-2012

(b) *Domain names*

As of the Latest Practicable Date, our Group had registered the following domain name:—

Domain name	Registered owner	Commencement Date
http://www.calc.com.hk/	China Aircraft CALC Management Limited	7 April 2006

Note: Contents in this domain does not form part of this prospectus.

3. Connected transactions and related party transactions

Save as disclosed in this prospectus and in note 29 to the Accountants' Report, the text of which is set forth in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

C. FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Directors

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, the interest or short position of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows:–

Name of the Director	Our Company or other members of our Group	Capacity/nature of interest	Number and class of Shares ⁽¹⁾	Approximate percentage of shareholding
Mr. POON ⁽²⁾	Our Company	Interest of controlled corporation	181,254,589(L)	30.94%

Notes:

- The letter "L" denotes the entity/person's long position in the securities.
- FPAM is a substantial Shareholder which is owned as to 0.000001% by Ms. NG and 99.999999% by Capella, which in turn is owned as by to 10% by Ms. NG and 90% by Mr. POON. Accordingly, Mr. POON is deemed to be interested in all the Shares held by FPAM.

2. Substantial Shareholders

Save as disclosed in the section headed "Controlling Shareholders and Substantial Shareholders – Substantial Shareholders" of this prospectus, our Directors confirm that they are not aware of any persons who will, immediately following completion of the Global Offering and the Capitalisation Issue, and not taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, (i) have an interest or short position in our Shares or underlying Shares or debentures which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or (ii) be interested, directly or indirectly, in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

3. Particulars of Directors' service contracts

(a) *Executive Directors*

Each of our executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from 12 August 2013, which may be terminated by not less than three months' notice in writing served by either our executive Director or our Company. Under their respective service contracts, each of our executive Directors is entitled to a fixed salary, fixed director's fee and may be entitled to a discretionary bonus.

The appointments of our executive Directors are subject to the provision of retirement and rotation of Directors under the Articles of Association.

(b) *Non-executive Directors*

Each of Mr. Chen Shuang and Mr. Tang Chi Chun has signed an appointment letter with our Company for an initial term of three years commencing from the 12 August 2013. Mr. Guo Zibin has signed an appointment letter with our Company for an initial term of three years commencing from 10 March 2014. Under their respective appointment letters, each of our non-executive Directors is entitled to a fixed director's fee. The appointments of our non-executive Directors are subject to the provision of retirement and rotation of Directors under the Articles of Association.

(c) *Independent Non-executive Directors*

Each of our independent non-executive Directors has signed an appointment letter with our Company for an initial term of three years commencing from their date of appointment. Under their respective appointment letters, each of our independent non-executive Directors is entitled to a fixed director's fee. The appointments of our independent non-executive Directors are subject to the provision of retirement and rotation of Directors under the Articles of Association.

Save as disclosed above, none of our Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation under than statutory compensation).

4. Directors' remuneration

During the year ended 31 December 2013, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Group were approximately HK\$4.0 million. Further information in respect of our Directors' remuneration is set forth in Appendix I to this prospectus.

Under the arrangements currently in force, the estimated aggregate remuneration, excluding discretionary bonus, of our Directors payable for the year ending 31 December 2014 to be HK\$4.8 million.

5. Disclaimers

Save as disclosed in this prospectus:—

- (a) so far as our Directors are aware, none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of our associated corporation (within the meaning of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed;
- (b) so far as our Directors are aware, none of our Directors or experts referred to under the paragraph headed “Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) our Directors are not aware of any person (not being a Director or the chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (f) none of the experts referred to under the paragraph headed “Qualifications of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) none of our Directors, their respective associates (as defined under the Listing Rules), or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interest in our Group’s five largest customers and five largest suppliers.

D. POST-IPO SHARE OPTION SCHEME

1. Summary of terms

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally approved and adopted pursuant to a resolution in writing passed by the Shareholders on 23 June 2014:–

For the purpose of this section, references to the (a) “**Board**” shall mean the Board from time to time or a duly authorised committee thereof; (b) “**Employee**” shall mean any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Group and any Invested Entity; (c) “**Participant**” shall mean: (i) any Employee; (ii) any non-executive director (including independent non-executive directors) of our Group or any Invested Entity; (iii) any supplier of goods or services to our Group or any Invested Entity; (iv) any customer, business or joint venture partner, franchisee, contractor, agent or representative of our Group or any Invested Entity; (v) any consultant, adviser, manager, officer or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to our Group or any Invested Entity; and (vi) any direct or indirect shareholder of our Group; and (d) “**Invested Entity**” shall mean any entity in which our Group holds any equity interest (irrespective of the percentage of such equity interest).

(a) Purpose of the scheme

The purpose of the Post-IPO Share Option Scheme is to provide incentives or rewards to the Participants for their contribution to the growth of our Group and any Invested Entity and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group and any Invested Entity.

(b) Who may join

The Board shall be entitled but shall not be bound at any time and from time to time within the period of ten years from the date on which the Post-IPO Share Option Scheme becomes effective to make offers to any Participant, as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, to take up options to subscribe for Shares, being a board lot for dealing in Shares on the Main Board or an integral multiple thereof, as the Board may determine at a price calculated in accordance with sub-paragraph (ii) below. For the purpose of the Post-IPO Share Option Scheme, options may be granted to any company wholly-owned by a Participant.

(c) Subscription price for Shares and consideration for the option

The subscription price for Shares in respect of any options granted under the Post-IPO Share Option Scheme shall be a price determined by the Board, in its absolute discretion, but in any case shall not be less than the higher of:–

- (i) the closing price per Share as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which must be a trading day;
- (ii) the average closing price per Share as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; and
- (iii) the nominal value of a Share on such date of grant,

provided that for the purpose of calculating the subscription price, where the Shares have been listed on the Stock Exchange for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before such listing. Upon acceptance of the option, the grantee shall pay HK\$1 to our Company by way of consideration for the grant.

(d) Restriction on time of grant of option

No offer for grant of options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period of one month immediately preceding the earlier of:–

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the announcement of the results, no option shall be granted. Options may be granted to any company wholly-owned by a Participant.

(e) Maximum number of Shares

- (i) The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Group shall not, in aggregate, exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (the "**Scheme Mandate Limit**") (i.e. not exceeding 58,578,100 Shares, without taking into account any Shares which may be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Options Scheme) unless our Company seeks the approval of the Shareholders in general meeting for refreshing the Scheme Mandate Limit in accordance with (ii) below. Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme or any other share option schemes of our Group shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.
- (ii) Our Company may seek approval of Shareholders in general meetings for refreshing the Scheme Mandate Limit provided that the total number of Shares in respect of which Options may be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Group as "**refreshed**" shall not exceed 10% of the total number of Shares in issue as at the date of the approval by the Shareholders of the refreshment of the Scheme Mandate Limit. All options granted under the Post-IPO Share Option Scheme and any other share option schemes of our Group (including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Group and exercised options) prior to the approval of such refreshment shall not be counted for the purpose of calculating whether the refreshed Scheme Mandate Limit has been exceeded. For the purpose of seeking the approval, our Company shall send a circular to the Shareholders.

- (iii) Our Company may grant options to Participant(s) beyond the Scheme Mandate Limit if the grant of such options is specifically approved by the Shareholders in general meeting provided that the proposed grantee(s) of such option(s) must be specifically identified by our Company before such approval is sought. In seeking such approval, a circular must be sent to the Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of these options serve such purpose.

Notwithstanding the above, the maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Group must not exceed 30% of the Shares in issue from time to time.

(f) Maximum entitlement of each Participant

No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to and including the date of the such further grant would exceed 1% of the Shares in issue as at the date of such further grant unless such further grant has been approved by the Shareholders in general meeting with the Participant and his associates abstaining from voting. A circular must be sent to the Shareholders disclosing, among other things, the identity of the Participant and the number and terms of the options to be granted and options previously granted to such Participant. The number and terms (including the subscription price) of the options to be granted to such Participant must be fixed before the Shareholders' approval and the date of meeting of the Board for proposing such further grant of option should be taken as the date of grant for the purpose of calculating the subscription price.

(g) Granting options to connected persons

Any grant of option to our Directors, chief executive or Substantial Shareholders or any of their respective associates under the Post-IPO Share Option Scheme must be approved by all of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the relevant options).

Where any proposed grant of option is made to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant:—

- (i) representing in aggregate over 0.1% of the Shares in issue on the date of grant; and
- (ii) having an aggregate value in excess of HK\$5,000,000 based on the closing price of the Shares at the date of each grant,

then the proposed grant of option must be subject to approval by Shareholders in accordance with the Listing Rules.

(h) Time of acceptance and exercise of option

An offer of the grant of option may be accepted by a Participant within 21 business days from the date of the offer of grant of options.

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than ten years from the date of grant of the option and the Board may at its discretion determine the minimum period for which the option has to be held or restrictions before the exercise of the subscription right attaching to an option.

(i) Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or equitable) in favour of any third party over or in relation to any option. In the event that the option is granted to a company wholly-owned by a Participant, such Participant shall not sell, transfer, encumber, charge, mortgage or create any interest in favour of any third party over or in relation to the share capital of such company wholly-owned by him. Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Rights on ceasing employment

In the event of the grantee (or the beneficial owner of the grantee in the event that the option is granted to a company wholly-owned by the Participant), who being an Employee on the date of grant, ceasing to be an Employee for any reason other than death or the termination of employment on one or more of the grounds referred to in (ix) below, the grantee may exercise the option up to his entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary of our Group or the relevant Invested Entity whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine (provided that the retirement of director(s) of our Group or the relevant Invested Entity at an annual general meeting of such member or Invested Entity who is/are re-elected at the same annual general meeting shall not be regarded as ceasing employment for the purpose of this paragraph).

(k) Rights on death

In the event of the death of the grantee (or the beneficial owner of the grantee in the event that the option is granted to a company wholly-owned by a Participant) and provided that in the event the grantee (or the beneficial owner of the grantee, as the case may be) being an Employee on the date of grant, none of the events which would be a ground for termination of employment referred to in (l) below arises prior to the death, the legal personal representative(s) of the grantee shall be entitled within a period of 12 months from the date of death to exercise the option up to the entitlement of such grantee as at the date of death in whole or in part (to the extent which has become exercisable and not already exercised).

(l) Rights on dismissal

In the event the grantee (or the beneficial owner of the grantee in the event that the option is granted to a company wholly-owned by a Participant), being an Employee on the date of grant, ceases to be an Employee by reason of the termination of employment on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the

Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary of our Group or the relevant Invested Entity, his right to exercise the option shall lapse automatically and become not exercisable (to the extent not already exercised) on the date on which the grantee ceases to be an Employee.

(m) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company while any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party or a placing or subscription of Shares in cash), such corresponding alterations (if any), certified in writing by an independent financial adviser or the auditors of our Company for the time being as fair and reasonable, shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription price; and/or the maximum number of Shares referred to in sub-paragraph (e) above, provided that no such alteration shall be made so that a Share would be issued at less than its nominal value (and in such circumstances, the subscription price shall be reduced to the nominal value). Any such alteration must be made so that each grantee is given the same proportion of the equity capital of our Company as such grantee was previously entitled. Any adjustment made to the exercise price of, and/or the number of Shares subject to, any options must comply with the Listing Rules and the supplemental guidance issued by the Stock Exchange on 5 September 2005 and any further guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(n) Rights on a general offer

If a general or partial offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), with the terms of the offer having been approved by any relevant regulatory authority and are in accordance with applicable laws and regulatory requirements and such offer becomes or is declared unconditional prior to the expiry of the option, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent which has become exercisable and not already exercised) at any time within fourteen days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall, subject to the provisions of all applicable laws, be entitled to exercise all or any of his options (to the extent which has become exercisable and not already exercised) at any time not later than five business days immediately prior to the date of the proposed general meeting referred to above, issue and allot the relevant Shares to the grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

(p) Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as or soon after we give notice of the meeting to our members or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his legal representative(s)) may, forthwith and until the expiry of the period commencing from such date and ending on the earlier of:—

- (i) the date falling two calendar months thereafter; or
- (ii) the date on which such compromise or arrangement is sanctioned by Court,

exercise his option (to the extent which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his option so as to place the grantee in the same position as nearly as possible as would have been the case had such Shares been subject to such compromise or arrangement.

(q) Lapse of option

The right to exercise an option shall lapse automatically (to the extent not already exercised) on the earliest of:—

- (i) the expiry of the option period;
- (ii) the date on which the grantee commits a breach of (i) above;
- (iii) the expiry of any of the periods referred to in (j) or (k) above;
- (iv) the date on which the offer (or, as the case may be, revised offer) referred to in (n) above closes;
- (v) subject to (o) above, the date of commencement of the winding-up of our Company;
- (vi) subject to the proposed compromise or arrangement becoming effective, the expiry of the period referred to in (p) above;
- (vii) the date on which the grantee (or the beneficial owner of the grantee in the event that the option is granted to a company wholly-owned by a Participant) ceasing to be an Employee by reason of (l) above; or
- (viii) the date on which our Directors shall at their absolute discretion determine that the grantee (other than an Employee) or his associate has committed any breach of contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally.

(r) Ranking of Shares

The Shares to be issued and allotted upon the exercise of an option will be subject to all provisions of the Articles of Association and the Companies Law for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue as from the day when the name of the grantee is registered on the register of members of our Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the grantee is registered on the register of members of our Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the grantee is registered on the register of members of our Company.

Unless the context otherwise requires, reference to “**Shares**” in this paragraph include shares in the share capital of our Company of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of such shares from time to time of forming part of the ordinary equity share capital of our Company.

(s) Duration of the Post-IPO Share Option Scheme

Our Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Post-IPO Share Option Scheme and in such event no further options shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the options (to the extent not already exercised) granted prior to such termination or otherwise as may be required in accordance with the provision of the Post-IPO Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

Subject to the aforesaid, the Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the Post-IPO Share Option Scheme becomes effective, after which period no further options shall be granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect in to the extent necessary to give effect to the exercise of the options granted prior thereto.

(t) Alterations to the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme may be altered from time to time in any respect to the extent allowed by the Listing Rules by a resolution of the Board except that alterations to the provisions of the Post-IPO Share Option Scheme relating to:–

- (i) matters set out in Rule 17.03 of the Listing Rules which are to the advantage of grantees or prospective grantees;
- (ii) the terms and conditions of the Post-IPO Share Option Scheme which are of a material nature or the terms of the options granted (except where such alterations take effect automatically under the existing terms of the Post-IPO Share Option Scheme); and
- (iii) the authority of the Board in relation to any alteration to the terms of the Post-IPO Share Option Scheme,

must be approved by the Shareholders in general meeting (with all grantees, prospective grantees and their associates abstaining from voting and the votes taken by poll). The amended terms of the Post-IPO Share Option Scheme or the options shall comply with the requirements of Chapter 17 of the Listing Rules (subject to such waiver as may be granted by the Stock Exchange from time to time).

(u) Cancellation of options granted

Any cancellation of options granted but not exercised shall require approval of the Board. Where any option is cancelled and new options are to be issued to the same Participant, the issue of such new options may only be made under the Post-IPO Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by Shareholders as set out in (e) above.

(v) Performance target

There is no performance targets which must be achieved before an option can be exercised under the terms of the Post-IPO Share Option Scheme. However, the Board may offer to grant any options subject to such terms and conditions as the Board may determine in its absolute discretion.

(w) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Post-IPO Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, exercise period, interest rate, expected volatility and other variables. As no option has been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to the investors.

(x) Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is conditional upon:–

- (1) the passing of the necessary resolution by way of the Shareholder(s), written resolutions to approve and adopt the Post-IPO Share Option Scheme, and to authorise the Board to grant the options thereunder and to allot, issue and deal with the Shares which fall to be issued by our Company pursuant to the exercise of the options under the Share Option Scheme;
- (2) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, and including any Shares to be issued pursuant to the exercise of options under the Post-IPO Share Option Scheme;

- (3) the obligations of the Underwriters under the Underwriting Agreements having become unconditional (including, if relevant, following the waiver of any condition(s)) and the Underwriting Agreement not being terminated in accordance with the terms therein or otherwise; and
- (4) the commencement of trading in Shares on the Stock Exchange.

2. Present status of the Post-IPO Share Option Scheme

No options have been granted or agreed to be granted by our Company under the Post-IPO Share Option Scheme as of the Latest Practicable Date.

An application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, 58,578,100 Shares which may fall to be issued pursuant to the exercise of options under the Post-IPO Share Option Scheme.

E. PRE-IPO SHARE OPTION SCHEME

On 4 August 2011, CALH adopted a share option scheme. On 7 October 2011, the board committee of CALH approved additional terms and conditions to the share option scheme.

As a result of the Reorganisation on 23 June 2014 and pursuant to the written board resolutions of our Company passed on 23 June 2014, the entire assets and undertakings of CALH under its share option scheme have been taken over by the Company.

Purpose and terms

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors, management, employees, shareholders and consultants of our Group to the growth of our Group and/or to the Listing of the Shares on the Stock Exchange by granting options to them as incentive or reward. The principal terms of the Pre-IPO Share Option Scheme and the offer letters in respect of the grant of the options are substantially the same as the terms of the Post-IPO Share Option Scheme except that:—

- (a) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme to a total of 25 grantees on 7 October 2011, 10 October 2011 and 30 December 2011 is 45,000,000 Shares (representing 15% of the then issued share capital of CALH at the time of grant and 9.60% of the then issued share capital of the Company at the time of the scheme being taken over by the Company under the Reorganisation), representing approximately 7.8% of the total issued share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme);
- (b) out of the 45,000,000 Shares for subscription under the Pre-IPO Share Option Scheme, 30,000,000 Shares have been allocated under Tranche A (the “**Tranche A Options**”) and the remaining 15,000,000 Shares have been allocated under Tranche B (the “**Tranche B Options**”);
- (c) save for the options which have been granted on 7 October 2011, 10 October 2011 and 30 December 2011, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;

- (d) all options granted under the Pre-IPO Share Option Scheme are subject to the following performance targets:–
- (i) 30% of all options granted under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 13,500,000 Shares) shall become exercisable, only if the audited net profits (excluding non-operating profits) of the Group is at least HK\$100,000,000 in the financial year ended 31 December 2012 or 31 December 2013;
 - (ii) 60% of all options granted under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 27,000,000 Shares) shall become exercisable, only if the audited net profits (excluding non-operating profits) of the Group is at least HK\$150,000,000 in the financial year ended 31 December 2012 or 31 December 2013; and
 - (iii) 100% of all options granted under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 45,000,000 Shares) shall become exercisable, only if the audited net profits (excluding non-operating profits) of the Group is at least HK\$200,000,000 in the financial year ended 31 December 2012 or 31 December 2013;

All options granted under the Pre-IPO Share Option Scheme that does not become exercisable as a result of non-fulfilment of the above performance targets shall be surrendered.

- (e) the Tranche A Options shall, subject to the fulfilment of performance targets as described in paragraph (d) immediately above, become exercisable in accordance with the time and the holders of such options remain as full time employees and consultants of the Group as described below:–
- (i) 33% of the Tranche A Options (i.e. options to subscribe for a maximum of 9,900,000 Shares) shall become exercisable on the publication date of the first audited financial results of the Group after the Listing (the “**1st Publication Date**”), and the exercise period in respect thereof shall commence on the 1st Publication Date and end on the third anniversary of the 1st Publication Date (the “**Expiration Date**”);
 - (ii) 33% of the Tranche A Options (i.e. options to subscribe for a maximum of 9,900,000 Shares) shall become exercisable on and from the first anniversary date of the 1st Publication Date and expires on the Expiration Date; and
 - (iii) 34% of the Tranche A Options (i.e. options to subscribe for a maximum of 10,200,000 Shares) shall become exercisable on and from the second anniversary date of the 1st Publication Date and expires on the Expiration Date;
- (f) the Tranche A Options granted to Equal Honour Holdings Limited, a company incorporated in the BVI and wholly-owned by Mr. POON under the Pre-IPO Share Option Scheme shall, subject to the fulfilment of performance targets as described in paragraph (d) above, become exercisable in accordance with the time and Mr. Poon remains as the sole ultimate shareholder of Equal Honour Holdings Limited;

- (g) the Tranche A Options granted to Wealth Amass Limited, company incorporated in the BVI and wholly-owned by Mr. Yang Jianjun under the Pre-IPO Share Option Scheme shall, subject to the fulfilment of performance targets as described in paragraph (d) above, become exercisable in accordance with the time and Wealth Amass Limited remains as consultant of the Group as described below:–
- (i) upon Mr. Yang Jianjun, being consultant made available to the Group by Wealth Amass Limited, being recognised by the investment committee of CALH (the “IC”) as the lead originator of at least 8 aircraft for the Group by 31 December 2013 which are subsequently approved by the IC, option(s) in respect of 50% of the total number of Shares to be issued pursuant to the exercise of the options granted to Wealth Amass Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 5,000,000 Shares) shall become exercisable;
 - (ii) upon Mr. Yang Jianjun, being consultant made available to the Group by Wealth Amass Limited, being recognised by the IC as the lead originator of at least 16 aircraft for the Group by 31 December 2013 which are subsequently approved by the IC, option(s) in respect of 100% of the total number of Shares to be issued pursuant to the exercise of the options granted to Wealth Amass Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 10,000,000 Shares) shall become exercisable;
 - (iii) the source of the aircraft originated by Mr. Yang Jianjun should be different from those sourced by other option grantees; and
 - (iv) Mr. Yang Jianjun remains as the ultimate sole shareholder of Wealth Amass Limited upon exercise of the options;
- (h) the Tranche A Options granted to an employee to subscribe for 100,000 Shares under the Pre-IPO Share Option Scheme shall, subject to the fulfilment of performance targets as described in paragraph (d) above, become exercisable in accordance with the time and that employee remains as full-time employee of the Group and has assisted in the completion of three transactions for the Group;
- (i) the Tranche A Options granted to a senior management to subscribe for 400,000 Shares under the Pre-IPO Share Option Scheme shall, subject to the fulfilment of performance targets as described in paragraph (d) above, become exercisable in accordance with the time and that senior management remains as full-time employee of the Group as described below:–
- (i) options in respect of 50% of the total number of Shares to be issued pursuant to the exercise of options granted to the senior management under the Pre-IPO Share Option Scheme (i.e. options to subscribed for an aggregate of 200,000 Shares) shall become exercisable without conditions in recognition of the senior management’s past performance; and

- (ii) upon successful approval has been obtained by the Company in its listing application by 31 December 2012, option(s) in respect of the remaining 50% of the total number of Shares to be issued pursuant to the exercise of the options granted to the senior management under the Pre-IPO Share Option Scheme (i.e. options to subscribe for an aggregate of 200,000 Shares) shall become exercisable;
- (j) the Tranche B Options granted to Loft Profit Limited, a company incorporated in the BVI and wholly-owned by Mr. Wei Tinghui under the Pre-IPO Share Option Scheme shall, subject to the fulfilment of performance targets as described in paragraph (d) above, become exercisable in accordance with the time and Mr. Wei being made available to our Group by Loft Profit Limited remains as consultant of the Group as described below:–
 - (i) upon successful origination of at least 5 aircraft for the Group by 31 December 2012, option(s) in respect of 50% of the total number of Shares to be issued pursuant to the exercise of the options granted to Loft Profit Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 2,500,000 Shares) shall become exercisable; and
 - (ii) upon successful origination of at least 10 aircraft for the Group by 31 December 2012, option(s) in respect of 100% of the total number of Shares to be issued pursuant to the exercise of the options granted to Loft Profit Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 5,000,000 Shares) shall become exercisable;
- (k) the Tranche B Options granted to Smart Vintage Investments Limited, a company incorporated in the BVI and wholly-owned by Ms. Liu Wanting under the Pre-IPO Share Option Scheme shall, subject to the fulfilment of performance targets as described in (d) above, become exercisable in accordance with the time and Ms. Liu remains as employee of the Group as described below:–
 - (i) options in respect of 25% of the total number of Shares to be issued pursuant to the exercise of options granted to Smart Vintage Investments Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribed for a maximum of 2,500,0000 Shares) shall become exercisable without conditions in recognition of Ms. Liu's past performance;
 - (ii) upon successful origination or arrangement of financing for at least 5 aircraft for the Group by 31 December 2012, option(s) in respect of 25% of the total number of Shares to be issued pursuant to the exercise of the options granted to Smart Vintage Investments Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 2,500,000 Shares) shall become exercisable;
 - (iii) upon successful origination or arrangement of financing of at least 10 aircraft for the Group by 31 December 2012, option(s) in respect of 25% of the total number of Shares to be issued pursuant to the exercise of the options granted to Smart Vintage Investments Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 2,500,000 Shares) shall become exercisable; and

- (iv) upon successful origination or arrangement of financing of at least 11 aircraft for the Group by 30 June 2013, option(s) in respect of the remaining 25% of the total number of Shares to be issued pursuant to the exercise of the options granted to Smart Vintage Investments Limited under the Pre-IPO Share Option Scheme (i.e. options to subscribe for a maximum of 2,500,000 Shares) shall become exercisable;
- (l) the exercise price for the subscription of Shares under the Pre-IPO Share Option Scheme shall be calculated from a base price of US\$0.121 each as adjusted by a required time value cost of 10% per annum as follows:–
 - (i) US\$0.133 per option, for those options exercised before 30 June 2013;
 - (ii) US\$0.146 per option, for those options exercised before 1 July 2013 to 30 June 2014; and
 - (iii) US\$0.161 per option, for those options exercised before 1 July 2014 to 30 June 2015;
- (m) our Board may at its discretion grant option(s) under the Pre-IPO Share Option Scheme to:–
 - (i) any full-time employee of any member of the Group;
 - (ii) any member of an approved committee of the Group (whether full-time or part-time, including any executive directors by not any non-executive directors of any member of the Group);
 - (iii) a direct or indirect shareholder of any member of the Group;
 - (iv) any person for the time being seconded to work full-time or part-time for any member of the Group;
 - (v) any customer, consultant, advisor, business or joint venture partner, contractor, agent of any member of the Group;
 - (vi) a person or entity that provides research, development or other support or any advisory, consultancy, professional or other services to any member of the Group;
 - (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to any member of the Group; or
 - (viii) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, shareholder, adviser of or contractor to any member of the Group; and
- (n) each of the Grantees is required to pay US\$1.00 on acceptance of the options granted under the Pre-IPO Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in, 42,030,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

Outstanding options under the Pre-IPO Share Option Scheme

As at the date of this prospectus, options to subscribe for an aggregate of 45,000,000 Shares (representing approximately 7.68% of the total issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme) have been granted under the Pre-IPO Share Option Scheme, of which no options have been exercised. All the options under the Pre-IPO Share Option Scheme were granted on 7 October 2011, 10 October 2011 and 30 December 2011 and no further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date. Out of the 45,000,000 Shares for subscription under the Pre-IPO Share Option Scheme to a total of 25 grantees, options for the subscription of 270,000 Shares allocated as Tranche A Options to 8 employee grantees have lapsed as a result of cease of employment and 200,000 Shares allocated as Tranche A Options to a senior management and 2,500,000 Shares allocated as Tranche B Options to a consultant have lapsed and became non-exercisable due to non-fulfilment of their respective performance conditions. Hence, only options for subscription of 42,030,000 Shares (representing (i) approximately 7.18% of the total issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme; and (ii) approximately 6.72% of the total issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue and assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time, without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the option which may be granted under the Post-IPO Share Option Scheme) are outstanding, exercisable and not yet exercised as at the date of this prospectus.

Particulars of the outstanding options granted under the Pre-IPO Share Option Scheme as at the date of this prospectus are set out below:–

Name (Note 1)	Capacity or position within our Group	Residential/corporate address of the grantee (Note 1)	Relevant option tranche	Number of underlying Shares to be issued upon full exercise of the Pre-IPO Share options	Percentage of issued share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme)
Substantial Shareholders					
CE Aerospace	Our substantial Shareholder	Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands	Tranche A	2,000,000	0.34%
FPAM	Our substantial Shareholder	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	Tranche A	1,300,000	0.22%
			Sub-total: 2 grantees	3,300,000	0.56%
Connected persons					
Equal Honour Holdings Ltd (Note 2)	Controlled entity of an executive Director	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	Tranche A	15,000,000	2.56%
Smart Vintage Investments Limited (Note 3)	Controlled entity of an executive Director	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	Tranche B	10,000,000	1.71%
			Sub-total: 2 grantees	25,000,000	4.27%
Consultants					
Wealth Amass Limited (Note 4)	Consultant to our Group	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	Tranche A	10,000,000	1.71%
Loft Profit Limited (Note 5)	Consultant to our Group	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	Tranche B	2,500,000	0.43%
			Sub-total: 2 grantees	12,500,000	2.14%

Name (Note 1)	Capacity or position within our Group	Residential/corporate address of the grantee (Note 1)	Relevant option tranche	Number of underlying Shares to be issued upon full exercise of the Pre-IPO Share options	Percentage of issued share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme)
Senior Management					
Mr. Jens Dunker (Note 6)	Managing director of aircraft trading	483 Green Lanes, London N13 4BS United Kingdom	Tranche A	400,000	0.07%
Mr. Duan Xiaoge	Head of technical and asset management	Fei-Tian Garden, Room 10#-4-4, Nan-er-huan 15 Hao, Xi'an. PR. China. 710068	Tranche A	270,000	0.05%
Mr. Tang Yu Ping	Financial controller	Room 503, Block A, Luk Yuen Sun Chuen, Tsuen Wan, New Territories	Tranche A	200,000	0.03%
			Sub-total: 3 grantees	870,000	0.15%
Other grantees who are employees of the Group and have been granted options to subscribe for 100,000 Shares or less each					
Mr. Gao Yan	Director of marketing, deputy general manager	No. 2 Ji Chang Road North, Chao Yang District, Beijing, China	Tranche A	100,000	0.017%
Ms. Zhao Wen	Senior Marketing Manager	Room 1301, Block 10, Hua Teng Yuan, Dong San Huan Road South, Chao Yang District, Beijing, China	Tranche A	100,000	0.017%
Ms. Tian Xiao Chen	Senior Financing Manager	Room 2, 4/F, Block 1, No. 41 Court, Yang Zhuang Road, Tong Zhou District, Beijing, China	Tranche A	68,000	0.012%
Mr. Yu Tao	Personal Assistant	Room 501, Block 17, Tin Tong Yuan Dong San Area, Chang Ping District, Beijing, China	Tranche A	40,000	0.007%
Mr. Xu Wei Yuan	Engineering Manager	Room 203, Nan Jing Yuan, Tao Yuan Road, Nan San District, Shenzhen, China	Tranche A	30,000	0.005%
Ms. Chen Yanyan	Project Assistant	Room 901, No. 1 Lane 1, Bai Hua 2nd Street, Lian Hua Road, Ban Bu Ji Street, Bu Ji Road, Long Guang District, Shenzhen, China	Tranche A	10,000	0.002%
Mr. Wang Fei	Driver	Room 211, Block 5 2nd Door, Ma Lian Road Lane North, Xi Cheng District, Beijing, China	Tranche A	6,000	0.001%

Name (Note 1)	Capacity or position within our Group	Residential/corporate address of the grantee (Note 1)	Relevant option tranche	Number of underlying Shares to be issued upon full exercise of the Pre-IPO Share options	Percentage of issued share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme)
Ms. Zhao Xiaoran	Assistant	Room 204, West Team, Hei Zhuang Hu Xiang Wan Zi Ying, Chao Yang District, Beijing, China	Tranche A	6,000	0.001%
			Sub-total: 8 grantees	360,000	0.06%
			Total: 17 grantees	42,030,000	7.18%

Notes:—

- The English names of Chinese natural persons and their residential addresses are only unofficial English translation for identification purposes only, and in the event of any inconsistency between the Chinese names of the Chinese natural persons and their residential addresses and their English translation, the Chinese names and residential addresses shall prevail.
- Equal Honour Holdings Ltd is a company incorporated in the BVI and wholly-owned by Mr. POON.
- Smart Vintage Investments Limited is a company incorporated in the BVI and wholly-owned by Ms. Liu Wanting.
- Wealth Amass Limited is a company incorporated in the BVI and wholly-owned by Mr. Yang Jianjun. Wealth Amass Limited has made available Mr. Yang to provide consultancy services to our Group which commenced on 1 October 2011. Save as the above, each of Mr. Yang and Wealth Amass Limited is an Independent Third Party not connected with any of the Directors, chief executive officer, senior management, other consultants, substantial shareholders of the Company or any of their respective associates.
- Loft Profit Limited is a company incorporated in the BVI and wholly-owned by Mr. Wei Tinghui. Mr. Wei was made available by Loft Profit Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Wei to provide consultancy services to our Group which commenced on 1 October 2011. Save as the above, each of Mr. Wei and Loft Profit Limited is an Independent Third Party not connected with any of the Directors, chief executive officer, senior management, other consultants, substantial shareholders of the Company or any of their respective associates.
- Pursuant to a secondment agreement entered into between China Aircraft Leasing Limited and Jetline Consulting Ltd. ("Jetline"), a company incorporated in the United Kingdom and wholly-owned by Mr. Jens Dunker, dated 22 June 2011 as amended and supplemented on 1 April 2013, Mr. Jens Dunker was made available by Jetline for secondment to serve the Group as Managing Director of Aircraft Trading which commenced on 20 June 2011.

The shareholding of the Shareholders of our Company and the earnings per Share immediately following the completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised, would be diluted by approximately 7%.

Save as disclosed in the above paragraphs, no other options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Scheme as at the date of the prospectus.

F. OTHER INFORMATION

1. Estate duty, tax and other indemnity

Our Controlling Shareholders (collectively the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of our subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group by virtue of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, as amended from time to time)) to any member of our Group on or before the date on which the Global Offering becomes unconditional. Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands, the BVI and Hong Kong.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to taxation (which includes estate duty) in whatever part of the world which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional, save as to such circumstances including:—

- (a) to the extent that full provision has been made for such taxation in the audited consolidated accounts of our Group for the three years ended 31 December 2013, as set forth in Appendix I to this prospectus;
- (b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Listing Date;
- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of our Group which is/are carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date; or
- (d) to the extent of any provisions or reserve made for taxation in the audited accounts of any member of our Group for the Track Record Period which is finally established to be an over-provision or an excessive reserve.

2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance and, so far as our Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened by or against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf our Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme).

4. Preliminary expenses

The preliminary expenses in relation to the incorporation of our Company in the Cayman Islands were approximately HK\$56,487.12 and were paid by our Group.

5. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, no cash, securities or other benefits has been paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years preceding the date of this prospectus.

6. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:–

Name	Qualifications
China Everbright Capital	Licensed corporation to conduct Type 1, Type 4, and Type 6 regulated activities under the SFO
CCBI	Licensed corporation to conduct Type 1, Type 4, and Type 6 regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Maples and Calder	Cayman Islands attorneys-at-law
Run Ming Law Office	Qualified PRC lawyers
Ascend	Industry consultants

8. Consents of experts

Each of China Everbright Capital, CCBI, PricewaterhouseCoopers, Maples and Calder, Run Ming Law Office and Ascend has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which it is respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:–
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
 - (vi) our Group has no outstanding convertible debt securities or debentures.
- (b) No member of our Group is presently listed on any stock exchange or traded on any trading system.
- (c) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into the CCASS for clearing and settlement.
- (e) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2013 (being the date to which the latest audited combined financial statements of our Group were made up).
- (f) There is no arrangement under which future dividends are waived or agreed to be waived.

12. Particulars of the Selling Shareholder

The Selling Shareholder of the Sale Shares is FPAM. FPAM is a limited liability company incorporated in the BVI on 24 May 2000 with its registered office located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. FPAM is one of our Controlling Shareholders. FPAM is owned as to 0.000001% by Ms. NG and 99.999999% by Capella which is ultimately owned as to 90% by Mr. POON and 10% by Ms. NG. Accordingly, Mr. POON is deemed to be interested in all the 181,254,589 Shares held by FPAM as at the Latest Practicable Date.

Save as disclosed herein, none of the Directors are interested in the Sale Shares.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW**, and **GREEN** Application Forms, the written consents referred to in the paragraph headed “F. Other Information – 8. Consents of experts” in Appendix IV to this prospectus, a statement of particulars of the Selling Shareholder and copies of the material contracts referred to in the paragraph headed “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of K&L Gates at 44th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:–

- (1) the Memorandum of Association and the Articles of Association;
- (2) the accountant’s report of our Group from PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus;
- (3) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this prospectus;
- (4) the letter prepared by Maples and Calder summarising certain aspects of the Cayman Islands law referred to in Appendix III to this prospectus;
- (5) the Companies Law;
- (6) the material contracts referred to in the paragraph headed “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (7) the service agreements referred to in the paragraph headed “C. Further Information about Directors, Substantial Shareholders and Experts – 3. Particulars of Directors’ service contracts” in Appendix IV to this prospectus;
- (8) the rules of the Pre-IPO Share Option Scheme;
- (9) the rules of the Post-IPO Share Option Scheme;
- (10) the written consents referred to in the paragraph headed “F. Other Information – 8. Consents of experts” in Appendix IV to this prospectus;
- (11) the legal opinions prepared by Run Ming Law Office, our legal advisers as to the PRC law, in respect of certain aspects of our Group and our property interests in China; and
- (12) the statement of particulars of the Selling Shareholder, including its name, address and description.

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China Aircraft Leasing Group Holdings Limited