Vision to Reality

Annual Report 2017

CALC

China Aircraft Leasing Group Holdings Limited

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

Stock code : 01848

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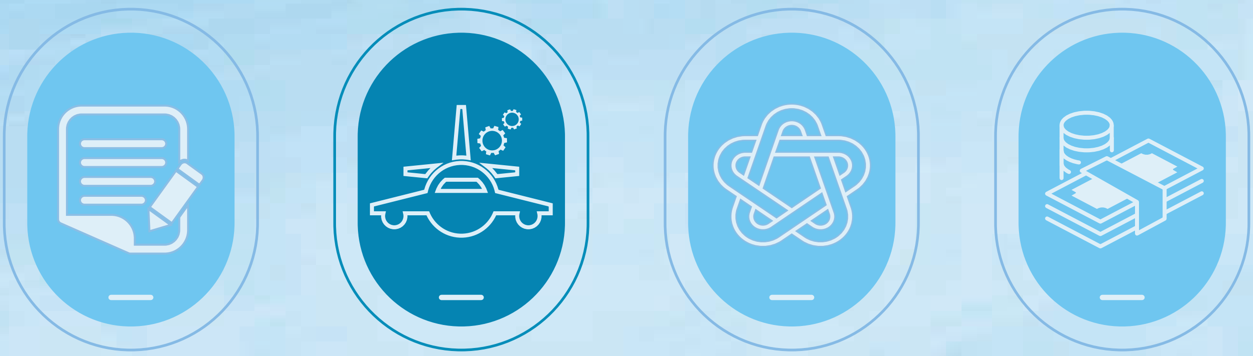
KEY FACTS ABOUT CALC

CALC: A FULL VALUE-CHAIN AIRCRAFT SOLUTIONS PROVIDER

CALC is a full value-chain aircraft solutions provider with a unique operating and revenue model. While others primarily derive their revenues from the leasing and financing of aircraft and earn the spread between their funding costs and leasing yields, we go beyond the traditional business model of purchasing and leasing aircraft by offering our services at every stage of the asset life cycle and capturing the asset value of an aircraft fleet by proactively managing aircraft assets, including their residual value.



Aircraft Procurement | Aircraft Leasing | Bundled Package Solutions | Purchase and Leaseback

VISION

To become a top-tier aircraft solutions provider with a global presence

MISSION

To be a full value-chain aircraft solutions provider, utilizing our expertise to provide innovative, value-added aircraft asset management services for aviation industry worldwide

Aircraft Trading

Aircraft Recycling

Components Trading

Aircraft Financing

KEY FACTS ABOUT CALC

Established in 2006

Headquartered in Hong Kong

>160 employees in 11 branches

27 airlines clients in 13 markets worldwide

Total Assets: HK$38b

Fleet

- 107 aircraft fleet as at 31 December 2017
- As at 23 March 2018:
  - Fleet size: 111 aircraft
  - 193 aircraft on backlog: 143 Airbus + 50 Boeing
  - 20 COMAC C919 as launch customer
  - 300+ aircraft (*owned and managed) by 2023 based on firmed order
  - Average fleet age: 3.7 years
  - Average remaining lease term: 8.4 years

Recognitions

Aircraft Lessor of the Year 2015-2017, *Global Transport Finance*

APAC Lessor of the Year 2017, *Airline Economics*

Top 10 global lessor, *ICF International*, based on the combined asset value of fleet and order book

Stock Code: 1848.HK

CALC

- Constituent Stock:
  - Hang Seng Global Composite Index
  - Hang Seng Composite Index
  - MSCI China Small Cap index
- Eligible stock of Shenzhen-Hong Kong Stock Connect

IR Awards

- Asia's Best CEO (Investor Relations) & Best Investor Relations Company, *Corporate Governance Asia*
- Asia Best IR during a corporate transaction (Greater China, 2017), *IR Magazine*
- Listed Enterprises of the Year 2017, *Bloomberg Businessweek (Chinese Edition)*
- Listed Company Excellence Awards 2017, *Hong Kong Economic Journal*

First Mover

- 1st aircraft operating lessor in China
- 1st listed aircraft lessor in Asia
- 1st aircraft recycling facility operator in Asia
- 1st aircraft full life-cycle solutions provider in Asia

Innovative Aircraft Financing Solutions in China

- 1st aircraft rental realization
- 1st listed foreign currency ABS
- 1st listed aircraft leasing ABS

HIGHLIGHTS OF THE YEAR 2017

FLEET EXPANSION

15 June – First Direct Order with Boeing

Sealed purchase agreement with Boeing for 50 new 737 MAX series aircraft, including 15 737 MAX 10, making CALC one of the launch customers of this latest version of jetliner.

4 December – Delivery of 100th aircraft

Celebrated CALC's 100th aircraft delivery with the debut delivery of an Airbus A320neo passenger jet to Indigo Partners' Frontier Airlines, a US carrier.

28 December 2017 & 4 January 2018 – Added 65 A320neo to CALC's order book

Ordered 65 A320 series aircraft with Airbus, among which the purchase order for 50 was signed in December 2017 and the other order for the 15 subsequently in January 2018.

VALUE CHAIN EXTENSION

20 March – Acquisition of UAM

Aircraft Recycling International Limited ("ARI"), a member company of CALC, acquired a 100% equity interest in Universal Asset Management, Inc. ("UAM"), one of the world's leading global aviation services providers based in USA.

29 December – Completion of First Aircraft Engine Purchase and Leaseback Transaction

ARI purchased four brand new CFM56-7B26 engines directly from CFM International, Inc. One engine transferred to an airline customer in December 2017 and the other three subsequently in January 2018.

HIGHLIGHTS OF THE YEAR 2017

INDUSTRY DEVELOPMENT

1 November – Launch of Hong Kong Aircraft Leasing and Aviation Finance Association

Established in June 2017, inaugural ceremony of the Association was held on 1 November officiated by the Hon Mrs Carrie Lam Cheng Yuet-ngor, the Chief Executive Hong Kong SAR. To support industry development, CALC's Chairman Chen Shuang serves as the first Chairman and CEO Mike Poon as Founding Chief Advisor.

BUSINESS TRANSFORMATION

29 December – Announcement of the Set Up of CAG

CALC proposed to establish an aircraft investment vehicle with mezzanine tranche financiers, for investing in a portfolio of lease-attached aircraft. The Circular containing relevant information had been dispatched and the establishment of the Vehicle had been approved by shareholders at an EGM held on 18 January 2018.

FINANCING ADVANCEMENT

1 March – Issuance of US$500 Million Senior Unsecured Bond

Issued US$500 million senior unsecured bond, consisting of 5-year US$300 million and 7-year US$200 million bonds which bear an interest rate of 4.7% and 5.5% respectively.

1 November – Closing of First Unsecured Syndicated Loan

Closed first unsecured syndicated loan for Pre-Delivery Payments ("PDP") for aircraft acquiring. Launched at US$175 million, the loan closed at US$425 million after receiving an overwhelming market response.

4 December – Establishment of First Senior Unsecured US$ Medium-Term Note (MTN) Programme

Set up a US$3 billion MTN programme, to simplify notes issuance process and lower financing costs through standardizing procedures in the future.

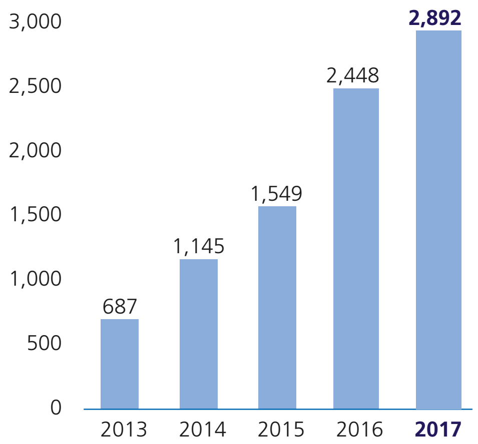
27 December – Launch of China's First Foreign Currency Asset-Backed Security (ABS)

Debuted China's asset securitization product denominated and settled in foreign currency – also the first ABS in aircraft leasing in the open market. It was successfully listed on the Shanghai Stock Exchange on 30 January 2018.

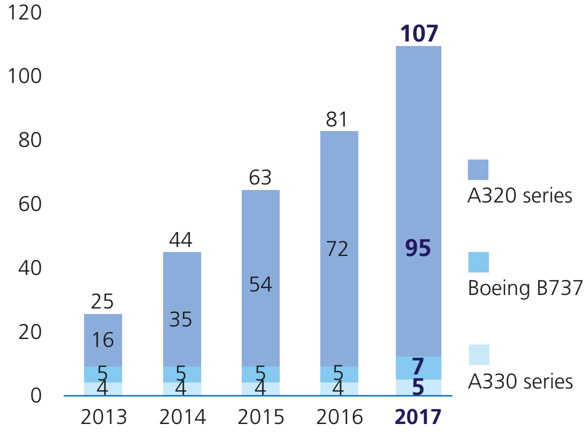
FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

REVENUE AND OTHER INCOME

(HK$ million)

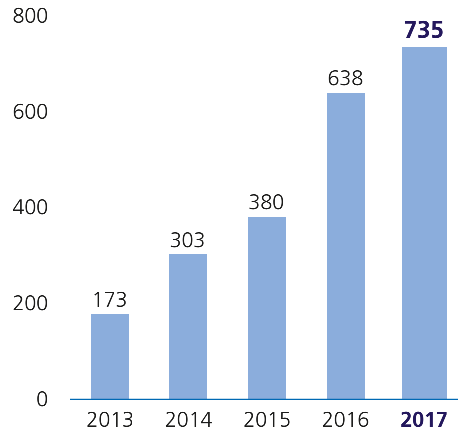


AIRCRAFT DELIVERED

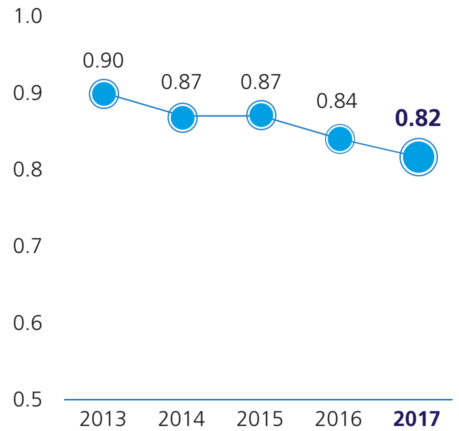


PROFIT FOR THE YEAR

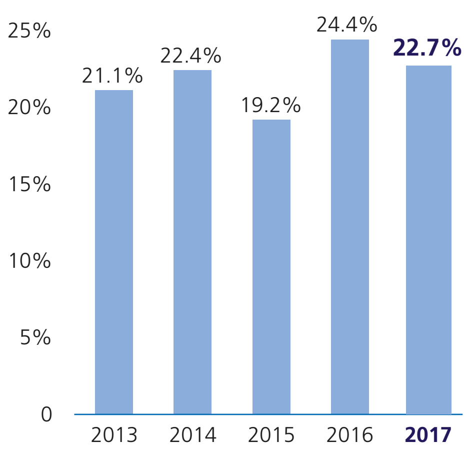
(HK$ million)



GEARING

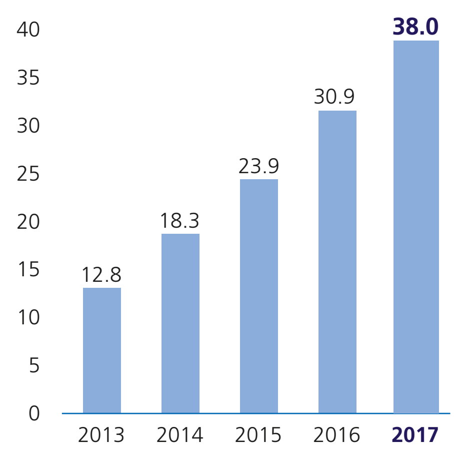


RETURN ON EQUITY



TOTAL ASSETS

(HK$ billion)



CONSOLIDATED RESULTS

	Year ended 31 December				
	2013 HK$'m	2014 HK$'m	2015 HK$'m	2016 HK$'m	**2017** **HK$'m**
Revenue and other income	687	1,145	1,549	2,448	**2,892**
Profit for the year	173	303	380	638	**735**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2013 HK$'m	2014 HK$'m	2015 HK$'m	2016 HK$'m	**2017** **HK$'m**
ASSETS					
Property, plant and equipment	1,487	1,707	2,413	6,214	**13,059**
Interests in and loans to an associate	–	–	–	444	**870**
Finance lease receivables – net	7,679	11,443	16,473	15,031	**12,556**
Derivative financial assets	14	15	19	131	**91**
Prepayments and other receivables	2,183	3,503	3,444	3,063	**4,022**
Cash and bank balances	1,470	1,645	1,598	6,017	**7,396**
Total assets	12,833	18,313	23,947	30,900	**37,994**
LIABILITIES					
Total borrowings	11,592	15,985	20,767	25,826	**31,278**
Other liabilities	283	547	972	2,031	**3,289**
Total liabilities	11,875	16,532	21,739	27,857	**34,567**
Net assets	958	1,781	2,208	3,043	**3,427**

Per-Share-Basis	2013	2014	2015	2016	**2017**
Basic earnings per share (HK cents)	37.6	57.7	63.6	100.9	**108.8**
Net asset value per share (HK$) (Note 1)	2.1	3.0	3.6	4.5	**5.1**

Financial Ratios	2013	2014	2015	2016	**2017**
Gearing ratio (borrowings vs total assets)	90.3%	87.3%	86.7%	83.6%	**82.3%**
Return on average shareholders' equity	21.1%	22.4%	19.2%	24.4%	**22.7%**
Interest coverage (Note 2)	180.1%	186.8%	175.8%	202.6%	**207.9%**

Note:

(1) Per-share-basis calculation is based on the number of shares as at 31 December; The number of shares as at 31 December 2014 is adjusted to Post-IPO's number of shares of 586 million.

(2) Interest Coverage = EBITDA/Interest expense

CHAIRMAN'S STATEMENT

MR. CHEN SHUANG, *JP*
Chairman of the Board

On behalf of China Aircraft Leasing Group Holdings Limited ("**CALC**" or the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the Group's 2017 consolidated results for the year ended 31 December 2017.

PERFORMANCE AND DIVIDENDS

Year 2017 was a challenging yet fruitful one for CALC. In pursuit of CALC's strategic vision, the Group undertook a series of business transformation initiatives that involved ecosystem innovation for aircraft solutions. Despite the transition, CALC achieved strong performance. It was listed by renowned aviation consulting firm ICF International as one of the top 10 global aircraft lessors, based on the combined asset value of its fleet and order book.

During the year, total lease income and other income of the Group reached HK$2,891.6 million, representing a year-on-year increase of 18.1%. Consolidated net profit grew by 15.1% year-on-year, amounting to HK$734.7 million. Earnings per share were HK$1.088 (2016: HK$1.009).

The Board recommends the payment of a final dividend of HK$0.42 (2016: HK$0.39) per share to those shareholders whose names appear on the register of members of the Company on 17 May 2018. Together with the interim dividend of HK$0.18 (2016: HK$0.14) per share paid in September 2017, full year dividend amount to HK$0.60 per share for 2017 (2016: HK$0.53), with dividend payout ratio standing at 55.1% (2016: 52.5%).

DEVELOPING INTO A GLOBAL AIRCRAFT SOLUTIONS PROVIDER

This impressive performance did not come easily, especially at a time when CALC was undergoing a period of transition in its efforts to strive for long-term sustainable growth. The past year saw CALC embark on a new phase of corporate development with the objective of adopting an asset-light approach in this traditionally capital-intensive industry. In an incredibly vibrant aviation landscape, we believe this innovative business model, by advancing capital efficiency, provides the optimal approach for CALC to evolve ahead of the market, achieve sustainability and thrive.

The asset-light strategy echoes the Group's unwavering commitment to providing full value chain aircraft solutions to airlines worldwide. Value creation through active asset management is an evolutionary development in the aircraft leasing industry. CALC's enlarged aircraft portfolio under the asset-light model, its extensive network of worldwide aviation partners and established asset management capabilities, further strengthened after the ARI-UAM acquisition, will allow the Group to carry out its unified vision to become the first mover, as one of the operators that can truly be a full life cycle solutions provider to the airline industry worldwide.

Our vision to develop into a full value chain aircraft solutions provider could not be realised without our ongoing globalisation initiatives. We are very proud to have extended our footprint in Asia-Pacific, the Middle East, Europe, North America and Latin America in less than three years. Such established global presence provides a solid foundation for CALC's efficient deployment of aircraft solutions.

OUTLOOK

Looking ahead, the macro fundamentals of the global aviation industry remain broadly intact, supporting a rosy outlook as emerging countries in the Asia-Pacific region continue to run full steam ahead. While riding on this encouraging context, we shall nevertheless stay vigilant as we move forward on our strategic journey. I feel very excited about CALC's growth potential as it leverages its unique position in the industry as a full value chain aircraft solutions provider.

Nurturing a favourable policy environment for industry development

CALC is an avid supporter of Hong Kong's initiative in developing into an aircraft leasing and aviation finance centre. We are extremely pleased that in June 2017, the city's Legislative Council enacted a dedicated tax regime reducing the profits tax liability of qualifying aircraft lessors and aircraft leasing managers. This is a highly visionary and pragmatic first move. As one of the few lessors established and headquartered in Hong Kong, CALC is set to benefit from these concessionary tax incentives. The Group delivered one aircraft through the Hong Kong platform in 2017. In addition, it is planning another delivery scheduled for 2018, which is set to enjoy the new tax regime. This is but one of many deals in active discussion with the aim of leasing more aircraft through Hong Kong.

Moreover, CALC has worked with the industry to establish the Hong Kong Aircraft Leasing and Aviation Finance Association. The association, which gathers together all key international and local players, was set up in June 2017, with CALC a founding member. I am honoured to serve as Chairman of the association; Mr Mike Poon, CEO of CALC, acts as Founding Chief Advisor. Together with the whole community, we will strive to promote Hong Kong in the global arena of aircraft leasing by leveraging its sophisticated financing platform with ample liquidity, well-established legal and accounting systems and outstanding living infrastructure. Backed by the high-growth Asian market, we have no doubt that the global center of gravity for aircraft leasing will shift to the region.

In the meantime, CALC has been in close talks with free-trade zones in China to communicate the needs of the aircraft leasing community to the government. In particular, we have exchanged thoughts on how to nurture a favourable policy environment for lessors from both home and abroad. The aim is to unify the efforts of other market players in strengthening China's aircraft leasing platform, ultimately yielding better economic benefits locally. On this front, I believe that Hong Kong, as a major gateway into China, can capitalise on its geographic advantage to complement the domestic free-trade zones, so that together they can forge an integrated aircraft leasing platform that is competitive globally.

Grasping opportunities created by the One Belt One Road Initiative

China is actively spearheading the One Belt One Road ("**OBOR**") Initiative, aimed at strengthening economic capacity and connectivity among over 60 nations across the globe. This ambitious and far-reaching programme will create huge amounts of new passenger and cargo traffic, hence the aviation industry is set to play an increasingly larger role. Meanwhile, with the C919, China's first home-made large passenger aircraft, having undergone multiple successful tests, and the ARJ21, the first domestic regional aircraft already in commercial operation, Chinese-manufactured aircraft are well poised to take to the global skies.

I am confident that CALC has a big role to play in this visionary blueprint, given its impressive track record of developing itself from China's first operating lessor into an industry pioneer in the global aviation value chain. In particular, leveraging its industry network and expertise, CALC is planning to work with China Everbright Limited to orchestrate an aviation silk road fund. The fund will channel investments in aircraft leasing and recycling in the OBOR area, promote the overseas endeavours of China's home-made aircraft, and ultimately support the development of China's aviation industry.

AWARDS

Recognising its outstanding service offerings and all-round capabilities, CALC has been named "Aircraft Lessor of the Year" three years in a row from 2015 to 2017 by *Global Transport Finance*. This accolade was echoed by *Airline Economics*, which honoured CALC as "APAC Lessor of the Year". For its excellence in corporate governance, CALC received the "Best Investor Relations Company" and "Asia's Best CEO (Investor Relations)" awards from *Corporate Governance Asia*. The Group was also named among the "Listed Enterprises of the Year 2017" by *Bloomberg Businessweek (Chinese Edition)*, and received a "Listed Company Award of Excellence 2017" from the *Hong Kong Economic Journal* in recognition for its robust operating performance.

ACKNOWLEDGMENT

I would like to express my sincere gratitude to my fellow Board members and the management team for their commitment and instrumental input in getting CALC to where it is today. On behalf of the Board, I would also like to extend our greatest appreciation to our staff, the Group's most valuable asset. Finally, allow me to thank our business partners and other stakeholders for their continuing support and trust in CALC.

CHEN SHUANG, *JP*
Chairman of the Board
Hong Kong, 23 March 2018

CEO'S STATEMENT

POON HO MAN
Executive Director and
Chief Executive Officer

VISION TO REALITY

CALC is proud to have delivered its vision of providing full aircraft life-cycle solutions for global airlines in 2017. The Group has transformed from one of the leading aircraft lessors in Asia into an international full value-chain aircraft solutions provider that services new aircraft, used aircraft and aircraft coming to the end of their life, thanks to its successful global business strategy and the continued extension of its aviation value chain.

To further support CALC's sustainable growth, a lot of groundwork was done, throughout the year towards the goal of adopting an asset-light business model. The new business model paves the way for the Group to turn over its capital more efficiently, which in turn will enable CALC, as an asset manager, to scale up aircraft assets under management with greater flexibility going forward.

YEAR 2017 IN REVIEW

Despite its transition into an asset-light approach from the industry's traditional capital-intensive practice, CALC continued to deliver strong results in 2017 with its sharpened fundamentals:

(1) Expanded fleet

In 2017, the Group augmented its fleet with a total of 26 aircraft, the largest annual recorded expansion in CALC's history. The move increased its fleet to 107 aircraft as of 31 December 2017. The expanded fleet is supported by myriad sourcing channels, including new aircraft order book, purchase and leaseback, and portfolio trading. Additionally, CALC has one of the youngest and most modern fleets in the industry with an average age of 3.7 years and average remaining lease of 8.4 years as of 31 December 2017.

We are especially proud of having taken delivery of a record-high nine aircraft in the single month of December 2017, an eloquent testimony to CALC's strengths: efficiency, effectiveness and capacity. CALC celebrated its 100th aircraft delivery with the debut delivery of an Airbus A320neo passenger jet in December 2017, a milestone highlighting CALC's dedication to providing reliable and flexible services for its airline clients.

(2) Stronger order book

The Group also significantly built up its order book in 2017, a key asset that supports CALC's future delivery pipeline. In June 2017, CALC made its first purchase order with The Boeing Company ("**Boeing**") for 50 new 737 MAX series aircraft, scheduled for delivery in stages up to 2023. This order includes 15 of the 737 MAX 10 model, making CALC one of the launch customers of this latest edition of Boeing's 737 jetliner. CALC further augmented its future fleet by adding 50 in-demand A320neo jetliners from Airbus S.A.S ("**Airbus**") in December 2017. Together with a pop-up order for three A320 aircraft sealed in April 2017 and another five ordered in December 2017, CALC purchased a total of 108 aircraft during the year. The Group has subsequently added 15 Airbus A320neo to its order book in January 2018, incrementing its aircraft purchase total to 123 within a space of nine months.

As of the reporting date, CALC's current fleet totaled 111 aircraft, with the total backlog for new aircraft reaching 193 aircraft, comprising 143 from Airbus and 50 from Boeing, all due for delivery by 2023. The strong order book is testimony to the robust relationship CALC has built with the OEMs (Original Equipment Manufacturers) since its inception.

(3) Further global reach

As an important part of its global business strategy, CALC continues to expand its presence actively around the world and diversify its clientele. In 2017, CALC made forays into new markets such as Japan, Thailand, Malaysia and Indonesia in the Asia Pacific region, Spain and Russia in Europe, the US in North America as well as Chile in Latin America – remarkable achievements that underscore CALC's globalisation initiative that commenced in 2015.

Out of the 26 deliveries in 2017, 15 (i.e. approximately 58%) were leased to non-mainland carriers, growing CALC's overseas client share to 28% as of 31 December 2017 from approximately 20% at the end of 2016. As of 31 December 2017, our client portfolio included 27 airlines widely spread across 13 countries and regions in Asia Pacific, the Middle East, Europe, North America and Latin America, laying a solid foundation for further strengthened global presence.

CALC also continues to partner with top-tier aviation players as it goes global. In 2017, it initiated partnerships with renowned airline management and investment groups, including IAG and Indigo Partners, further optimising its customer portfolio.

(4) Strengthened financing capability

CALC has continued to put itself at the forefront of financing innovation in the aircraft leasing industry. In 2017, CALC raised a total of US$3,242 million through diversified financing channels, to boost its financing flexibility, fueling its transition into the next phase of development. In March 2017, CALC took advantage of the low interest rate environment – before US interest rate hikes – and issued senior unsecured bonds to the value of US$500 million, consisting of five-year US$300 million and seven-year US$200 million bonds bearing interest rates of 4.7% and 5.5% respectively. Despite the bonds' unsecured nature and longer maturity period, the Group managed to bring down interest costs by reaching out to a diversified investor base beyond the banking community. This issuance has permitted CALC greater freedom and flexibility to capture market opportunities. In October 2017, CALC closed its first unsecured syndicated loan with a 4.5 year maturity. The loans will be used to finance or refinance part of the Pre-Delivery Payments ("**PDP**") to be made for aircraft acquisition. Launched at US$175 million, the loan closed at US$425 million after receiving an overwhelming market response, reflecting the market's growing knowledge and confidence in the aircraft leasing industry. Furthermore, CALC established a US$3 billion senior unsecured medium-term note ("**MTN**") programme, which will further simplify the Group's financing arrangements and lower its financing future costs.

Since introducing the disposal of finance lease receivables into China in 2013, CALC has advanced such products to meet investors' evolving demands. After the successful of lease receivables through private placement disposal for 40 aircraft since 2013, CALC struck a historic breakthrough in December 2017 when it launched China's first listed asset-backed security ("**ABS**") denominated and settled in foreign currency, and the first aircraft lease receivable ABS. This product provides an important investing and hedging tool for domestic investors, enabling CALC to tap into investors' huge appetite for US dollar denominated aircraft finance products with long-term and stable returns. The ABS was listed on the Shanghai Stock Exchange in January 2018, setting a precedent in China's asset securitisation history. By way of both private placement and listed ABS agreements, CALC disposed finance lease receivables for a sum of 21 aircraft in 2017.

(5) Continued extension of aviation value chain

Capitalising on CALC's well founded platform, Aircraft Recycling International Limited ("**ARI**") is on board to a trajectory of encouraging development with its business deployment now well in place. ARI's scope of business includes aircraft and engine trading, leasing, purchase and leaseback, aircraft marketing and asset management, aircraft recycling, disassembly and part out as well as aircraft maintenance.

To strengthen CALC's downstream aviation ecosystem on a global scale, ARI completed in March 2017 the full acquisition of Universal Asset Management, Inc. ("**UAM**"), a global leader in aviation asset management, hi-tech aircraft disassembly and commercial aviation aftermarket solutions. As a full-fledged operator, UAM is of strategic significance to ARI and CALC as both can leverage its professional expertise in asset management, strong track record in aircraft disassembly and extensive distribution network, so as to collectively create a global state-of-the-art life cycle aircraft solutions platform.

The performance of CALC, ARI and UAM's unified team has been inspiring, demonstrating consistent execution of the Group's strategic plan and making CALC the only company that can truly be a full life cycle solutions provider for the airline industry worldwide. We are very positive about the prospects of ARI and the synergy that it will bring to CALC.

Currently, ARI has four mid-life aircraft leased to Sichuan Airlines, one under a joint venture. Additionally, it carried out its first engine purchase and leaseback transaction, involving four brand new CFM56-7B26 engines. The first was delivered in December 2017 while the other three completed delivery successively in 2018. ARI also closed its first aircraft trading deal by selling six old B737-700 aircraft to a US investor, recording a disposal gain.

Meanwhile, UAM witnessed another year of healthy business growth in 2017 thanks to its consistent execution, an efficient go-to-market strategy and robust customer network. Moreover, its strong purchasing capabilities, combined with UAM's ongoing focus on improving efficiencies across the organisation, resulted in enhanced cash flow efficiency. Meanwhile, with financial assistance from ARI, UAM was able to purchase strong aviation assets to augment trading and component support opportunities for its customer base worldwide.

The first phase of construction of ARI's aircraft recycling facility in Harbin has been completed. Once this facility is fully functional, it will significantly enhance the Group's aircraft recycling capabilities to meet strong customer demand for quality aircraft components and services. Along with UAM's existing recycling base in US, the dual platforms will tap into market opportunities in mainland China and throughout America, Europe, Asia and the rest of the world.

(6) Transition into an asset-light business model

Riding on its established prowess in the field of aircraft leasing and financing, CALC announced the establishment of an aircraft investment vehicle in late 2017 as part of its business transformation initiatives for an asset-light oriented business model. The Group is doing so by working with mezzanine financiers, holding interests at a ratio of 20% to 80%, to invest in the portfolio of lease-attached aircraft up to US$1.4 billion. The newly set-up platform, which mainly manages the overseas fleet portfolio, complements the current arrangement of disposals of finance lease receivables which mainly involve leases attached to PRC airlines. To facilitate the set up and to initiate its operations, CALC plans to inject aircraft from its fleet within two years, including 18 aircraft initially in 2018. The Group is looking to set this vehicle in motion in the first half of 2018.

By providing aircraft and lease management services to the aforementioned platform, CALC will strengthen its focus as an aircraft asset manager. The asset-light strategy will increase the aircraft assets under the Group's management without inducing substantial financial burden, thereby enabling CALC to maximise returns on equity by efficient capital turnover.

STRATEGIC OUTLOOK

Since its inception, CALC has continued to evolve ahead of the market. With our entrepreneurial DNA, CALC has refined its value proposition by extending its aviation value chain in anticipation of consolidation within the industry. Our next strategic goal is to create value for the airline industry worldwide through active asset management, using an innovative delivery platform. With an asset-light business model well in place, CALC will continue to press ahead with its vision: to provide value-added aircraft solutions, maximise value in every part of the aircraft value chain for business partners, and reap satisfactory returns for investors and shareholders.

POON HO MAN
Executive Director and
Chief Executive Officer
Hong Kong, 23 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

For the year ended 31 December 2017, the Group delivered 26 aircraft, building its fleet size to 107. Revenue and other income was HK$2,891.6 million in 2017, an increase of HK$443.5 million or 18.1% from HK$2,448.1 million in 2016. Profit for the year in 2017 amounted to HK$734.7 million, an increase of HK$96.3 million or 15.1% compared with HK$638.4 million in 2016. This was mainly due to increased lease income from continued expansion of the Group's aircraft leasing business and increased gain from disposal of finance lease receivables.

Total assets was HK$37,994.3 million as at 31 December 2017, compared with HK$30,900.2 million as at 31 December 2016, an increase of HK$7,094.1 million or 23.0%. The increase in assets was mainly due to the increase in fleet size during 2017. Total liabilities amounted to HK$34,567.2 million, an increment of HK$6,710.4 million or 24.1% compared with HK$27,856.8 million as at 31 December 2016.

The equity attributable to shareholders of the Company was HK$3,427.2 million as at 31 December 2017 compared with HK$3,043.3 million in 2016, an increase of HK$383.9 million or 12.6%.

2. ANALYSIS OF INCOME AND EXPENSES

	Year ended 31 December		
	2017	2016	Change
	HK$'Million	HK$'Million	
Finance lease income	**1,017.5**	1,163.1	-12.5%
Operating lease income	**828.7**	416.1	99.2%
Total lease income	**1,846.2**	1,579.2	16.9%
Gain from disposal of finance lease receivables	**711.2**	562.0	26.5%
Government grants	**204.2**	260.7	-21.7%
Interest income from loans to an associate	**71.4**	18.8	279.8%
Bank interest income	**28.5**	15.4	85.1%
Sundry income	**30.1**	12.0	150.8%
Other income	**1,045.4**	868.9	20.3%
Total revenue and other income	**2,891.6**	2,448.1	18.1%
Total operating expenses	**(1,919.3)**	(1,592.7)	20.5%
Other gains	**42.1**	44.1	-4.5%
Share of loss of an associate	**(2.2)**	(7.4)	-70.3%
Profit before income tax	**1,012.2**	892.1	13.5%
Income tax expenses	**(277.5)**	(253.7)	9.4%
Profit for the year	**734.7**	638.4	15.1%

2.1 Revenue and Other Income

For the year ended 31 December 2017, revenue and other income amounted to HK$2,891.6 million compared with HK$2,448.1 million in 2016, an increase of HK$443.5 million or 18.1%. This was mainly due to an increase in lease income and the gain from disposal of finance lease receivables.

Lease income from finance leases and operating leases for the year totalled HK$1,846.2 million, compared with HK$1,579.2 million in 2016, an increase of HK$267.0 million or 16.9%. The decrease in finance lease income was due to disposal of finance lease receivables for 21 aircraft during 2017. The growth in operating lease income was attributable to the increase in fleet size under operating leases from 18 as at 31 December 2016 to 37 as at 31 December 2017.

The Group recognised a total gain of HK$711.2 million from disposal of finance lease receivables during 2017 (2016: HK$562.0 million), an increase of HK$149.2 million or 26.5%. In 2017, the Group completed disposal of finance lease receivables for 21 aircraft (2016: 14 aircraft). The rise in the number of disposal transactions underlines the market's ever-growing knowledge and confidence of the aircraft leasing industry, as well as the increasing demand for US dollar denominated aircraft finance products with stable return. Such transactions have played an important part in the Group's recurring business and financing strategies.

Government grants for the year amounted to HK$204.2 million, compared with HK$260.7 million in 2016, a decrease of HK$56.5 million or 21.7%.

2.2 Total Operating Expenses

During the year ended 31 December 2017, the Group had the following operating expenses.

	Year ended 31 December		
	2017	2016	Change
	HK$'Million	HK$'Million	
Interest expenses	**1,241.0**	1,029.3	20.6%
Depreciation	**327.1**	164.0	99.5%
Other operating expenses	**351.2**	399.4	-12.1%
Total operating expenses	**1,919.3**	1,592.7	20.5%

(a) *Interest Expenses*

For the year ended 31 December 2017, interest expenses incurred by the Group amounted to HK$1,241.0 million compared with HK$1,029.3 million in 2016, an increase of HK$211.7 million or 20.6%. The increase was mainly due to increase of interest-bearing borrowings to finance the new additions of aircraft in 2017 to cope with the business expansion.

(b) *Depreciation*

Depreciation on the Group's aircraft under operating leases, leasehold improvements, office equipment and other assets for the year ended 31 December 2017 was HK$327.1 million compared with HK$164.0 million in 2016, an increase of HK$163.1 million or 99.5%. This was attributable to increase in number of aircraft under operating leases.

MANAGEMENT DISCUSSION AND ANALYSIS

(c) Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, and rentals and office administration expenses.

2.3 Other Gains

Other gains mainly represented fair value changes from interest rate and currency swaps; and currency exchange differences. Total gains of HK$58.7 million were recognised from termination of interest rate swaps for the year ended 31 December 2017 (2016: HK$12.1 million).

2.4 Income Tax Expenses

Income tax for the year ended 31 December 2017 was HK$277.5 million (2016: HK$253.7 million), resulting mainly from the increased profits achieved through growth in the leasing business and the gain from disposal of finance lease receivables.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 31 December 2017, the Group's total assets amounted to HK$37,994.3 million compared with HK$30,900.2 million as at 31 December 2016, an increase of HK$7,094.1 million or 23.0%.

	As at 31 December		
	2017	2016	Change
	HK$'Million	HK$'Million	
Finance lease receivables – net	**12,556.2**	15,031.0	-16.5%
Property, plant and equipment	**13,059.4**	6,214.1	110.2%
Interests in and loans to an associate	**870.2**	444.4	95.8%
Cash and bank balances	**7,396.2**	6,016.8	22.9%
Pre-delivery payments ("**PDP**") and other receivables	**4,021.5**	3,062.8	31.3%
Derivative financial assets	**90.8**	131.1	-30.7%
Total assets	**37,994.3**	30,900.2	23.0%

3.1.1 Finance Lease Receivables – Net and Property, Plant and Equipment

The majority of total assets as at 31 December 2017 represented finance lease receivables and property, plant and equipment.

Net finance lease receivables represented the present value of minimum lease payments receivable from aircraft classified as finance leases and their residual values. There was a decrease in finance lease receivables from HK$15,031.0 million as at 31 December 2016 to HK$12,556.2 million as at 31 December 2017 because the Group completed disposal of finance lease receivables for 21 aircraft during 2017.

Property, plant and equipment mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. Increase in property, plant and equipment was mainly due to aircraft delivered during 2017 under operating leases.

3.1.2 Interests in and Loans to an Associate

Pursuant to the shareholders' loan agreement, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six-monthly intervals from the date of issue of the loan note. The increase in the amount of interests in and loans to an associate was due to the increase in loan amounts granted to ARI. As at 31 December 2017, the outstanding loan balance receivable from ARI amounted to HK$870.2 million (2016: HK$442.0 million).

3.1.3 Cash and Bank Balances

Cash and bank balances increased by HK$1,379.4 million or 22.9% from HK$6,016.8 million as at 31 December 2016 to HK$7,396.2 million as at 31 December 2017.

3.2 Liabilities

As at 31 December 2017, the Group's total liabilities amounted to HK$34,567.2 million compared with HK$27,856.8 million as at 31 December 2016, an increase of HK$6,710.4 million or 24.1%.

An analysis is given as follows:

	As at 31 December		
	2017	2016	Change
	HK$'Million	HK$'Million	
Bank borrowings	**16,458.4**	17,834.7	-7.7%
Bonds	**8,538.9**	4,611.9	85.1%
Long-term borrowings	**5,329.4**	2,346.1	127.2%
Medium-term notes	**798.1**	740.1	7.8%
Deferred income tax liabilities	**544.5**	332.8	63.6%
Convertible bonds	**153.2**	292.7	-47.7%
Interest payables	**226.8**	153.4	47.8%
Income tax payables	**17.3**	43.3	-60.0%
Derivative financial liabilities	**0.2**	15.0	-98.7%
Other payables and accruals	**2,500.4**	1,486.8	68.2%
Total liabilities	**34,567.2**	27,856.8	24.1%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.1 Bank Borrowings

The analysis of bank borrowings is as follows:

	As at 31 December		
	2017 **HK$'Million**	2016 HK$'Million	Change
Secured bank borrowings for aircraft acquisition financing	**13,981.6**	15,131.6	-7.6%
PDP financing	**1,709.1**	2,236.9	-23.6%
Working capital borrowings	**767.7**	466.2	64.7%
Total bank borrowings	**16,458.4**	17,834.7	-7.7%

Bank borrowings are principally based on fixed or floating US dollar London Interbank Offered Rate interest rates. In October 2017, the Group signed the first unsecured syndicated loan for PDP financing. Except for this unsecured syndicated loan and working capital borrowings, the other bank borrowings were secured by, in addition to other legal charges, the rights and benefits in respect of the aircraft acquisition or related aircraft leased to airline companies, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain companies of the Group, and pledge of deposits amounting to HK$312.4 million (2016: HK$51.7 million). The decrease in bank borrowings was mainly due to bank loan repayments upon the disposal of finance lease receivables during 2017.

3.2.2 Bonds

The following table summarises the senior unsecured US$ bonds issued by the Group:

Sequence	Issued date	Terms	Maturity date	Coupon interest per annum	US$'Million
First bond	May 2016	3 year	May 2019	5.9%	300.0
Second bond	August 2016	5 year	August 2021	4.9%	300.0
Third bond	March 2017	5 year	March 2022	4.7%	300.0
Third bond	March 2017	7 year	March 2024	5.5%	200.0
	Total principal amount				**1,100.0**
	Issuing cost				(7.4)
	Carrying amount				**1,092.6**

As at 31 December 2017, after deducting the issuing cost, the total carrying amount of these bonds were US$1,092.6 million (equivalent to HK$8,538.9 million).

3.2.3 *Long-term Borrowings*

The increase was mainly due to two reasons:

Firstly, an increase in the number of borrowings provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposal of finance lease receivable transactions) from 21 as at 31 December 2016 to 43 as at 31 December 2017. The effective average interest rates of these borrowings range from 3.5% to 7.8% (2016: 6.0% to 7.8%) per annum for remaining terms of six to 11 years (2016: seven to 11 years). These long-term borrowings are secured by the shares of, and the aircraft held by, the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$42.0 million (2016: Nil) as at 31 December 2017.

Secondly, the number of borrowings obtained through a structured financing arrangement increased from two as at 31 December 2016 to four as at 31 December 2017. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2016: 5.7%) per annum for their remaining terms of seven to eight years (2016: eight years) and are guaranteed by the Company.

3.2.4 *Medium-term Notes*

In July 2015, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB340 million due in 2020, bearing coupon interest at 6.50% per annum.

In November 2016, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB330 million due in 2021, bearing coupon interest at 4.19% per annum.

As at 31 December 2017, after deducting the issuing cost, the total carrying amount of these notes was HK$798.1 million (2016: HK$740.1 million).

3.2.5 *Convertible Bonds*

In May 2017, the Company entered into a separate agreement with China Everbright Financial Investments Limited ("**CE Financial**") to repurchase issued convertible bonds in the aggregate principal amount of HK$155.2 million for an aggregate consideration of HK$156.7 million plus the relevant interest and fees. After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155.2 million. These convertible bonds will be matured in May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

4. ANALYSIS OF CASH FLOWS

The following table illustrates the cash position and cash flows for the year ended 31 December 2017:

	Year ended 31 December	
	2017	2016
	HK$'Million	HK$'Million
I: Aircraft in operation		
Lease income	**1,995.1**	2,029.9
Bank repayment	**(1,425.6)**	(1,633.5)
	569.5	396.4
II: Aircraft purchase and delivery		
Capital expenditure	**(9,141.3)**	(5,911.9)
Bank borrowings	**6,017.6**	4,461.6
	(3,123.7)	(1,450.3)
III: New aircraft not yet delivered		
PDP paid	**(2,766.9)**	(1,730.8)
PDP refunded	**2,220.1**	1,811.7
PDP financing	**1,119.1**	1,758.4
Repayment of PDP financing	**(1,758.5)**	(1,686.2)
Advance payment for aircraft purchase	**(274.8)**	–
	(1,461.0)	153.1
IV: Net capital movement		
Proceeds from issue of new shares	**21.5**	390.9
Purchase of non-controlling interests	**–**	(19.5)
Dividends paid	**(386.2)**	(204.2)
Disposal of finance lease receivables and proceeds from long-term borrowings	**8,568.9**	5,494.3
Early loan repayment on disposal of finance lease receivables	**(5,963.4)**	(4,107.3)
Proceeds from issuance of bonds, net of transaction costs	**3,861.5**	4,608.6
Proceeds from issuance of medium-term notes, net of transaction costs	**–**	384.7
Proceeds from disposal of ARI Group	**–**	322.8
Payments relating to interests in and loans to an associate	**(356.7)**	(469.6)
Repurchase of convertible bonds, including transaction costs	**(156.9)**	(591.0)
Working capital loan net repayment and net cash generated from other operating activities	**(486.0)**	(423.0)
	5,102.7	5,386.7
Net increase in cash and cash equivalents	**1,087.5**	4,485.9
Cash and cash equivalents at beginning of the year	**5,840.7**	1,389.3
Currency exchange difference on cash and cash equivalents	**95.2**	(34.5)
Cash and cash equivalents at end of the year	**7,023.4**	5,840.7

5. CAPITAL MANAGEMENT

The primary objective of the Group's capital management policy is to ensure that it maintains a strong credit standing, as well as healthy capital ratios in order to support its business and maximise shareholder value.

Operations and capital expenditure requirements are funded by a combination of cash generated from operating activities, bank borrowings, long-term borrowings, issuance of bonds and medium-term notes and disposal of finance lease receivables. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities.

For the year ended 31 December 2017, the objectives, policies and processes for managing capital remained largely unchanged. The Group made full use of capital leverage to keep pace with aircraft delivery.

The Group monitors capital through gearing ratios:

	As at 31 December		
	2017	2016	Change
	HK$'Million	HK$'Million	
Interest-bearing debts included in total liabilities	**31,278.0**	25,825.6	21.1%
Total assets	**37,994.3**	30,900.2	23.0%
Gearing ratio	**82.3%**	83.6%	-1.3p.p.

The majority of the Group's cash and cash equivalents, bank borrowings and bonds are denominated in US$, for which the currency exchange risk is insignificant. The Group has managed interest rate risk by matching the rental rates of the aircraft leases with interest rates of bank borrowings and has entered into floating-to-fixed interest rate swaps to hedge against significant interest rate exposure.

6. HUMAN RESOURCES

As at 31 December 2017, staff of the Group numbered 161 (2016: 134). Total remuneration of employees for 2017 amounted to HK$142.1 million (2016: HK$124.1 million).

The Group has established effective employee incentive schemes to link the remuneration of its employees with their overall performance and contributions, and has established a merit-based remuneration awards system. It has also adopted share option schemes for the purpose of recognising the contribution of eligible employees to the growth of the Group.

7. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

7.1 Contingent Liabilities

The Group had no material contingent liabilities outstanding as at 31 December 2017 (2016: Nil).

7.2 Capital Commitments for Aircraft Acquisition and Aircraft Purchase Mandate

The Group's total aircraft purchase commitment amounted to HK$76.0 billion as at 31 December 2017 (2016: HK$35.4 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

In December 2014, the Group entered into an aircraft acquisition agreement with Airbus for the purchase of 100 aircraft of the A320 family. Of these, 27 aircraft have been delivered up to 31 December 2017, with the rest planned for delivery between 2018 and 2022.

At the 2017 annual general meeting of the Company held on 22 May 2017 (the "**Mandate Date**"), shareholders of the Company granted a general mandate (the "**Aircraft Purchase Mandate**") to the directors of the Company to purchase new aircraft from Airbus and Boeing during the mandate period (as defined in the Aircraft Purchase Mandate), pursuant to which the directors of the Company are authorised to purchase from either Airbus or Boeing, each limited to 70 aircraft of certain types with an aggregate list price not exceeding US$8.9 billion and US$8.3 billion respectively (equivalent to approximately HK$69.55 billion and HK$64.86 billion respectively). Further details of the Aircraft Purchase Mandate are set out in the circular of the Company dated 19 April 2017.

Since the beginning of the Mandate Date, the Company has committed at the date of this report to purchase (i) a cumulative total of 50 aircraft from Boeing with an aggregate list price of approximately US$5.8 billion (equivalent to approximately HK$45.33 billion); and (ii) a total of 70 aircraft from Airbus with an aggregate list price of approximately US$7.54 billion (equivalent to approximately HK$58.92 billion) pursuant to the Aircraft Purchase Mandate. Please refer to the Company's announcements at The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") dated 14 June 2017, 21 December 2017, 28 December 2017 and 4 January 2018 for further details.

The prices are not fixed at the time of entering into the relevant agreement and can only be determined upon the final specifications of the aircraft. The final purchase prices paid by the Company will be lower than the list prices because of differing aircraft specifications and various price concessions, credits or discounts that may be provided by the manufacturers. As a result, the final purchase prices of the aircraft are expected to be substantially less than the manufacturer's list prices.

Other than the capital commitments stated above, the Group had no material plans for major investment or capital assets acquisition.

8. OTHER EVENT

Reference is made to the Stock Exchange announcement of the Company dated 16 June 2017. Due to the non-fulfilment of certain terms and conditions under the Longjiang Aircraft Lease Agreements by Longjiang Airlines, the Company served two termination notices on 16 June 2017 to Longjiang Airlines for termination of two leases, with effect from the date of receipt of such termination notices by Longjiang Airlines. In July 2017, the Company commenced legal proceedings in Heilongjiang High Court against Longjiang Airlines seeking, inter alia, damages arising from the above termination. The Board considers that the termination of the leases has no material adverse impact on the existing business or financial position of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP

China Aircraft Leasing Group Holdings Limited ("CALC" or the "Company", together with its subsidiaries, the "Group"), offers full life-cycle aircraft solutions that include aircraft purchase, leasing, purchase and leaseback, as well as value-added services for used aircraft and aircraft coming to the end of their life such as fleet planning, fleet replacement package deals, aircraft disassembling and component sales.

CALC has dedicated itself to being a full value-chain aircraft solutions provider and going beyond the traditional business model – purchasing and leasing aircraft. With diligence and vision, the Group continues creating innovative, value-added fleet management solutions for airlines worldwide. Catering to the needs of aircraft owners and lessees from Asian, European and American markets, the Group also aims to provide one-stop aircraft services to satisfy the needs of airlines with aging aircraft.

ABOUT THIS REPORT

This report is the fourth Environmental, Social and Governance ("ESG") Report published by the Group. By reporting the policies, measures and performances of the Group in ESG aspects, it allows all stakeholders to understand the commitments and progress of the Group towards sustainable development.

Available in both Chinese and English, the report has been uploaded to the websites of the Group and Hong Kong Exchanges and Clearing Limited.

Reporting Scope and Boundary

This report focuses on the operation of the Group's business conducted in the office located in Hong Kong and two other offices located in Tianjin, China between 1 January 2017 and 31 December 2017 (the "reporting period"). For easy comparison of the Group's yearly performance, the structure of this report and the previous one aligns as closely as possible.

Reporting Standard

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The four reporting principles, namely materiality, quantitative, balance and consistency, form the backbone of this report.

To provide stakeholders with an overview of the Group's performance in ESG aspects, this report discloses not only the environmental KPIs under the 'comply or explain' provisions, but also additional social KPIs under the 'recommended disclosures' in the ESG Reporting Guide.

A complete index is provided in the last chapter for reader's easy reference.

To ensure the accuracy of environmental KPIs, a professional consultant, Carbon Care Asia ("CCA"), has been commissioned to conduct a carbon assessment. The Guidelines[1] released by the National Development and Reform Commission of the People's Republic of China, the Guidelines[2] compiled by the Environmental Protection Department and Electrical and Mechanical Services Department of Hong Kong, and other international standards such as ISO 14064-1 and GHG Protocol were referred to during the process.

Confirmation and Approval

The report has been confirmed and approved by the board of directors of the Group on 23 March 2018.

Feedback

The Group values feedback from its stakeholders. If you have any enquiries and suggestions regarding the content or format of this report, please contact the Group at feedback@calc.com.hk.

1 Guidelines for Accounting and Reporting Greenhouse Gas Emissions China Public Building Operation Units (Enterprises) (Trial)

2 Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong

MANAGEMENT STATEMENT

CALC is dedicated to providing one-stop solutions throughout the entire product lifecycle. Since its establishment, CALC has been paving way for a greener aviation market and economy. Against the underdeveloped state of the aircraft dismantling and recycling market, CALC, through its associates, is building its aircraft recycling centre in Harbin, China. The first phrase of its construction has been completed.

The highest priority for CALC's operations is aircraft safety. Maintaining the highest possible product quality is congruous with our long-term goal of establishing a sustainable business. Focusing on pre-sales and post-sales services, we strive to maintain close contact with our customers and partners to best understand and fulfil their needs in order to improve our products.

In pursuit of sustainable development of the aviation industry, CALC regulates its supply chain with a vision to create value and protect the environment. Through constant interaction and engagement with aircraft producers and aircraft services suppliers CALC successfully maintains an efficient and environmentally responsible supply chain. With a key emphasis on credibility, reputation and quality, we have built a longstanding relationship with partners who have demonstrated environmental and social compliance.

At the heart of CALC's operation is an enthusiastic team that shares its vision. Our talent development and retention initiatives rest on a corporate culture that respects diversity and fairness. To improve the physical and mental health of staff the company has implemented measures including indoor air quality control, mental health consultation and healthy eating programmes.

By refining its operations in all aspects of environmental and social performance, CALC has developed a unique, competitive and long-term business model. Aiming at becoming a global solutions provider, it will continue to improve its products and services both to satisfy customers' demands and to respond to challenges of today and tomorrow.

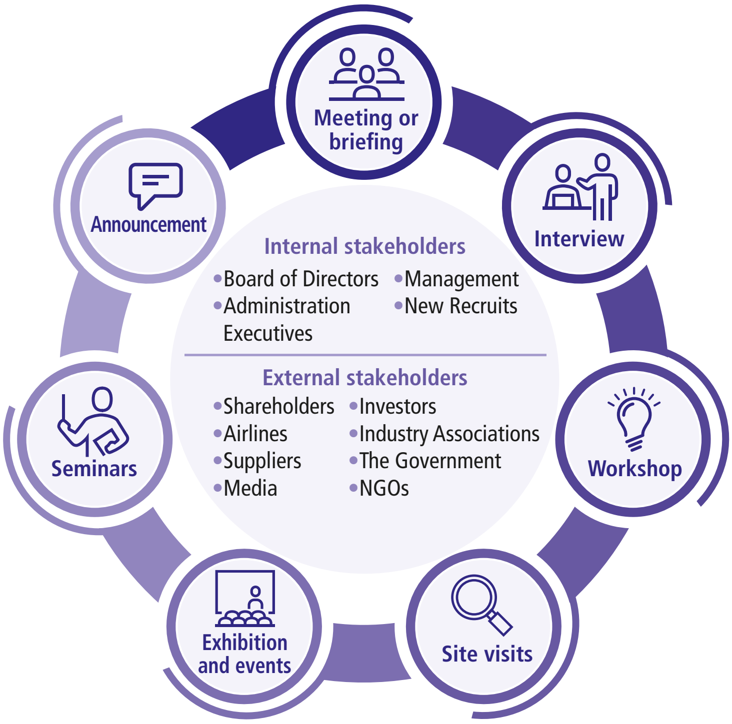
POON Ho Man
Executive Director and Chief Executive Officer
China Aircraft Leasing Group Holdings Limited

STAKEHOLDER ENGAGEMENT

Major Means of Stakeholder[3] Engagement

The Group constantly communicates with key internal and external stakeholders via various channels. Stakeholder participation allows the Group to ensure the alignment of its business and sustainability strategies with stakeholders' perspectives and expectations.

This continuous communication journey also allows the Group to identify and prioritise any emerging ESG risks, and turn them into opportunities.



Materiality Assessment

To pinpoint the most significant environmental and social issues, an independent consultant, CCA, was commissioned to conduct the materiality assessment. By way of management interview, questionnaire survey and focus groups, both qualitative and quantitative information concerning stakeholders' views on the relative materiality of various ESG issues are collected.

To identify the aspects of significance to the Group's business and its stakeholders, the consultant adopted a rigorous assessment process. In the questionnaire survey, stakeholders were asked to rate 21 issues according to their importance to the Group and to themselves. The ratings were organised and analysed to form the materiality matrix below with a fitted curve drawn based on the average rating by the stakeholders. The curve acted as a threshold so that issues lying on or beyond the curve were defined as material issues.

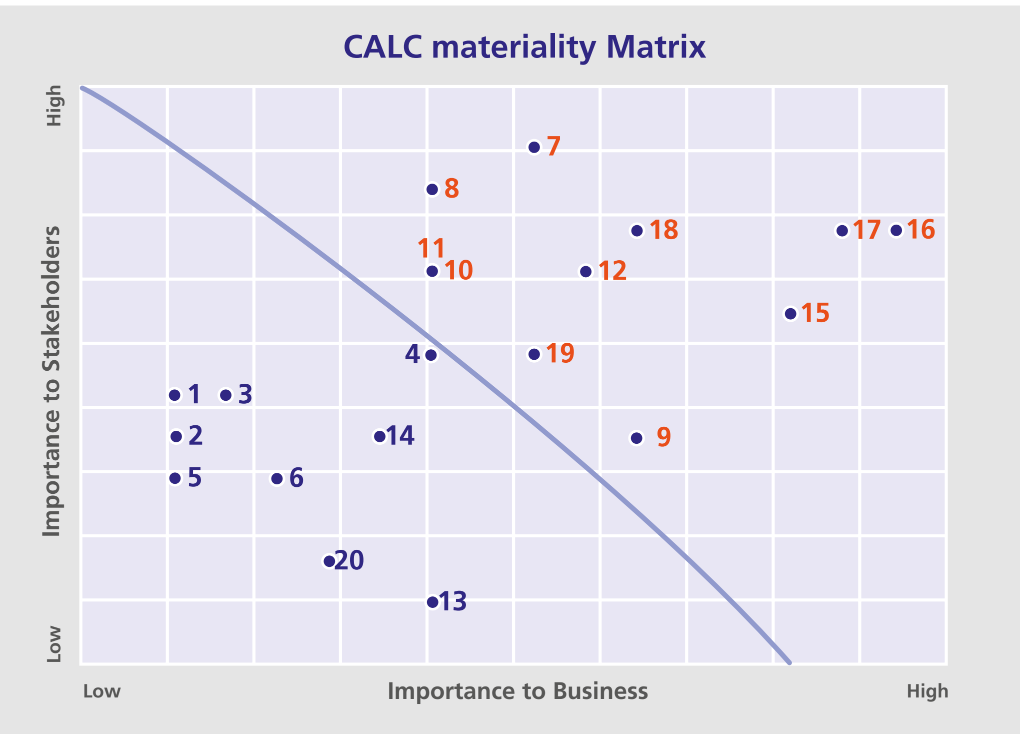
3 Stakeholders refer to groups or individuals materially influencing or affected by the Group's business. Internal stakeholders include board of directors, management, administration executives and new recruits. External stakeholders include shareholders, investors, airlines, industry associations, suppliers, the government, media and NGOs.

Material ESG Aspects

With expert advice from the consultant, CALC's management reviewed the matrix and located the threshold for materiality. Subsequently the 11 most material issues are selected to be the focus of this report.

Material Issues for CALC (in descending order of importance)

Order of importance	Issue number	Issue
1	16	Be responsible for its products or services offered
2	17	Safeguard the interests of clients
3	15	Identify, monitor and mitigate environmental and social risks in supply chain
4	7	Communicate with employees on the employment system
	18	Establish measures and monitoring system to prevent corruption
5	12	Provide development opportunities for employees to realize their potential
6	8	Offer an equal, diverse and harassment-free employment environment
7	9	Identify the high-risk duties at the workplace
	10	Protect employees from occupational health and safety hazards
	11	Provide training to enhance employees' abilities in discharging their duties
	19	Establish whistleblowing channels and procedures and protect the whistleblowers



To maximise the efficacy of stakeholder engagement, CALC is determined to maintain transparency, integrity, accuracy and responsiveness across all communication channels. In the future, the Group shall formulate a more systematic annual stakeholder engagement plan and integrate it with its operation and business goals with an evaluation mechanism to support the sustainability strategy of the Group.

SUSTAINABILITY MANAGEMENT

CALC is committed to investing time and resources in ESG aspects for sustainable business growth and development. Effective since 2015 and updated in 2017, the Group's ESG Policy defines the long-term approach, core principles and objectives in environmental and social areas that guide the Company's daily operations.

OPERATING PRACTICES

Product Responsibility

CALC is committed to providing reliable and safe products and services to safeguard the interests of passengers. With standards and procedures in place CALC's technical team performs pre-delivery inspections and annual audit respectively on suppliers and lessees, to ensure the technical condition of the aircraft.

From about six weeks before planned delivery, CALC's technical team stays at the airport where the aircraft is assembled and delivered. Inspections are conducted on various assembly processes, during which the team maintains close contact with supplier's local respondents to report any deviation or discrepancy, and to implement corrective actions.

An inspection schedule is prepared for lessees for each aircraft delivered. In an annual audit, CALC's team first examines documents about the history of modifications, damages and maintenance of the aircraft. A physical inspection is then performed on the interior and exterior of the aircraft, focusing on its structure and landing gear. Besides communicating the deficiencies and remedies, the inspector scores the lessee in terms of technical risk, which is one of the risk categories for the Group to determine the level of monitoring required.

All CALC employees are required to respect intellectual property rights and data privacy. The importance of these rights and requirements are communicated with employees through terms in non-disclosure agreement. The Hong Kong office has also established information technology management guidelines on the use of computers and electronic communication to protect confidential information related to the Group's business.

Due to its business nature, the Group has not identified material concerns in its operations regarding advertising, labelling. The Group only places corporate advertisement in certain trade magazines, of which the content is monitored and approved by Corporate Communications Department to ensure accuracy. During the reporting period, there were no cases of non-compliance with laws and regulations related to product and service responsibility.

Risk Management in Supply Chain

CALC endeavours to maintain and develop long-term strategic and co-operative relationships with suppliers who provide high-quality products and demonstrate environmental compliance and sound commitment to social responsibility.

Apart from aircraft, CALC procures buyer furnished equipment ("BFE") such as seats, galleys and in-flight entertainment equipment for the customisation of its fleet. The Group used a vendor evaluation matrix to assess the proposals of various vendors. Each vendor is ranked by 14 criteria, so that only the best performers will be selected. On a bi-weekly basis, the team revises and distributes to the CALC's Management Team a report showing the status of the BFE on each program.

Anti-corruption

CALC regards honesty, integrity and fair play as its core values. The Group has adopted a Code of Conduct to stipulate the circumstances under which employees should not accept advantages offered by entities having business dealings with CALC, including advantages in the form of gift, discounts, special offers or entertainment. Employees are also required to be vigilant to the common examples of potential conflict of interest listed in the Code of Conduct, and make appropriate declaration.

Any director or staff member in breach of the Code of Conduct will be subject to disciplinary action including termination of appointment or employment, and will be reported to the appropriate regulatory authorities in case of suspected corruption. During the reporting period, there were no concluded legal cases and cases of non-compliance with laws and regulations related to anti-corruption.

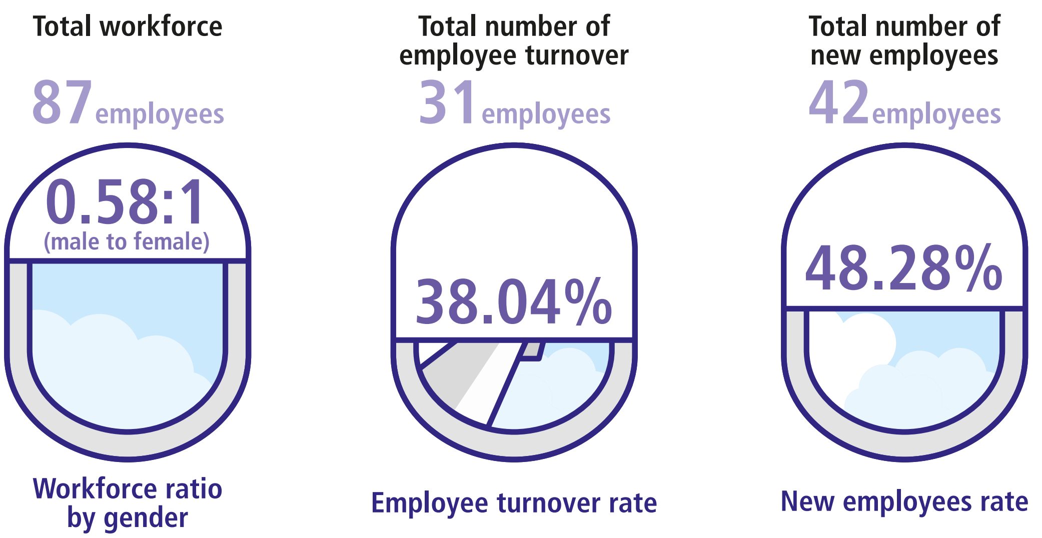
EMPLOYMENT AND LABOUR PRACTICES

Employment System

Policies relating to employment system, including recruitment and dismissal, remuneration and bonus, working hours and rest days, leaves and benefits, and appraisal and promotion are communicated through the Staff Handbook formulated in accordance with the employment regulations of the operating region.

It is CALC's policy to recruit and promote staff irrespective of factors including gender, language, religion, race and nationality. The Group upholds the principles of equal opportunities, non-discrimination and selection based on merit when making promotion decisions. To ensure fair reward for hard work and contribution, performance pay constitutes part of employees' remuneration which is determined based on an annual scoring system that measures their performance against predetermined criteria.

Performance Highlights



CALC notices the high employee turnover rate and imbalance in the number of male and female employees. The Group will carry out an investigation to analyse the possible reasons and review the current employment system to explore ways to retain talents.

During the reporting period, there were no cases of non-compliance with laws and regulations related to employment and labour practices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Training and Development

CALC strives to realise employees' potentials by offering training and development opportunities in various ways. For instance, at the Hong Kong office, staff-initiated training that can further their technical know-how is welcome. Eligible employees may apply for sponsorship for external programmes and professional examinations. At Tianjin office, such external training is sometimes arranged following communication with staff. From time to time, the Human Resources Department arranges training in the forms of, for example, induction, job rotation and seminars.

During the reporting year, 100% of Hong Kong staff received some forms of training. The Group noticed that the ratio of employees trained in Tianjin office was much lower than that of Hong Kong office. The Group will look into staff's training needs and provide more training opportunities in the coming reporting period.

CALC implemented an appraisal system to evaluate the strengths and weaknesses of individuals and departments by scoring. Appraisal results apply to not only remuneration and promotion decisions, but also the Group's identification of training needs. In case of unsatisfactory team results, the assessor will arrange team training to work out solutions for members' improvement. During the reporting period, 100% staff were appraised.

Health and Safety

CALC has a set of office safety guidelines in place, which concerns ventilation, lighting, proper housekeeping, the safe use and maintenance of electrical equipment as well as fire prevention. All the recommended practices are communicated through the Staff Handbook of both offices. Currently, the Group have not identified any job duties with high occupational health and safety risk.

To promote a healthy workplace, the Group continuously provides breakfast, lemonade and fruits for Hong Kong staff. In 2017, the Group's Hong Kong office was awarded "Eco-Healthy Workplace Label" by World Green Organisation.

During the reporting period, there were no cases of non-compliance with laws and regulations related to health and safety.

Performance Highlights

Labour Standards

CALC is committed to safeguarding labour rights and interests. The Company requires both Hong Kong and Tianjin offices to hire persons aged 18 or above. New hires' original personal document shall be collected for verification when they apply for a position and report for duty. The Group does not encourage overtime work unless under special circumstances. In case of overtime work or working on rest days, employees are required to submit application to their supervisors and the Human Resources Department for approval in advance, and would be compensated in the form of deferred holiday. In Tianjin offices, employees are not permitted to work overtime for more than 36 hours per month.

During the reporting period, there were no cases of non-compliance with laws and regulations related to child labour and forced labour.

PROTECTING THE ENVIRONMENT

Emissions

Since 2014, CALC has quantified its GHG emissions through carbon assessment. In 2016 the Group first extended the assessment scope to include financial reporting printing and business travel by air.

This year, CALC continues to commission an external consultant, CCA, to perform the assessment. The Guidelines[1] released by the National Development and Reform Commission of the People's Republic of China, the Guidelines[2] compiled by the Environmental Protection Department and Electrical and Mechanical Services Department of Hong Kong, and other international standards such as ISO 14064-1 and GHG Protocol were referred to during the process.

GHG Emission of Hong Kong Office

	GHG emission (tonnes CO2 -e)			
	2017	2016	2015	2014
Scope 1 Direct Emissions	6.81	8.76	6.95	5.43
Scope 2 Energy Indirect Emissions	86.21	74.33	72.67	115.93
Scope 3 Other Indirect Emissions	60.48 (5.47*)	82.81 (4.69*)	1.25	0.24
Total	153.50 (98.49*)	165.90 (87.78*)	80.87	121.60
Carbon Intensity (tonnes per employee)	2.40 (1.54*)	3.25 (1.72*)	1.93	2.90

Remarks

* If scope 3 emissions exclude financial reports printing and air travel due to business trips, the data for 2017 can be compared with data for the baseline year 2014.

Scope 1 Direct Emissions include fuels consumed by the Group's owned vehicles.

Scope 2 Indirect Emissions include electricity consumption.

Scope 3 Other Indirect Emissions include waste paper disposal and air travel.

Electricity consumption is the largest contributor to the Group's greenhouse gas emissions. The total carbon emissions of CALC in 2017 decreased by 7.5% versus those of 2016. With the expansion of the team from 51 staff to 64 staff, the carbon intensity per employee has significantly decreased by 26.2%.

Excluding the contribution of printed reports and air travel, the carbon emissions of CALC in 2017 reduced by 19% versus emissions in baseline 2014. Carbon intensity, in terms of staff size, decreased by 46.9% compared to the baseline figures of 2014. It indicates a huge improvement in operational efficiency.

GHG Emission of Tianjin Offices

2017 GHG emission (tonnes CO2 -e)	
Scope 1 Direct Emissions	0
Scope 2 Energy Indirect Emissions	16.60
Scope 3 Other Indirect Emissions	3.30
Total	19.90
Carbon Intensity (tonnes per employee)	0.86

Remarks

* The electricity consumption of Tianjin (Binhai) Office cannot be obtained due to unavailability of data from property management, and is excluded in the assessment.

CALC continues to implement the Green Office programme to promote green working habits to reduce carbon emissions. For instance, to control energy use, office equipment is preset as energy-saving mode and sectionalised lighting is installed in both offices. The Group also promotes the use of virtual meetings to avoid overseas business travel.

CALC's reported operation only generated 3.98 tonnes of non-hazardous waste, the majority of which is general waste. To reduce waste disposal, the Group promotes recycling by setting up waste sorting bins at offices for recycling. Toner and ink cartridges are collected by suppliers for recycling. Other recyclables collected, including waste paper, plastic and metals, were handled by property management companies. The remaining portion of waste is collected by the property management companies and then the local environmental hygiene departments for landfilling.

Use of Resources

Apart from energy use, CALC's office operation involves the consumption of paper, office supplies and water. Various management practices had been established to economise the use of office resources.

For example, collection points are set up in offices to collect reusable paper and containers for internal use. Electrical hand dryers are installed in washrooms to substitute paper napkins. Order and stock of office supplies are recorded and monitored to avoid overstocking. Food consumed by employees are purchased locally in bulk to lower the need for packaging materials and avoid long distance delivery. Currently CALC is sourcing sufficient water from municipal water supplies. Sensor-activated faucet and water-saving toilet bowls are installed in washrooms to lower water consumption.

CALC's Hong Kong office has been awarded the Green Office Awards Label by World Green Organisation for the third consecutive year since 2015.

Environmental and Natural Resources

CALC understands that a greater environmental impact arises from its business decisions than from its office operation, so it strives to promote sustainable development in its businesses, services and products. Recognising the pollution involved in the use and end-of-life of aircraft, CALC has been incorporating environmental considerations into its decision in acquiring new aircraft and developing new businesses.

In 2017, deliveries of 18 Airbus A320neo aircraft powered by Pratt & Whitney's PurePower engines, which is of 16% higher fuel efficiency than current models, began as scheduled. In March, Aircraft Recycling International Limited, one of the Group's associates, fully acquired Universal Asset Management, Inc., a service provider based in the United States specialising in disassembling aircraft and supplying after-market components. In the future, the Group will consider extending the reporting scope to cover the new businesses, and to assess the life-cycle impact of our aircraft to provide a more holistic view of the environmental impact of our operation.

During the reporting period, there were no cases of non-compliance with laws and regulations related to emissions and environmental protection.

INVESTING IN SOCIETY

CALC is dedicated to supporting and participating in local community, charitable and educational activities. The Company continuously encourages and mobilises the Company's employees to participate volunteering work.

In 2017, CALC's employees actively participated in various fund-raising and educational programmes organized by various non-profit organizations, such as Orbis, WWF Hong Kong ("WWF HK") and World Green Organisation, to contribute to the society we serve. Employees participated in Orbis's voluntary services in Walk for Sight, WWF HK's Wetland Discovery Program and Coastal Ecologist Program, and World Green Organisation's Upcycling Workshop and voluntary services, Green Hero Program and Organic Farm Visit, to help the needy and cultivate green awareness among employees.

CALC has also been donating to WWF HK, and was awarded the Silver Member in its Corporate Membership Program for two consecutive years since 2016.

CALC has been awarded "Caring Company" by the Hong Kong Council of Social Service from 2015 to 2017.

513.5
Number of volunteer hours

Amount of contribution (HKD)
$75,000

ESG PERFORMANCE AT A GLANCE

Environmental Performance

The types of emissions and respective emissions data	Hong Kong Office	Tianjin Office	Unit
Nitrogen oxides (NOx)	1.34	0	kg
Sulphur oxides (SOx)	0.04	0	kg
Respiratory suspended particles (RSP)	0.10	0	kg

Greenhouse gas emissions in total	Hong Kong Office	Tianjin Office	Unit
Scope 1	6.81	0	tonnes CO2-e
Scope 2	86.21	16.60	tonnes CO2-e
Scope 3	60.48	3.30	tonnes CO2-e
Greenhouse gas emissions in total	153.50	19.90	tonnes CO2-e
Greenhouse gas intensity	2.40	0.86	tonnes CO2-e/ employee

	Hong Kong Office	Tianjin Office	Unit
Total non-hazardous waste	3.18	0.79	tonnes
Non-hazardous waste intensity	0.05	0.03	tonnes/ employee

Direct and/or indirect energy consumption by type	Hong Kong Office	Tianjin Office	Unit
Petrol	21.95	0	MWh
Electricity	109.12	18.87	MWh
Total energy consumption	131.08	18.87	MWh
Energy intensity	2.05	0.82	MWh/ employee

Social Performance – Employment and Labour Practices

Total workforce			Below 30	30 to 40	41 to 50	Above 50	C-level executives	Senior management	Middle management	General staff	Total	Male to female ratio (2017)	Male to female ratio (2016)
	Hong Kong	Male	5	9	11	3	5	4	8	11	64	0.58:1	0.65:1
		Female	8	21	5	2	1	5	10	20			
	Tianjin	Male	3	1	0	0	0	0	0	4	23		
		Female	8	9	2	0	0	1	0	18			

Number of new employees			Below 30	30 to 40	41 to 50	Above 50	Total	New employee rate (2017)		New employee rate (2016)
	Hong Kong	Male	4	6	5	1	34	53%	48%	39%
		Female	7	11	0	0				
	Tianjin	Male	1	0	0	0	8	35%		
		Female	1	6	0	0				

Employee turnover			Below 30	30 to 40	41 to 50	Above 50	Total	Employee turnover rate (2017)		Employee turnover rate (2016)
	Hong Kong	Male	2	5	4	0	21	37%	38%	33%
		Female	4	5	1	0				
	Tianjin	Male	2	0	0	0	10	42%		
		Female	3	5	0	0				

ESG REPORTING GUIDE CONTENT INDEX

Material Aspect	Content	Data of reporting year	Page Index
A. Environmental			
A1 Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	–	37-38
A1.1	The types of emissions and respective emissions data	–	40
A1.2	Greenhouse gas emissions in total (tonnes)	–	40
	Intensity of greenhouse gas emissions (tonnes CO2-e/employee)	–	40
A1.3	Total hazardous waste produced (tonnes)	0	–
	Intensity of total hazardous waste produced (tonnes/employee)	0	–
A1.4	Total non-hazardous waste produced (tonnes)	–	40
	Intensity of non-hazardous waste produced (tonnes/employee)	–	40
A1.5	Description of measures to mitigate emissions and results achieved	–	38
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	–	38
A2 Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	–	38
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh)	–	40
	Direct and/or indirect energy intensity by type (e.g. electricity, gas or oil) (MWh/employee)	–	40
A2.2	Water consumption in total (tonnes)	0	–
	Water intensity (tonnes/unit of product)	0	–

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspect	Content	Data of reporting year	Page Index
A2.3	Description of energy use efficiency initiatives and results achieved	–	38
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	–	38
A2.5	Total packaging material used for finished products (tonnes)	0	–
	Packaging material intensity (tonnes/unit of product)	0	–
A3 The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	–	38
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	–	38
B. Social			
B1 Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	–	35
B1.1	Total workforce	–	40
	Total workforce by gender, employment type, age group and geographical region	–	40
B1.2	Employee turnover rate	–	40
	Employee turnover rate by gender, age group and geographical region	–	40
GRI 401-1	Total number of new employee hires	–	40
	Rate of new employee hires	–	40
	Total number and rate of new employee hires by gender, age group and geographical region	–	40
B2 Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	–	9
B2.1	Number and rate of work-related fatalities	0	–

Material Aspect	Content	Data of reporting year	Page Index
B2.2	Lost days due to work injury	0	–
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	–	36
B3 Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	–	36
B3.1	Percentage of employees trained	74%	–
	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	–	–
	Gender: Male	88%	–
	Gender: Female	65%	–
	Employee category: C-level executives	100%	–
	Employee category: Senior management	90%	–
	Employee category: Middle management	100%	–
	Employee category: General staff	58%	–
B3.2	Average training hours completed per employee	0.3	–
	The average training hours completed per employee by gender and employee category	–	–
	Gender: Male	0.4	–
	Gender: Female	0.2	–
	Employee category: C-level executives	1	–
	Employee category: Senior management	0.6	–
	Employee category: Middle management	0.3	–
	Employee category: General staff	0.1	–
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	100%	–
B4 Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	–	36
B4.1	Description of measures to review employment practices to avoid child and forced labour	–	36
B4.2	Description of steps taken to eliminate such practices when discovered	–	36

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspect	Content	Data of reporting year	Page Index
B5 Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	–	33-34
B5.1	Number of suppliers by geographical region	4 (Mainland China)	–
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	–	33-34
B6 Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	–	34
B7 Anticorruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	–	34
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	0	–
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	–	34
B8 Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	–	39
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	–	39
B8.2	Resources contributed to the focus area	–	39
	Employee volunteer service hours	–	39
	Funds	–	39

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") is pleased to present this corporate governance report in the annual report for the year ended 31 December 2017 of the Company and its subsidiaries (the "Group").

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good governance to the Group's success and sustainability.

The Board is also committed to achieving a high standard of corporate governance as an essential component of quality and has applied corporate governance practices appropriate to the conduct and growth of business of the Group.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency, accountability and shareholder value.

The Company has adopted the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company has complied with all Code Provisions as set out in the CG Code during the year ended 31 December 2017 with the exception of Code Provision A.2.1 due to the overlapping roles of Chairman and Chief Executive Officer (the "CEO") of the Company performed by Mr. CHEN Shuang during a short period from 1 to 18 January 2017. The Board considered that the balance of power and authority of the Board were not impaired even though the roles of the Chairman and the CEO were performed by the same individual.

Mr. POON Ho Man was appointed as the CEO in place of Mr. CHEN Shuang on 19 January 2017, thereby separating the roles of Chairman and CEO. The Company has therefore complied with Code Provision A.2.1 of the CG Code since 19 January 2017.

The Company will continue to enhance its corporate governance practices as appropriate to the conduct and growth of its business and to review and evaluate such practices from time to time to ensure that it complies with the CG Code and aligns with the latest developments.

THE BOARD

Composition

(as at the date of this annual report)

EXECUTIVE DIRECTORS

- Mr. CHEN Shuang, *JP* *(Chairman)*
- Mr. POON Ho Man *(CEO)*
- Ms. LIU Wanting *(Deputy CEO)*

NON-EXECUTIVE DIRECTORS

- Mr. TANG Chi Chun
- Mr. GUO Zibin
- Ms. CHEN Chia-Ling

INDEPENDENT NON-EXECUTIVE DIRECTORS

- Mr. FAN Yan Hok, Philip
- Mr. NIEN Van Jin, Robert
- Mr. CHEOK Albert Saychuan
- Mr. CHOW Kwong Fai, Edward, *JP*

Throughout the year, the Board has complied with the Listing Rules to have at least three independent non-executive directors (the "INED(s)") who represent one-third of the Board and with at least one of whom holds appropriate professional qualifications and accounting or related financial management expertise.

The Board received from each INED a written annual confirmation of their independence satisfied with guidelines set out in Rule 3.13 of the Listing Rules, and the Nomination Committee assessed the independence of each INED before the date of this report. Each INED will inform the Company in writing as soon as practicable if there is any change of circumstances which may affect his independence.

The directors do not have financial, business, family or other material/relevant relationships with each other.

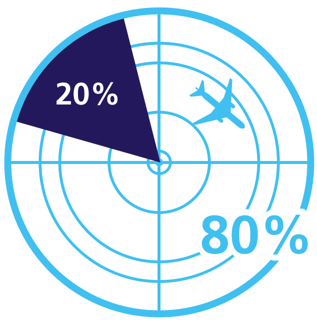
After annual assessment by the Nomination Committee before the date of this report, the Board considers the current structure, size and composition of the Board is performing a balanced and independent monitoring function on management practices to complement the Company's corporate strategy. The profile of directors as at the date of this report is set out on pages 88 to 94.

Board Diversity

The Company has adopted a policy on diversity of the Board members. Under the policy, the Nomination Committee is delegated to review, assess and recommend any appointment, re-election or any succession plan of any directors to the Board from time to time after considering a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience, to allow for the Company's business model and specific needs.

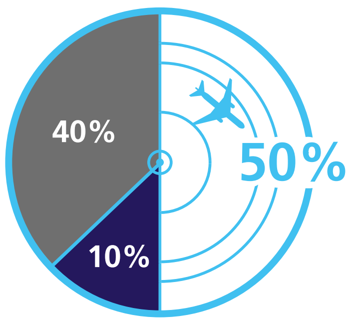
GENDER

- Male
- Female



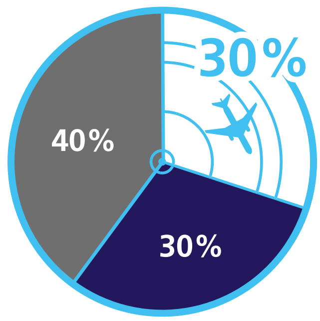
AGE GROUP

- 31-50
- 51-60
- 61-70



BOARD'S COMPOSITION

- Executive Directors
- Non-executive Directors
- Independent Non-executive Directors



Roles of the Board

The executive Board is responsible for setting up the Company's corporate strategy, monitoring its implementation and reviewing operational and financial performance of the Group by making decisions in major aspects of the Company's matters, including but not limited to approving and monitoring key policies, material transactions, business plans, annual budgets, internal control and risk management systems, annual and interim results, major capital expenditure and appointment of directors.

The non-executive Board (including more than half are INEDs) has diversified industry expertise and professional knowledge, and provides advisory, adequate check and balances for effective and constructive contribution to the executive Board to safeguard interests of the shareholders and the Company as a whole.

Implementation of the corporate strategies of the Group is delegated to the Strategy Committee while day-to-day operational management and administration functions of the Group are delegated to the management team of the Group (the "Management Team").

CORPORATE GOVERNANCE REPORT

Appointment, Re-election, Rotation and Removal of Directors

The Company has established formal, considered and transparent procedures for appointment, re-election, rotation, and removal of the directors. The Nomination Committee is responsible for considering the suitability of individual to act as a director and making recommendations to the Board on appointment or re-election of directors, succession planning of directors and assessing the independence of the INEDs. The key matters addressed by the Nomination Committee during the year are as set out below under sub-section headed "Nomination Committee".

All non-executive directors (the "NED(s)") (including INEDs) entered into service contracts with the Company with specific term of office. However, their term of office each is the period up to his/her retirement by rotation or retirement, but eligible for re-election at annual general meetings of the Company in accordance with the Company's articles of association.

In accordance with the Company's articles of association, the Company may from time to time in general meeting elect any person to be a director to fill a casual vacancy or as an addition to the Board. The directors shall have power from time to time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Any director so appointed shall hold office only until the next following general meeting, and shall then be eligible for re-election at that general meeting.

At each annual general meeting of the Company, not less than one-third of the directors (including those appointed for a specific term) shall retire from office by rotation provided that each director shall be subject to retirement by rotation at least once every three years.

Board Meetings and General Meetings

An annual general meeting was held during the year. The attendances of each director at the Board and general meetings during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

Annual schedule of Board meetings and draft agenda of each meeting are made available to the directors sufficient time in advance to encourage the directors' involvement. Notice of Board meetings at least 14 days has been given and Board papers are sent at least 3 days before the Board meetings. All directors have full and timely access to the Management Team for any information to enable them to make informed decisions at the Board meetings, as well as the company secretary of the Company who ensures that the regulatory Board procedures are followed. Members of the Management Team are usually invited to attend the Board meetings to promote an effective communication within the Group. Each director is authorised to hire external consultants or experts for independent professional advice at the Company's expenses to discharge the director's responsibilities.

The Company has arranged appropriate liabilities insurance to indemnify the directors from any liabilities arising from the business of the Group.

Induction and Continuing Development of Directors

The newly-appointed director was provided with a comprehensive, formal and tailored induction so as to ensure he/she was fully aware of his/her responsibilities as a listed company director under the Listing Rules and any other regulatory requirements.

The Company encourages all directors to participate in continuous professional development to further enhance and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Company received from the directors the following records of the training attended during the year, which is relevant to the Company's business or directors' duties and responsibilities:

	Nature of Trainings	
Directors	**Type 1**	**Type 2**
Executive Directors		
CHEN Shuang	✔	✔
POON Ho Man	✔	✔
LIU Wanting	✔	✔
Non-executive Directors		
TANG Chi Chun	✔	✔
GUO Zibin	✔	–
CHEN Chia-Ling	✔	–
Independent Non-executive Directors		
FAN Yan Hok, Philip	✔	✔
NIEN Van Jin, Robert	✔	✔
CHEOK Albert Saychuan	✔	✔
CHOW Kwong Fai, Edward	✔	✔

Type of trainings:

1. *Reading materials.*

2. *Attending or giving speech at seminars or training sessions/press conference.*

NEDs (including INEDs) had attended meeting(s) independently held with the Chairman of the Board, who is also the Chairman of the Strategy Committee, on direction of the Group's strategy and policies during the year.

Chairman and Chief Executive Officer

Since Mr. POON Ho Man was appointed as the CEO in place of Mr. CHEN Shuang on 19 January 2017, the roles of the Chairman of the Board and the CEO are separately performed by two individuals.

Ms. LIU Wanting (executive director) and Mr. MOK Chung Tat, Barry (Chief Financial Officer) hold the position of Deputy CEO of the Group.

The respective responsibilities of the Chairman and CEO are set out in the delegation policy which has been approved by the Board.

The Chairman is focusing on determination of strategy, direction and goal of the Group by chairing the Strategy Committee. The Chairman is also responsible for leading the Board to effective management of the Company by, among others, ensuring good corporate governance practices and procedures, encouraging the directors to make full and active contribution to the affairs of the Board, developing a culture of openness and debate among the directors and so Board decisions fairly reflect consensus, drawing up and approving Board meetings agenda, chairing Board meetings.

The CEO, within the powers delegated by the Board from time to time, is responsible for day-to-day management of the Company and to implement strategies and major policies decided by the Board with support of another executive directors and the Management Team.

REMUNERATION OF DIRECTORS

The remuneration paid to and/or entitled by each of the directors for the year ended 31 December 2017 is set out in Note 31(a) to the financial statements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Following specific enquiries by the Company, all directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

BOARD COMMITTEES

The Company established three Board committees under the Listing Rules in September 2013, namely Audit Committee, Remuneration Committee and the Nomination Committee and all chaired by an INED to oversee their respective functions set out below, and to report to the Board on their decisions or recommendations by circulating the minutes of the committee meetings to all Board members. Each committee or committee member is authorised to hire outside consultants or experts for independent professional advice at the Company's expenses to discharge their responsibilities.

AUDIT COMMITTEE

- Mr. CHOW Kwong Fai, Edward, *JP* *(Chairman)*
- Mr. NIEN Van Jin, Robert
- Mr. CHEOK Albert Saychuan
- Mr. GUO Zibin

NOMINATION COMMITTEE

- Mr. CHEOK Albert Saychuan *(Chairman)*
- Mr. FAN Yan Hok, Philip
- Mr. NIEN Van Jin, Robert
- Mr. CHOW Kwong Fai, Edward, *JP*

REMUNERATION COMMITTEE

- Mr. FAN Yan Hok, Philip *(Chairman)*
- Mr. NIEN Van Jin, Robert
- Mr. CHEOK Albert Saychuan
- Mr. CHOW Kwong Fai, Edward, *JP*

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 of the CG Code. The primary duties of the Audit Committee include but not limited to reviewing and supervising the Group's financial reporting process, internal audit function, internal control and risk management systems, and providing advices and comments to the Board. As at the date of this report, the Audit Committee consisted of Mr. CHOW Kwong Fai, Edward (chairman), Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. GUO Zibin, among whom, three are INEDs. Two Audit Committee members including the chairman of the Audit Committee hold appropriate professional qualifications or expertise in accounting or relevant financial management. Five Audit Committee meetings were held during the year. The attendances of each Audit Committee member during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Audit Committee has reviewed with the Management Team and the external auditor of the Company, PricewaterhouseCoopers ("PwC"), the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control, risk management and financial reporting including the following:

- the review of the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017, which have been reviewed by PwC in accordance with Hong Kong Standard on Review Engagements 2410 *"Review of Interim Financial Information performed by the Independent Auditor of the Entity"* issued by the Hong Kong Institute of Certified Public Accountants; and the audited consolidated financial statements of the Group for the year ended 31 December 2016;

- the discussion with PwC on the nature and scope of the audit and reporting obligations before commencement of audit;

- the recommendation to the Board for the proposal for re-appointment of PwC and approval of the remuneration and terms of engagement of PwC; and

- the review of the Company's financial control, internal control and risk management systems, and the effectiveness of the internal audit function.

Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration of all the directors and senior management to ensure that levels of their remuneration and compensation are appropriate. As at the date of this report, the Remuneration Committee consisted of Mr. FAN Yan Hok, Philip (chairman), Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward. One Remuneration Committee meeting with adjournment was held during the year. The attendances of each Remuneration Committee member during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Remuneration Committee has considered and recommended to the Board the remuneration and other benefits paid by the Company to the directors and senior management.

Nomination Committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference in compliance with Code Provision A.5 of the CG Code. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, review of the structure, size and composition of the Board and assessment of the independence of INEDs. As at the date of this report, the Nomination Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert and Mr. CHOW Kwong Fai, Edward. One Nomination Committee meeting was held during the year. The attendances of each Nomination Committee member during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of INEDs and made recommendation to the Board on the appointment or re-election of directors.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

PwC, the external auditor of the Company, had given to the Company a written confirmation of its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants before the conduct of the annual audit for the year ended 31 December 2017.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of HK$6,556,000. The relevant fee paid for audit services amounted to approximately HK$4,010,000 and the balancing of the remuneration related to the non-audit services of approximately HK$2,546,000.

The Board and the Audit Committee satisfied PwC of their findings, independence, objectivity and effectiveness in the annual audit and their audit fees. PwC is proposed for re-appointment as the Company's external auditor at the forthcoming annual general meeting of the Company.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY OF FINANCIAL REPORTING

The directors acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 to give true and fair presentation of the financial position of the Company in accordance with all applicable Hong Kong Financial Reporting Standards and for timely financial disclosures under the Listing Rules and any other regulatory requirements.

The directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statements as to the auditor's responsibility of financial reporting is set out in the independent auditor's report on pages 97 to 104.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, through efforts of the Audit Committee, oversees the Group's risk management and internal control systems on an ongoing basis and has conducted an annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2017 covering aspects of the Group's financial, operational, compliance controls and risk management functions. The Board has considered that the Group's risk management and internal control systems are effective and adequate.

Through the Audit Committee, the Board has annually reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions, and considered that the above are adequate.

Detailed control guidelines have been set and made available to all employees of the Group about the handling and dissemination of inside information under the Inside Information Provisions (as defined under the Listing Rules).

A comprehensive analysis of the risks affecting the businesses of the Company and the associated mitigation measures is set out in the risk management report on pages 57 to 67.

COMPANY SECRETARY

Ms. TAI Bik Yin is the company secretary of the Company and has professional qualification and extensive experience in discharging her duties as the company secretary of the Company. Ms. TAI is an employee of the Company and reports to the Chairman and the CEO. She also acts as the secretary to the three Board committees. She has day-to-day knowledge of the Company's affairs and advises the Board on compliance and corporate governance matters. The Board has access to the advice and services of Ms. TAI to ensure that board procedures, and all applicable law, rules and regulations are followed. Ms. TAI has complied with the requirement to take no less than 15 hours of professional training during the year under review.

SHAREHOLDERS' RIGHTS

Shareholders of the Company holding not less than 10% of the paid up capital of the Company may deposit at the Company's principal place of business in Hong Kong a requisition which specifies the objects of the meeting and is signed by the requisitionists to require an extraordinary general meeting to be convened by the Board. Shareholders could use the same way of calling an extraordinary general meeting as above to put forward proposals in detail at shareholders' meetings.

Shareholders' specific enquiries to the Board could be sent in writing to the company secretary of the Company whose contact details are as follows:

China Aircraft Leasing Group Holdings Limited
28/F, Far East Finance Centre
16 Harcourt Road
Hong Kong
email: ir@calc.com.hk

The Company's Hong Kong branch share registrar and transfer office serves the shareholders with respect to all share registration matters.

Shareholders' rights are further preserved when separate resolutions are proposed at shareholders' meetings on each substantially separate issue, including but not limited to election or re-election of individual director at annual general meeting. All resolutions proposed at shareholders' meetings are put to vote by poll.

SHAREHOLDERS' COMMUNICATION POLICY

The Company has adopted a shareholders' communication policy. Under the policy, the Company communicates with its shareholders and investors through various means. Timely publication of interim and annual results, announcements on the latest development of the Company and press release on the websites of the Company and Hong Kong Exchanges and Clearing Limited, if appropriate, could make shareholders of the Company appraise the Company's financial position. Shareholders are highly required to pay attention to these public information. Holding of an annual general meeting could provide an effective forum for the Company's shareholders to share their views with the Board. Shareholders are welcome to attend the forthcoming annual general meeting. The directors and the external auditor of the Company would be available at the forthcoming annual general meeting to answer shareholders' questions about the annual results for the financial year ended 31 December 2017.

CONSTITUTIONAL DOCUMENTS

Since the adoption of amended and restated memorandum and articles of the Company took effect from the listing date of 11 July 2014, there are no changes in the memorandum and articles of association of the Company during the year.

BOARD, BOARD COMMITTEE AND GENERAL MEETINGS ATTENDANCE

The attendances of each director at all Board and Board committee meetings and general meetings during the year, demonstrating satisfactory attendance, are set out below:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
CHEN Shuang	4/5	n/a	n/a	n/a	1/1
POON Ho Man(Note)	4/4	n/a	n/a	n/a	1/1
LIU Wanting	5/5	n/a	n/a	n/a	1/1
Non-executive Directors					
TANG Chi Chun	5/5	n/a	n/a	n/a	1/1
GUO Zibin	3/5	3/5	n/a	n/a	0/1
CHEN Chia-Ling	5/5	n/a	n/a	n/a	0/1
Independent Non-executive Directors					
FAN Yan Hok, Philip	5/5	n/a	1/1	1/1	1/1
NIEN Van Jin, Robert	5/5	5/5	1/1	1/1	1/1
CHEOK Albert Saychuan	5/5	5/5	1/1	1/1	1/1
CHOW Kwong Fai, Edward	3/5	5/5	1/1	1/1	1/1
Total number of meetings	5	5	1	1	1
Dates of Meetings	19/1/2017 24/3/2017 30/6/2017 25/8/2017 18/12/2017	22/3/2017 24/4/2017 23/8/2017 27/10/2017 15/12/2017	17/2/2017 (adjourned on 27/2/2017)	17/2/2017	22/5/2017

Note: Mr. POON Ho Man was appointed as an executive director and the CEO on 19 January 2017.

RISK MANAGEMENT REPORT

1 MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Company's system of internal control, ongoing monitoring of risk management and internal control, and reviewing their effectiveness periodically. In this connection, the Board ensures there is adequacy of resources, staff qualifications and experience, training programs and budget for the accounting, internal audit and financial reporting functions.

The system of internal control is designed to manage rather than to eliminate the risk of failure to achieve the Company's business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board operates within clearly defined terms of reference, and has appropriate committees established, namely, Strategy Committee, Audit Committee, Nomination Committee and Remuneration Committee to oversee risk and internal control activities. These Committees also have clearly defined terms of reference.

The Board aims at achieving an appropriate balance between taking risk and generating returns for shareholders while executing its responsibility for ongoing monitoring of risk and internal controls.

Our Audit Committee is designated to oversee the risk management and internal control process, particularly, standards of financial reporting, risk management and internal controls.

On the operational level, we have a team of Risk Management function overseeing the operational and business risks of the aircraft leasing business. On the Group level, we have an Internal Audit function, which is directly reporting to the Audit Committee for independent monitoring and reporting of risks and controls.

The Company has the objectives of risk management and internal control as follows:

- Continue to optimize its business model, integrating it with its enhanced corporate governance structure to reduce the inherent risks in its business activities, such as liquidity risk and credit risk;

- Continue to utilize its business network to effectively enhance its 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 its management and staff

The Company has implemented its risk management system and policies from the business model and strategic dimension.

Business model dimension

The Group's business is organized and operated on transaction basis so as to ensure each transaction is reviewed from different perspectives to ensure stringent selection of suitable aircraft assets and stringent review of credit assessment and approval.

RISK MANAGEMENT REPORT

Strategic dimension

Risk management initiatives are led by the Board (through its Audit Committee), and executed by CEO and his senior management team, under the supervision of Strategy Committee, through an independent Risk Management team.

The Company's risk management and internal control framework is designed to minimize the risk in the delivery of the Company's strategic objectives. The key principles of the framework are as follows:

– The Board and the Management shall promote a culture to identify, assess and report risks in an open, transparent and objective manner.

– The priority of the Company is to protect its long-term and sustainable interests.

Risk management is embedded within all businesses and operations of the Company. The Company expects all individual behavior to mirror and share the culture and core values of the Company. All employees have the responsibility of upholding the Company's risk and control culture and supporting effective risk management to deliver its strategy.

The Company operates a "three lines of defense" framework for managing and identifying risk.

The first line of defense against undesirable outcomes is undertaken by the business function and the respective line managers. Department heads of all business areas are responsible for implementing and maintaining appropriate controls.

Line management is supported and monitored by middle and back office functions like, Transaction Support, Finance and Accounting, Legal, Compliance, Company Secretarial, Human Resources, Information Technology and Risk Management, which constitute the second line of defense to ensure all risks are considered and tackled.

Risk Management team prepares the risk management reports on a quarterly basis and submits it to our Audit Committee for review. In addition, the Board reviews the effectiveness of the Group's risk management and internal control system with the assistance of Audit Committee, which covers all material controls including financial, operational and compliance control, and the risk management system.

The third line of defense is carried out by our Internal Audit function. It provides independent review on the operation of controls.

2 ANNUAL REVIEW OF THE RISK MANAGEMENT & INTERNAL CONTROL

The Risk Management team carried out the annual review of the effectiveness of the Group's risk management and internal control system and the results were reported to our Audit Committee and the Board. The Board acknowledged that the risk management and internal control system of the Group during the review period were effective and adequate.

2.1 Ongoing Monitoring of Risks and Internal Control

2.1.1 Scope and quality

During the year, the Board reviewed the business of the Company through its regular meetings in order to ensure that business risks had been considered, assessed and managed as integral part of the business. There was an ongoing process for identifying, evaluating and managing the Company's significant risks. The Company's risk assessment process included the monitoring of key strategic and financial risk matrix. In addition, the Company reviewed the impact of any changes and developments on its risk profile, strategic risk and reputation.

The impact and likelihood of each significant risk was evaluated with reference to associated measures and key performance indicators. The adequacy of the risk mitigations plans was assessed and, if necessary, extra improvement action would be added.

2.1.2 Extent and frequency of communication

Our Audit Committee held regular meetings at least quarterly for assessing control of the Company and the effectiveness of risk management.

The Risk Management team, being supported by other relevant departments, summarized the key risks and internal control matters, and identified changes in the risk and internal control profile of the Company.

Risk and risk events were captured by the business and reported to the second line of defense. Specific reports and periodic updates were submitted to the Board after the review by our Audit Committee, if necessary. Issues would be raised when there were control failings, weaknesses and inefficient processes identified or through continuous monitoring reviews by the second and third line of defense teams.

The risk and internal control review report was updated at each Audit Committee meeting where our Audit Committee members contributed their views and raised questions to ensure the risk management and internal controls were in place and effective.

2.2 Significant Control Failings or Weaknesses

The Company has underlying procedures to handle significant control failings or weaknesses, which includes material adverse event assessment, mitigation plan and follow up action. Significant control failing is required to be reported by senior management to our Audit Committee and the Board. No significant control failings or weaknesses were identified during the year.

2.3 Effectiveness of Financial Reporting & Listing Rule Compliance

With the support and input from the External Auditors, our Audit Committee carried out its review and assessment of the Company's financial reporting, covering those key areas like whether suitable accounting policies were adopted, whether management made appropriate estimates and judgments and whether disclosures in published financial statements were fair, balanced and understandable.

With the support from the Company Secretarial Department, our Audit Committee carried out its compliance review to assess whether the Company has been complying with the relevant regulatory requirements on a quarterly basis. The compliance review summarized the compliance status, corrective actions and the enhancement recommendations.

In regard to the above, our Audit Committee considered the Company's processes for financial reporting and Listing Rules' Compliance was effective.

2.4 Changes of Key Risks

This section summarised the key risks and uncertainties that are inherent with the Company, particularly in the aircraft leasing industry.

The risks mentioned below did not purport to be exhaustive as there may be additional risks that the Company has not yet identified or has deemed to be immaterial that could have a material adverse effect on the business. In order to cope with those risks, the Company had its monitoring and mitigating measures.

Key Risk	Risk Monitoring and Mitigating Measures
1. **Procurement of aircraft** Risks related to aircraft include: – aircraft type selection – terms and conditions negotiation – aircraft delivery schedule & budgeting Risks related to procurement personnel include: – corruption – conflict of interest – counterparty risks	• The Company has several professional teams to monitor, control and review the entire procurement process. • Initial acquisition plan, budget and proposal are prepared internally and reviewed by senior management prior to submission for approval of Strategy Committee. • Due diligence is conducted to check against each counterparty and preventive clauses in transaction agreements is inserted, if necessary.

Key Risk	Risk Monitoring and Mitigating Measures
2.1 Engineering and configuration of aircraft (technical and engineering) Related risks include: – information leakage, – conflict of interest, – engineering corruption	• The Company has 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. • Incentive system is in place to align individual's expectation with corporate objective for avoiding engineering corruption.
2.2 Engineering and configuration of aircraft (industry) Related risks include: – change of government policies – industry demand and changes for aircraft configuration fitting	• There are regular alerts on customers and industry-wise changes and news. • A designated team monitors regularly on changes in government policies relating to the industry.
3. Placement of aircraft and leasing Related risks include: – change in demand in global & local markets – timely placement to meet customer's need – leasable and sellable conditions of aircraft	• The Company's commercial team monitors the leasing market closely and report to senior management regularly on marketing and placement plans for business expansion. • The Company has a placing mechanism and checklist to ensure timely, appropriate and satisfactory placements of new and used aircraft to minimize the risk of idle asset. • Perform jurisdictional analysis before inception of a lease, except well-developed jurisdictions. • Annual inspection is performed for leased aircraft to monitor its sellable or leasable condition upon the expiry of aircraft lease.
4. Financing Related risks include: – mismatch of business & funding plans – concentration on one financing source – insufficient working capital	• The Company plans its project funding requirements and maintaining cohesive business network with various onshore and offshore financing banks/institutions. • The Company explores other available financing channels to diversify its financing sources.

RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
5. Delivery of aircraft Related risks include mismatched timing for: – manufacture of aircraft – financing – transfer of titles – delivery to airlines – approval by government	• Regular meetings of professional teams are in place to monitor: a) the manufacturing progress; b) readiness of our customer to take delivery; c) availability of aircraft financing (if required); d) completion of delivery and financing related legal documents. • Comprehensive checklists are used to ensure processes are handled properly and completed as scheduled. • Any failure to meet schedule will be reported immediately to CEO and senior management.
6. Counterparty default and concentration Related risks include: – counterparties unable to fulfill their contractual obligations under aircraft purchases contracts, aircraft lease agreements, aircraft acquisition financing agreements, other financial and relevant transaction agreements	• The Company assesses its counterparty default and concentration risk prior to entering into any agreement through a rigorous selection process and only deal with those counterparties that meet its internal selection criteria and its initial due diligence check. • The Company continues to monitor the creditworthiness of its counterparties after engaging with them through its ongoing monitoring of lease receivable collection status, market news, on-site customer visits, review of the counterparties' financial and operational data and/or other measures considered appropriate. • In case of deteriorating creditworthiness, CEO and senior management are alerted immediately by the appropriate team for taking necessary action(s).
7. Liquidity & interest rate Related risks include: – mismatch of financing terms and lease terms of aircraft deals – fluctuation of market interest rates	To minimize the uncertainty in mismatched future cash flow stream and frequency of refinancing: • The Company structures the lease terms to match that of the loan to the extent that its receipt from lease is sufficient to cover its payment on loan installments throughout the loan term or in line with the realization or refinancing plan of the lease. • The Company manages to maintain a balanced loan portfolio with fixed and floating interest rates by entering into appropriate hedging arrangement on need basis for each deal to mitigate the interest rate risk & balance the overall return. • CEO/CFO approves to execute derivative instruments (i.e. interest rate swap) to hedge against its cash flow and interest rate risk exposure.

Key Risk	Risk Monitoring and Mitigating Measures
8. **Exchange rate** Related risks include: – mismatch of currency on related receipts and payments	• To manage its exchange rate risk, aircraft and lease related contracts (including procurement, placement and disposal) are mostly denominated in USD. • The Company manages this risk by closely monitoring the outstanding foreign currencies positions and preparing regular sensitivity analysis, if significant. Any exceptions will be reported to CFO.
9. **Maintenance and residual value of aircraft** Related risks include: – poor maintenance of aircraft during the lease term	• The Company includes several asset protection clauses in aircraft lease agreement of which its customers are obliged to observe and fulfill the maintenance obligations and reserve, return compensation and re-delivery condition, etc. throughout and upon the expiry of the lease term. • Its airline 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 its prior written consent to ensure the actual user of the leased aircraft are indeed its intended customers. • The Company is entitled to and has continuously performed periodic inspection on site of the leased aircraft and the maintenance records to ensure the performance of the maintenance obligations by its customers. • The Company also periodically engage independent professional advisor to assess the fair value of its aircraft portfolio for impairment review. • Any exceptions or non-compliance issues revealed in its monitoring process are reported to CEO and senior management.

RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
10. Investment value (at exit) Related risks include: – inability to re-lease or dispose the aircraft upon return from lessee.	The Company takes measures to mitigate this risk:– • Choosing popular and easily-marketable aircraft models for acquisition with subsequent regular inspection • Monitoring controls to ensure the aircraft to be returned in sellable or leasable condition. • Monitoring closely the development of aircraft leasing market and carry out early marketing campaign to dispose its finance lease receivable and/or its aircraft at early stage. • Reviewing summary of its aircraft portfolio by senior management to identify any appropriate exit strategy periodically. • Obtain opinion from external legal counsel for each new country's jurisdiction; and keep up to date on major legal developments in countries with existing leases.
11. Financial covenants and settlement obligations Related risks include: – failure to comply with covenants or obligations of signed agreements.	• The Company manages this compliance risk through closely and frequently reviews of covenants compliance status and other conditions as required by the agreement or rules and regulations by using checklist. • Early alert will be flagged to its senior management and CEO if any potential noncompliance event is anticipated.
12. Business secret and information confidentiality Related risks include: – business information leakage – breaching non- disclosure and/or information confidentiality clauses of signed agreements.	• The Company manages this risk by allowing only sufficient but not excessive information made available to the respective functions or teams. • Non-disclosure of business information and non-competitive clauses are also built in its employees' employment agreements to protect its interests upon departure of its employees.

Key Risk	Risk Monitoring and Mitigating Measures
13. Financial management and tax Related risks include: – cash flow (liquidity) risk – counterparty default (credit) risk – interest rate risk – currency risk – tax risk	• To balance the risk and return, the Company has professional teams to monitor, on a periodic basis, the financial and tax risk exposure of the whole Company by various methods embedded in the respective process, including the interest rate derivative hedging arrangement which is the only derivative hedging allowed by the Strategy Committee. • Approval by CEO (or his delegates) is a must for derivative transaction for hedging which should be in conformity with the Interest Rate Risk Management Policy of the Group. • Monthly cash flow forecast is prepared for review by CFO to ensure sufficient liquidity of its business operations at Corporate level. • External professional advisers are engaged to advise on critical issues arising from business transactions. • Any exception or unexpected exposure is reported to CEO and Strategy Committee for proper action. • The Company manages these risks by preparing regular analysis to closely monitor these risks positions. Any exceptions will be reported to CFO.
14. Capital management & Financial Leverage Related risks include: – inability to continue as a going concern – fluctuation in returns for shareholders and long term shareholders' value	• The Company manages its capital structure and make appropriate adjustments in light of changes in economic condition and its business expansion plan by various means, including issuing new shares, raising new debts or bonds or adjusting dividend payment to shareholders. • The Company reviews its capital requirements at budgeting stage and monitor its asset-liability (gearing) ratio on a monthly basis. • Alert will be made to CFO if the asset-liability or other critical ratio exceeds the threshold set by its annual budget.

RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
15. Human resources Related risks include: – recruitment and retention of industry talents, key personnel and leaders – compliance of labour laws and regulations in different jurisdictions	• The Company provides training opportunities to staff to grow their talents and offers comparable remuneration and incentive package including bonus and share options. It encourages its employees to attend relevant training courses, either in house or external to keep their business and technical knowledge up-to-date. • The Company adopts standardized operating procedures and drives to have employee succession plan in place to minimize the potential adverse impact on its business operation due to departure of any key personnel. • Human resources team has procedures to satisfy and comply with all relevant labour laws and regulations in different jurisdictions.
16. Compliance Related risks include: – change of government policies affecting the Group's business or operation – disclosure or leakage of business information not accordance with rules and regulations – loss of important agreements	• The Company has designated teams to 1) monitor and follow up changes in existing government policies; 2) monitor changes in regulatory requirements and advise the relevant teams; 3) monitor the compliance of listing requirement (e.g. connected party transactions) on a regular basis; and 4) seek advice from external advisor(s) on new requirements, if necessary. • The Company has a designated corporate communication team to monitor news/media/social media and take initiatives to disclose information timely to stakeholders & the public. • The Company centralizes all key agreements and legal documents in safe custody by designated officers and in a centralized document management system; and standard document lists are maintained for this purpose.

During the year, the Company achieved the following to mitigate its risks:

- continued to expand its global footprint and signed leases with airlines in different geographic region
- delivered and leased out 26 aircraft on time
- disposed of finance lease receivables for 21 aircraft among which the Group launches China's First Foreign Currency Asset-Backed Security ("ABS") and First Aircraft Leasing ABS (in USD) listed on Shanghai Stock Exchange
- diversified its financing channel through:
  - issuance of USD bonds for totally USD500 million
  - arrangement of USD425 million syndicated loan facility
  - arrangement of Japanese Operating Lease with Call Option (JOLCO) financing with multiple Purchase Option
  - Launch of USD3 billion medium-term note programme in Hong Kong

The diversity of funding channels increased the confidence of investors and banks in the Company and helped reducing its funding costs. In addition, the cash received through various financing channels, for example: issue of bonds and disposal of finance lease receivable, had helped strengthen the Group's cash position during the year and maintained at HK$7,023.4 million at 31 December 2017. The overall liquidity risk and financial leverage risk were considered to be maintained at an acceptable level during the year.

Following the issuance of RMB medium-term notes, the RMB position increased but not considered to be significant. The Company minimises the currency exchange risk by matching the finance lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

The cost of borrowing would be expected to increase following the increase of USD interest rate. With the interest rate swap arrangement, the Company's floating interest rate borrowings were hedged as per our hedging policy. The overall interest rate risk was still considered to be at an acceptable level. In view of the upward trend of the USD interest rate, the interest rate risks would be monitored on an ongoing basis.

Apart from the above, no significant risk event occurred during the year in respect of other business, market, financial or operational risks of the Company and no significant change in the above-mentioned risks was noted during the year.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to present the report of the directors for the year 2017 together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL BUSINESS ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Group has operations mainly in Mainland China and other countries or regions in Europe and Asia.

BUSINESS REVIEW

A fair review of the Group's business and/or an indication of the likely future development of the Group's business are provided in the sections of this annual report headed the Chairman Statement (on pages 12 to 15) and the CEO Statement (on pages 16 to 19). Description of the principal risks and uncertainties facing the Group can be found in the Risk Management Report (on pages 57 to 67). No important event affecting the Group has occurred since the end of the financial year under review. Certain financial key performance indicators which complement and supplement our financial disclosures are set out in the sections of this annual report headed the Financial Highlights and Five-Year Financial Summary (on pages 10 to 11) and the Management Discussion and Analysis (on pages 20 to 28). Discussions on the Group's environmental policies and performance, and compliance with relevant laws and regulations are included in the sections of this annual report headed the Environmental, Social and Governance Report (on pages 29 to 44) and the Corporate Governance Report (on pages 45 to 56). An account of the Group's relationships with its key stakeholders that have a significant impact on the Group and on which the Group's success depends are provided in the sections of this annual report headed the CEO Statement (on pages 16 to 19), the Environmental, Social and Governance Report (on pages 29 to 44) and the Corporate Governance Report (on pages 45 to 56).

The above sections form part of the report of the directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of income on page 106 of this annual report.

The directors have declared an interim dividend of HK$0.18 per share, totaling approximately HK$122.1 million which was paid on 25 September 2017.

The Board has recommended the payment of a final dividend of HK$0.42 per share (2016: HK$0.39 per share) in respect of the year ended 31 December 2017 to shareholders whose names appear on the register of members of the Company ("Register of Members") on 17 May 2018. The proposed final dividend will be paid on or about 5 June 2018, following approval at the annual general meeting of the Company to be held on 9 May 2018 (the "AGM").

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the AGM and entitlement to the final dividend, the Register of Members will be closed in accordance with the following timetable:

(i) For determining shareholders' eligibility to attend and vote at the AGM:

(a)	Latest time to lodge transfer documents for registration	4:30 pm on 3 May 2018
(b)	Closure of Register of Members	4 May 2018 to 9 May 2018 *(both dates inclusive)*

(ii) For determining entitlement to the final dividend:

(a)	Latest time to lodge transfer documents for registration	4:30 pm on 15 May 2018
(b)	Closure of Register of Members	16 May 2018 to 17 May 2018 *(both dates inclusive)*
(c)	Record date	17 May 2018

During the above closure periods, no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, and to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the time set out above.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities and non-controlling interests for the last five financial years is extracted from the audited financial information, which is set out on pages 10 to 11 to this annual report. This summary does not form a part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements in the Group's property, plant and equipment for the year are set out in Note 5 to the consolidated financial statements.

SHARE CAPITAL

During the year, as a result of the exercise of share options granted under the share option schemes of the Company, a total of 8,278,720 shares of the Company, fully paid, were issued. Further details are set out in the section of this report of directors headed the Share Option Schemes and Note 11 to the consolidated financial statements.

Details of the movements in share capital of the Company during the year are set out in Note 11 to the consolidated financial statements.

ISSUANCE OF SECURITIES

1. In March 2017, the Group issued senior unsecured bonds in an aggregate principal amount of US$500,000,000, of which US$300,000,000 are five-year bonds due 2022; and US$200,000,000 are seven-year bonds due 2024. These bonds bear coupon interest at 4.7% and 5.5% per annum respectively, payable semi-annually. These bonds were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and are guaranteed by the Company. Details of the above issuance of bonds are set out in the Company's announcements dated 28 February 2017 and 8 March 2017.

2. In December 2017, CALC Bonds Limited, a wholly-owned subsidiary of the Company, established the US$3,000,000,000 guaranteed medium-term note programme ("MTN Programme"), which was listed on the Stock Exchange. Notes issued under the MTN Programme are unconditionally and irrevocably guaranteed by the Company. No notes have been issued under the MTN Programme for the year under review.

EQUITY LINKED AGREEMENTS

(a) Convertible Bonds

Details of the movements in convertible bonds of the Company during the year together with the actual use of proceeds from issue of the convertible bonds are set out in Note 17 to the consolidated financial statements.

(b) Share Options

Details of the movements in share options of the Company during the year are set out in the section of this report of directors headed the Share Option Schemes.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 108 to 109 of this annual report and Notes 12 and 34 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2017, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$2,428,115,000, are set out in Note 34 to the consolidated financial statements.

CHARITABLE DONATIONS

The Group's external charitable donations for the year amounted to HK$75,000.

DIRECTORS

The directors of the Company during the year and up to the date of this annual report were as follows:

Executive Directors

Mr. CHEN Shuang, *JP* *(Chairman)*
Mr. POON Ho Man *(Chief Executive Officer)* (appointed as Executive Director and Chief Executive Officer on 19 January 2017)
Ms. LIU Wanting *(Deputy Chief Executive Officer)*

Non-executive Directors

Mr. TANG Chi Chun
Mr. GUO Zibin
Ms. CHEN Chia-Ling

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. CHOW Kwong Fai, Edward, *JP*

According to Article 16.18 of the Company's articles of association, not less than one-third of the directors (including those appointed for a specific term) shall retire from office by rotation provided that each director shall be subject to retirement by rotation at the annual general meeting at least once every three years. Accordingly, Ms. LIU Wanting, Mr. GUO Zibin, Ms. CHEN Chia-Ling and Mr. FAN Yan Hok, Philip shall retire by rotation. Ms. LIU Wanting and Mr. FAN Yan Hok, Philip, being eligible, will offer themselves for re-election at the AGM. Each of Mr. GUO Zibin and Ms. CHEN Chia-Ling has decided to retire from his/her position as a non-executive director of the Company with effect from the conclusion of the forthcoming AGM and accordingly, they will not offer themselves for re-election.

In addition, according to Article 16.2 of the Company's articles of association, the Board shall have power from time to time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Any director so appointed shall hold office only until the next following general meeting, and shall then be eligible for re-election at that meeting. Accordingly, Mr. POON Ho Man, being a director appointed by the Board on 19 January 2017, had retired from office and, being eligible, been re-elected at the annual general meeting held on 22 May 2017.

DIRECTORS' SERVICE CONTRACTS

None of the directors offering themselves for re-election at the AGM has entered into any service contract with the Company or any of its subsidiaries which is not terminable by the employing company within one year without payment or compensation other than the normal statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group at any time during the year ended 31 December 2017.

PERMITTED INDEMNITY

Pursuant to the Company's articles of association, every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the applicable laws and regulations. The Company has arranged appropriate directors' and officers' liability insurance for the directors and officers of the Group.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Profile of the directors and senior management are set out on pages 88 to 96 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange from each of the independent non-executive directors (the "INED(s)") and the Company considers that each of the INEDs, namely Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward, is independent.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the directors for the year ended 31 December 2017 are set out in Note 31(a) to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the interests or short positions of the directors and the chief executive of the Company in the shares (the "Shares"), underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, are as follows:

		Number of Shares held (L)(1)			
Name of directors	Capacity	Nature of interests	Number of Shares/ underlying share held	Total interests	Approximate percentage of Shares in issue(2)
CHEN Shuang	Beneficial owner	Personal interest	400,000		
	Beneficial owner	Derivatives interest	10,000,000(3)	10,400,000	1.53%
POON Ho Man	Interest of controlled corporations	Corporate interest	197,554,589(4)		
	Interest of spouse	Family interest	3,800,000(5)	201,354,589	29.69%
LIU Wanting	Interest of controlled corporation	Corporate interest	10,000,000(6)		
	Beneficial owner	Derivatives interest	3,000,000(3)	13,000,000	1.92%
TANG Chi Chun	Beneficial owner	Personal interest	200,000	200,000	0.03%
CHEN Chia-Ling	Beneficial owner	Derivatives interest	200,000(3)	200,000	0.03%
FAN Yan Hok, Philip	Beneficial owner	Personal interest	200,000	200,000	0.03%
NIEN Van Jin, Robert	Beneficial owner	Personal interest	234,000	234,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	Personal interest	5,000		
	Beneficial owner	Derivatives interest	200,000(3)	205,000	0.03%
CHOW Kwong Fai, Edward	Beneficial owner	Derivatives interest	200,000(3)	200,000	0.03%

Notes:

(1) The letter "L" denotes the entity/person's long position in the securities.

(2) Based on 678,179,360 Shares in issue as at 31 December 2017.

(3) These interests represented the interests in the underlying shares in respect of the share options granted by the Company to directors of the Company pursuant to the Post-IPO Share Option Scheme. Further details are set out on pages 78 to 79 to this annual report.

(4) Mr. POON Ho Man was deemed to be interested in 197,554,589 Shares in the following manner:

(a) 182,554,589 Shares held by Friedmann Pacific Asset Management Limited, which is owned as to 0.000001% by Ms. Christina NG, the spouse of Mr. POON, and 99.999999% by Capella Capital Limited ("Capella") which is in turn owned as to 10% by Ms. NG and 90% by Mr. POON; and

(b) 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

(5) These interests represented the interests in the underlying shares in respect of the share options granted by the Company to Ms. Christina NG pursuant to the Post-IPO Share Option Scheme. Further details are set out on page 79 to this annual report.

(6) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. LIU Wanting.

Save as disclosed above, as at 31 December 2017, none of the directors or the chief executive of the Company had any other interests or short positions in any Shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS FOR THE DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed herein, at no time during the year were there any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

Based on the information available to the directors of the Company as at 31 December 2017 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 31 December 2017, the entities and/or persons who had interests or short positions in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholders	Capacity/nature of interest	Number of Shares held (L)[1]	Number of underlying Shares held (L)[1]	Approximate percentage of Shares in issue[2]
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	208,979,479[4]	–	30.81%
China Everbright Financial Investments Limited ("CE Financial")	Beneficial owner	18,616,000[4]	–	2.75%
	Beneficial owner	–	13,755,319[3]	2.03%
China Everbright Limited ("CEL")	Interest of controlled corporation	227,595,479[4]	–	33.56%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	227,595,479[5]	–	33.56%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	227,595,479[6]	–	33.56%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
Central Huijin Investment Limited ("Huijin Limited")	Interest of controlled corporation	227,595,479[6]	–	33.56%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	182,554,589[8]	–	26.92%
Capella Capital Limited ("Capella")	Interest of controlled corporation	182,554,589[8]	–	26.92%
POON Ho Man	Interest of controlled corporation	197,554,589[9]	–	29.13%
	Interest of spouse	–	3,800,000[7]	0.56%
Christina NG	Interest of spouse	197,554,589[10]	–	29.13%
	Beneficial owner	–	3,800,000[7]	0.56%

Notes:

(1) The letter, "L" denotes the entity/person's long position in the securities.

(2) Based on 678,179,360 Shares in issue as at 31 December 2017.

(3) These interests represented the interests in underlying shares in respect of the convertible bonds issued by the Company to CE Financial pursuant to a subscription agreement with CE Financial dated 26 March 2015.

(4) The entire issued share capital of CE Aerospace and CE Financial is wholly-owned by CEL. Accordingly, CEL is deemed to be interested in all Shares held by CE Aerospace and CE Financial, and underlying shares mentioned in note (3) above.

(5) CE Hong Kong indirectly holds more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong is deemed to be interested in all Shares and underlying shares mentioned in notes (3) and (4) above.

(6) According to the Company's announcements in respect of the restructuring of CE Group dated 10 November 2014, 25 November 2014, 8 December 2014 and 14 May 2015, CE Group and Huijin Limited are deemed to be interested in all Shares and underlying shares mentioned in notes (3) and (4) above.

(7) These interests represented the interests in underlying shares in respect of the share options granted by the Company to Ms. Christina NG pursuant to the Post-IPO Share Option Scheme. Further details are set out on page 79 to this annual report.

(8) The issued share capital of FPAM is owned as to 0.000001% by Ms. Christina NG and 99.999999% by Capella. Accordingly, Capella is deemed to be interested in all Shares held by FPAM.

(9) The issued share capital of Capella is owned as to 10% by Ms. Christina NG and 90% by Mr. POON Ho Man. Accordingly, Mr. POON is deemed to be interested in all Shares mentioned in note (8) above. Mr. POON is also interested in 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

(10) Ms. Christina NG is the spouse of Mr. POON Ho Man and is deemed to be interested in all Shares held by Mr. POON as mentioned in note (9) above.

Save as disclosed above, as at 31 December 2017, the directors are not aware of any person who had an interest or short position in the Shares or underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted by the Group on 4 August 2011 and taken over by the Company under the corporate reorganisation of the Group on 23 June 2014.

As at the date of this annual report, all share options granted under the Pre-IPO Share Option Scheme were exercised, so no outstanding Shares were available for issue thereunder. As at 24 March 2017 (the date of the 2016 annual report), the total number of Shares available for issue under the Pre-IPO Share Option Scheme was 6,514,340 Shares which represented approximately 1% of the issued share capital of the Company. No option was granted under the Pre-IPO Share Option Scheme during the year.

REPORT OF THE DIRECTORS

The following share options under the Pre-IPO Share Option Scheme were outstanding during the year and as at 31 December 2017:

			Number of Shares under options					Price of the Company's Shares			
								Exercise price per Share		Immediately before the exercise date per Share *(Note 2)*	
Name of grantees	Date of grant	Tranche	At 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2017	1/7/2016 to 30/6/2017 US$	1/7/2017 to 26/3/2018 US$	HK$	Exercise period
Substantial shareholders											
China Everbright Aerospace Holdings Limited	10/10/2011	A	680,000	–	(680,000)	–	–	0.195	0.215	9.94	26/3/2017 to 26/3/2018
Friedmann Pacific Asset Management Limited	10/10/2011	A	442,000	–	(442,000)	–	–	0.195	0.215	10.08	26/3/2017 to 26/3/2018
Sub-total			**1,122,000**	**–**	**(1,122,000)**	**–**	**–**				
Connected person											
Equal Honour Holdings Limited (Note 1)	7/10/2011	A	5,100,000	–	(5,100,000)	–	–	0.195	0.215	9.79	26/3/2017 to 26/3/2018
Sub-total			**5,100,000**	**–**	**(5,100,000)**	**–**	**–**				
Senior management and other employees	10/10/2011	A	1,980	–	–	–	1,980	0.195	0.215	–	26/3/2016 to 26/3/2018
			314,160	–	(220,320)	(91,800)	2,040	0.195	0.215	9.60	26/3/2017 to 26/3/2018
	30/12/2011	A	68,000	–	(68,000)	–	–	0.195	0.215	9.29	26/3/2017 to 26/3/2018
Sub-total			**384,140**	**–**	**(288,320)**	**(91,800)**	**4,020**				
Total			**6,606,140**	**–**	**(6,510,320)**	**(91,800)**	**4,020**				

Notes:

(1) Equal Honour Holdings Limited is wholly-owned by Mr. POON Ho Man who is a substantial shareholder of the Company and was appointed as a director of the Company on 19 January 2017.

(2) The price of the Company's Shares disclosed is the weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the year.

REPORT OF THE DIRECTORS

Post-IPO Share Option Scheme

The post-IPO share option scheme (the "Post-IPO Share Option Scheme") was conditionally approved and adopted pursuant to a resolution in writing passed by the shareholders of the Company on 23 June 2014, which became effective on 11 July 2014 (the "Listing Date").

As at the date of this annual report, the total number of Shares available for issue under the Post-IPO Share Option Scheme was 25,875,000 Shares (as at 24 March 2017, the date of the 2016 annual report: 27,312,400 Shares) which represented approximately 3.8% (as at 24 March 2017: 4.1%) of the issued share capital of the Company. No option was granted under the Post-IPO Share Option Scheme during the year.

The following share options under the Post-IPO Share Option Scheme were outstanding during the year and as at 31 December 2017:

			Number of Shares under options					Price of the Company's Shares		
Name of grantees	Date of grant	Tranche	At 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2017	Exercise price per Share HK$	Immediately before the exercise date per Share *(Note 2)* HK$	Exercise period
Directors										
CHEN Shuang	2/9/2014	B	66,000	–	(66,000)	–	–	6.38	8.39	1/3/2015 to 1/9/2017
			66,000	–	(66,000)	–	–	6.38	8.39	1/3/2016 to 1/9/2017
			68,000	–	(68,000)	–	–	6.38	8.39	1/3/2017 to 1/9/2017
	22/7/2016	N/A	3,300,000	–	–	–	3,300,000	8.80	–	22/1/2017 to 21/7/2020
			3,300,000	–	–	–	3,300,000	8.80	–	22/1/2018 to 21/7/2020
			3,400,000	–	–	–	3,400,000	8.80	–	22/1/2019 to 21/7/2020
LIU Wanting	22/7/2016	N/A	990,000	–	–	–	990,000	8.80	–	22/1/2017 to 21/7/2020
			990,000	–	–	–	990,000	8.80	–	22/1/2018 to 21/7/2020
			1,020,000	–	–	–	1,020,000	8.80	–	22/1/2019 to 21/7/2020
TANG Chi Chun	2/9/2014	B	66,000	–	(66,000)	–	–	6.38	8.39	1/3/2015 to 1/9/2017
			66,000	–	(66,000)	–	–	6.38	8.39	1/3/2016 to 1/9/2017
			68,000	–	(68,000)	–	–	6.38	8.39	1/3/2017 to 1/9/2017
GUO Zibin	2/9/2014	B	66,000	–	–	(66,000)	–	6.38	–	1/3/2015 to 1/9/2017
			66,000	–	–	(66,000)	–	6.38	–	1/3/2016 to 1/9/2017
			68,000	–	–	(68,000)	–	6.38	–	1/3/2017 to 1/9/2017
CHEN Chia-Ling	22/7/2016	N/A	66,000	–	–	–	66,000	8.80	–	22/1/2017 to 21/7/2020
			66,000	–	–	–	66,000	8.80	–	22/1/2018 to 21/7/2020
			68,000	–	–	–	68,000	8.80	–	22/1/2019 to 21/7/2020
FAN Yan Hok, Philip	2/9/2014	B	66,000	–	(66,000)	–	–	6.38	8.85	1/3/2016 to 1/9/2017
			68,000	–	(68,000)	–	–	6.38	8.85	1/3/2017 to 1/9/2017
NIEN Van Jin, Robert	2/9/2014	B	66,000	–	(66,000)	–	–	6.38	9.14	1/3/2016 to 1/9/2017
			68,000	–	(68,000)	–	–	6.38	9.14	1/3/2017 to 1/9/2017
CHEOK Albert Saychuan	22/7/2016	N/A	66,000	–	–	–	66,000	8.80	–	22/1/2017 to 21/7/2020
			66,000	–	–	–	66,000	8.80	–	22/1/2018 to 21/7/2020
			68,000	–	–	–	68,000	8.80	–	22/1/2019 to 21/7/2020
CHOW Kwong Fai, Edward	22/7/2016	N/A	66,000	–	–	–	66,000	8.80	–	22/1/2017 to 21/7/2020
			66,000	–	–	–	66,000	8.80	–	22/1/2018 to 21/7/2020
			68,000	–	–	–	68,000	8.80	–	22/1/2019 to 21/7/2020
Sub-total			**14,468,000**	**–**	**(668,000)**	**(200,000)**	**13,600,000**			

Name of grantees	Date of grant	Tranche	Number of Shares under options					Price of the Company's Shares		Exercise period
			At 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2017	Exercise price per Share HK$	Immediately before the exercise date per Share *(Note 2)* HK$	
Connected person										
Christina NG (Note 1)	22/7/2016	N/A	1,254,000	–	–	–	1,254,000	8.80	–	22/1/2017 to 21/7/2020
			1,254,000	–	–	–	1,254,000	8.80	–	22/1/2018 to 21/7/2020
			1,292,000	–	–	–	1,292,000	8.80	–	22/1/2019 to 21/7/2020
Sub-total			**3,800,000**	**–**	**–**	**–**	**3,800,000**			
Senior management and other employees	2/9/2014	B	89,100	–	(89,100)	–	–	6.38	9.11	1/3/2015 to 1/9/2017
			234,300	–	(234,300)	–	–	6.38	9.30	1/3/2016 to 1/9/2017
			724,200	–	(612,000)	(112,200)	–	6.38	9.52	1/3/2017 to 1/9/2017
	22/7/2016	N/A	2,851,200	–	(165,000)	–	2,686,200	8.80	9.58	22/1/2017 to 21/7/2020
			2,851,200	–	–	–	2,851,200	8.80	–	22/1/2018 to 21/7/2020
			2,937,600	–	–	–	2,937,600	8.80	–	22/1/2019 to 21/7/2020
Sub-total			**9,687,600**	**–**	**(1,100,400)**	**(112,200)**	**8,475,000**			
Total			**27,955,600**	**–**	**(1,768,400)**	**(312,200)**	**25,875,000**			

Notes:

(1) Ms. Christina NG is the spouse of Mr. POON Ho Man who is a substantial shareholder of the Company and was appointed as a director of the Company on 19 January 2017.

(2) The price of the Company's Shares disclosed is the weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the year.

Principal Terms of Share Option Schemes

The principal terms of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme (collectively, the "Share Option Schemes") are as follows:

(a) ***Purpose of the Share Option Schemes***

The purpose of the Share Option Schemes is to provide incentives or rewards to the participants for their contribution to the growth of the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

(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 Share Option Schemes become 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 at a price to be determined by the Board. For the purpose of the Share Option Schemes, options may be granted to any company wholly-owned by a participant.

REPORT OF THE DIRECTORS

(c) *Subscription price for Shares*

(c.1) Post-IPO Share Option Scheme

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.

(c.2) Pre-IPO Share Option Scheme

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.

(d) *Consideration for the option*

(d.1) Post-IPO Share Option Scheme

Upon acceptance of the options, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

(d.2) Pre-IPO Share Option Scheme

Each of the grantees is required to pay US$1 on acceptance of the options granted under the Pre-IPO Share Option Scheme.

(e) *Maximum number of Shares*

(e.1) Post-IPO Share Option Scheme

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 the Group shall not, in aggregate, exceed 10% of the total number of Shares in issue immediately following completion of the global offering (the "Scheme Mandate Limit") unless the Company seeks the approval of the shareholders in general meeting for refreshing the Scheme Mandate Limit. Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme or any other share option schemes of the Group shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.

(e.2) Pre-IPO Share Option Scheme

Save for the options which have been granted in 2011, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

(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.

(g) ***Exercise of option***

An option may be exercised in accordance with the terms of the Share Option Schemes 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.

(h) ***Duration of the Share Option Schemes***

The Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Schemes and in such event no further options shall be offered but the provisions of the Share Option Schemes 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 Share Option Schemes. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Schemes.

Subject to the aforesaid, the Share Option Schemes shall be valid and effective for a period of ten years commencing from the date on which the Share Option Schemes become effective, after which period no further options shall be granted but the provisions of the Share Option Schemes shall remain in full force and effect in to the extent necessary to give effect to the exercise of the options granted prior thereto.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

PUBLIC FLOAT

Based on the information publicly available to the Company and as far as the directors are aware as at the date of this report, at least 25% of the total issued share capital of the Company is held by the public pursuant to the Listing Rules.

DEED OF NON-COMPETITION UNDERTAKING

The controlling shareholders have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 23 June 2014 during the year ended 31 December 2017. The INEDs have reviewed the status of compliance and confirmed that all the undertakings under the deed of non-competition have been complied with by the controlling shareholders and duly enforced during the year ended 31 December 2017.

MAJOR CUSTOMERS

During the year, the income of the Group's lease accounted for 63.8% of the total revenue, and the information of the customers of the lease and advisory segments is as follows:

	For the year ended 31 December 2017 Percentage of the total revenue (before business taxes and surcharges) (%)
Top five customers	**47.2%**
The largest customer	**10.6%**

As far as the directors are aware, none of the directors of the Company, their associates or shareholders holding more than 5% of the issued share capital of the Company had any interest in the five largest customers of the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Company entered into the following connected transactions and continuing connected transactions, as defined in the Listing Rules, with connected persons of the Company:

1. Transactions contemplated under the Deposit Services Framework Agreement, the Loan Services Framework Agreement and the Assignment of Finance Lease Receivables Framework Agreement

On 14 May 2015, the Company and CE Group entered into three framework agreements respectively for a term from 14 May 2015 to 31 December 2017, namely:

(1) Deposit Services Framework Agreement, pursuant to which CE Group will provide deposit services to the Group through CE Group's associate, China Everbright Bank Company Limited ("CE Bank");

(2) Loan Services Framework Agreement, pursuant to which CE Group will provide secured loan services and guarantees to the Group through CE Bank and/or the trustee of a trust plan (the "Trustee") of which Sun Life Everbright Asset Management Co. Ltd. is a beneficiary; and

(3) Assignment of Finance Lease Receivables Framework Agreement, pursuant to which the Group will assign the finance lease receivables to the Trustee. On 14 December 2015, the Company and CE Group entered into an amended and restated Assignment of Finance Lease Receivables Framework Agreement, pursuant to which the Company and CE Group agreed that in addition to the Trustee, the Group shall assign the finance lease receivables to associates of CE Group including but not limited to CE Bank.

(collectively known as the "CE Agreements")

On 8 April 2016, the Company and CE Group entered into three supplemental agreements to the CE Agreements respectively, namely:

(1) Supplemental Deposit Services Framework Agreement;

(2) Supplemental Loan Services Framework Agreement; and

(3) Supplemental Assignment of Finance Lease Receivables Framework Agreement

(collectively known as the "CE Supplemental Agreements"), to revise the original annual caps for each of the years ended 31 December 2016 and 2017 and to extend the duration of each of the CE Agreements to 31 December 2018 with the new annual cap.

The transactions contemplated under the CE Supplemental Agreements were proposed to and passed by the independent shareholders by way of ordinary resolutions at the Company's extraordinary general meeting held on 17 May 2016.

The following revised annual caps are applicable to the above continuing connected transactions and the respective actual amounts of which have not exceeded the revised annual cap amounts as stated below:

CE Supplemental Agreements	**Actual Maximum Daily Closing Balance/ Total Consideration (HK$'Million) for the year ended 31 December 2017**	**Revised Annual Caps (HK$'Million) for the year ended/ending 31 December**	
		2017	2018
Supplemental Deposit Services Framework Agreement	3,043 *(Actual Maximum Daily Closing Balance of Deposits including interests accrued thereon)*	**3,182**	3,843
Supplemental Loan Services Framework Agreement	4,052 *(Actual Maximum Daily Closing Balance of Loans including guarantees)*	**14,082**	18,214
Supplemental Assignment of Finance Lease Receivables Framework Agreement	2,529 *(Total Consideration)*	**7,020**	7,020

CE Group is the sole shareholder of CE Hong Kong. CE Hong Kong is the indirect controlling shareholder of CEL. CEL is a controlling shareholder of the Company. Accordingly, CE Group is a controlling shareholder of the Company, and thus CE Group and its associates, including CE Bank and the Trustee, are connected persons of the Company. Therefore, the transactions contemplated under the CE Agreements and CE Supplemental Agreements constitute continuing connected transactions of the Company.

Details of the above transactions are set out in the Company's announcements dated 14 May 2015, 14 December 2015, 8 April 2016 and 17 May 2016 and in the Company's circulars dated 15 June 2015 and 29 April 2016 respectively.

REPORT OF THE DIRECTORS

2. Transactions contemplated under the Shareholders' Loan and Guarantee Agreement

On 6 April 2016, Shareholders' Loan and Guarantee Agreement was entered into amongst Aircraft Recycling International Holdings Limited ("ARI Holdings") (a wholly-owned subsidiary of the Company), Sky Cheer International Limited ("Sky Cheer"), China Aero Investments Limited ("China Aero") and Neo Modern Limited ("Neo Modern") (ARI Holdings, Sky Cheer, China Aero and Neo Modern collectively known as the "ARI Shareholders"), pursuant to which each ARI Shareholder shall have a right (but not the obligation) to advance a principal amount of the shareholders' loan to Aircraft Recycling International Limited ("ARI") pro rata to its shareholding in ARI and to provide guarantee to the lender of the loans granted to ARI from banks, financial or other institutions. The term of Shareholders' Loan and Guarantee Agreement commenced on 6 April 2016 and will expire on 31 December 2018. The annual caps for the maximum principal loans outstanding (including the principal loans guaranteed by the Group), interest and guarantee fee amounts for the years ended 31 December 2016 and 2017 and the year ending 31 December 2018 are HK$480,000,000, HK$600,000,000 and HK$720,000,000 respectively ("Original Annual Caps").

On 14 November 2016, a supplemental agreement to the Shareholders' Loan and Guarantee Agreement (the "ARI Supplemental Agreement") was entered into amongst the ARI Shareholders to (i) revise the terms governing the repayment of the shareholders' loan; and (ii) revise the Original Annual Caps for each of the years ended 31 December 2016 and 2017 and year ending 31 December 2018.

The transactions contemplated under the Shareholders' Loan and Guarantee Agreement and the ARI Supplemental Agreement were proposed to and passed by the independent shareholders by way of ordinary resolution at the Company's extraordinary general meeting held on 30 June 2016 and 15 December 2016 respectively.

The following revised annual caps are applicable to the above continuing connected transactions and the respective actual amounts of which have not exceeded the revised annual cap amounts as stated below:

Agreement	Actual Maximum Daily Closing Balance of Loans (including interests accrued thereon) (HK$'Million) for the year ended 31 December 2017	Revised Annual Caps (HK$'Million) for the year ended/ending 31 December	
		2017	**2018**
Shareholders' Loan and Guarantee Agreement supplemented by the ARI Supplemental Agreement	1,168	**1,300**	1,300

ARI is a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the Revised Annual Caps and the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented by the ARI Supplemental Agreement) constitute continuing connected transactions of the Company under Rule 14A.26 of the Listing Rules.

Details of the above transactions are set out in the Company's announcements dated 6 April 2016, 25 April 2016, 30 June 2016, 8 July 2016, 26 July 2016, 14 November 2016 and 15 December 2016 and in the Company's circulars dated 8 June 2016 and 30 November 2016 respectively.

3. Transactions contemplated under the Engagements in the Subscription Agreements for the Issuance of Bonds

On 28 February 2017, a subscription agreement was entered into amongst the Company, CALC Bond 3 Limited, CE Bank and China Everbright Securities (HK) Limited ("EBS"), pursuant to which, inter alia, the Company engaged CE Bank to act as one of the joint global coordinators, joint bookrunners and joint lead managers and EBS to act as one of the joint bookrunners and joint lead managers, in order to facilitate the issuance of US$300,000,000 4.7% bonds due 2022 and US$200,000,000 5.5% bonds due 2024 (the "Engagement"). The actual amount of the underwriting commission and expenses paid to CE Bank and EBS is approximately HK$7,669,000. Details of the above transaction are set out in the Company's announcements dated 28 February 2017.

CE Bank and EBS are associates of CE Group. Accordingly, CE Bank and EBS are connected persons of the Company. Therefore, the Engagement (aggregated together with the Previous Engagement pursuant to Rule 14A.81 of the Listing Rules) constituted a connected transaction of the Company.

4. Transactions contemplated under the CE Repurchase Agreement for the Repurchase of the CE Convertible Bonds

On 26 March 2015, the Company as the issuer and CE Financial as the investor entered into a subscription agreement (the "CE Subscription Agreement") in respect of the issuance and subscription of 3.0% convertible bonds in the principal amount of HK$387,900,000 (the "CE Convertible Bonds"). The CE Convertible Bonds were issued to CE Financial on 26 May 2015.

Pursuant to the CE Subscription Agreement, the Company agreed to pay to CE Financial a commitment arrangement fee at the rate of 3.5% per annum, payable semi-annually. Under the terms and conditions of the CE Convertible Bonds which bears coupon interest at the rate of 3.0% per annum, payable semiannually. The CE Convertible Bonds are convertible into new shares of the Company at a conversion price of HK$11.28 per share (subject to adjustments). The maturity date of the CE Convertible Bonds will fall on the expiry of three years from the date of issuance of the CE Convertible Bonds.

On 6 July 2016, the Company entered into a repurchase agreement with CE Financial, pursuant to which the Company agreed to repurchase, and CE Financial agreed to sell, the CE Convertible Bonds in the principal amount of HK$77,580,000 (the "2016 CE Repurchase"). After completion of the 2016 CE Repurchase on 25 July 2016, CE Financial continued to hold the remaining CE Convertible Bonds in the principal amount of HK$310,320,000.

On 8 May 2017, the Company entered into another repurchase agreement (the "CE Repurchase Agreement") with CE Financial, pursuant to which the Company agreed to repurchase, and CE Financial agreed to sell, the CE Convertible Bonds in the principal amount of HK$155,160,000 (the "2017 CE Repurchase"). The actual amount of consideration under the 2017 CE Repurchase Agreement paid to CE Financial was HK$$156,711,600 plus the relevant interests and fees. After completion of the 2017 CE Repurchase on 15 May 2017, CE Financial continued to hold the remaining CE Convertible Bonds in the principal amount of HK$155,160,000.

The total interest expense incurred to CE Financial amounted to approximately HK$23 million (including HK$4,734,535 being part of the consideration of the 2017 CE Repurchase) for the year ended 31 December 2017.

CE Financial is a wholly-owned subsidiary of CEL. Accordingly, CE Financial is a connected person of the Company and the transaction contemplated under the CE Repurchase Agreement constituted a connected transaction of the Company.

Details of the above transaction are set out in the Company's announcements dated 26 March 2015, 16 April 2015, 27 May 2015, 6 July 2016, 25 July 2016, 8 May 2017 and 15 May 2017 and the Company's circular dated 30 April 2015 respectively.

Save for the connected transactions and the continuing connected transactions disclosed above and certain connected transactions and continuing connected transactions which are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Rules 14A.33 and 14A.105 of the Listing Rules, during the year, there were no other transactions which, in the opinion of the directors, constituted connected transactions or continuing connected transactions that were subject to the reporting requirements under the Listing Rules.

A summary of all related parties transactions, in accordance with the Hong Kong Financial Reporting Standards, entered into by the Group during the year ended 31 December 2017 is contained in note 32 to the consolidated financial statements. The transactions reported in (a), (b), (c)(iv) and (d)(i) of Note 32 fell under the definition of "continuing connected transactions" and exempted from the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules while the transactions reported in (c)(i) & (iii) and (d)(ii) of Note 32 fell under the definition of "connected transactions" or "continuing connected transactions" as disclosed above.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year ended 31 December 2017.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the INEDs, who confirmed that the aforesaid continuing connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONFIRMATION OF THE AUDITORS

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "*Assurance Engagements other than Audits or Reviews of Historical Financial Information*" and with reference to Practice Note 740 "*Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group on pages 82 to 86 of the annual report in accordance with Rule 14A.56 of the Listing Rules.

A copy of the auditor's letter has been provided by the company to the Stock Exchange.

AUDIT COMMITTEE AND REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's Audit Committee comprises four members, namely Mr. CHOW Kwong Fai, Edward (Chairman of the Audit Committee), Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. GUO Zibin, among whom, three are INED(s). The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control, risk management and financial reporting, including reviewing the financial results of the Group for the year ended 31 December 2017.

The consolidated financial statements of the Company for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, the auditor of the Company, in accordance with Hong Kong Financial Reporting Standards.

AUDITOR

The proposal of re-appointing PricewaterhouseCoopers as the auditor of the Company will be put forward at the AGM for consideration and approval.

By order of the Board
China Aircraft Leasing Group Holdings Limited

Poon Ho Man
Executive Director and Chief Executive Officer

Hong Kong, 23 March 2018

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. CHEN Shuang, *JP*

Chairman and Executive Director

Mr. CHEN Shuang, *JP*, aged 50, is the Chairman and an Executive Director and is also the chairman of Strategy Committee of the Company. Mr. CHEN is responsible for formulating the Group's overall strategic planning and directions. Mr. CHEN is also the chairman and a director of Aircraft Recycling International Limited ("ARI"), a commonly held entity of the Company.

Mr. CHEN is an executive director and the chief executive officer, a member of the executive committee and strategy committee of the board, as well as the chairman of management decision committee of China Everbright Limited, a company listed on the Hong Kong Stock Exchange (stock code: 165). Mr. CHEN is also an executive director and deputy general manager of China Everbright Holdings Company Limited and the chairman of Everbright Jiabao Co., Ltd. (formerly known as Shanghai Jiabao Industry & Commerce (Group) Co., Ltd.), a company listed on the Shanghai Stock Exchange (stock code: SH 600622). Mr. CHEN is currently a non-official member of the Financial Services Development Council, the permanent honorary chairman of Chinese Financial Association of Hong Kong, the chairman of Hong Kong Aircraft Leasing and Aviation Finance Association, the visiting professor of East China University of Political Science and Law (華東政法大學), the vice-chairman of China Mergers and Acquisitions Association, the vice-chairman of Chinese Securities Association of Hong Kong, the strategic committee member of France China Foundation and the council member of Chinese Foundation for Lifeline Express.

Mr. CHEN holds a master of laws degree from East China University of Political Science and Law and a diploma in legal studies from the School of Professional and Continuing Education of The University of Hong Kong. He is a qualified lawyer in the PRC and a senior economist. Mr. CHEN was the chief of the legal department of Bank of Communications and has over 25 years of extensive experience in commercial banking and investment banking.

Mr. POON Ho Man

Executive Director and Chief Executive Officer

Mr. POON Ho Man, aged 45, is an Executive Director and the Chief Executive Officer re-appointed on 19 January 2017. Mr. POON is also a member of the Strategy Committee of the Company, and a director of certain subsidiaries of the Company. He is responsible for formulating the Group's overall strategic planning and managing overall business operations. Mr. POON has over 20 years of experience in direct investment, structured financing and aviation financing, of which over 10 years has been spent focusing on aircraft leasing.

Mr. POON founded China Aircraft Leasing Group ("CALC Group"), which has developed into an aircraft full life-cycle solutions provider under his leadership. As at the date of this report, Mr. POON indirectly holds approximately 29.13% interest in the Company. He also oversaw the founding of ARI (which is beneficially owned by Mr. POON as to 18%), which is the first in Asia to provide solutions for mid-to-end of life aftermarket aircraft. Mr. POON serves as the chief executive officer and a director of ARI.

Mr. POON is also the founder and Chairman of Friedmann Pacific Asset Management Limited ("FPAM"), a substantial shareholder of the Group. FPAM has developed into an investment holding company with a focus on creating value along the aviation industry value chain. He was also behind the establishment of China Airport Synergy Investment Limited ("CASIL") in 2014, which is primarily engaged in investments in and operations of airports around the world. CASIL is a shareholder of Toulouse-Blagnac Airport, the fifth largest airport in France.

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).

Mr. POON is currently a member of Heilongjiang Province Committee of the Chinese People's Political Consultative Conference ("CPPCC") (中國人民政治協商會黑龍江省政協委員), the Vice Chairman of HKCPPCC (Provincial) Members Association Foundation Limited (港區省級政協委員聯誼會基金會副主席), the Executive Vice President of the Association for the Promotion of Hong Kong Heilongjiang Economy ("APHKHE") and a member of the Youth Committee of APHKHE (香港黑龍江經濟合作促進會常務副會長及屬下青年委員會主任), the Vice President of Chinese Financial Association of Hong Kong (香港中國金融協會副主席), the Honorary President of Hong Kong Overseas Chinese Association (香港華僑華人總會名譽會長), a member of the Youth Committee of All-China Federation of Returned Overseas Chinese (中華全國歸國華僑聯合會青年委員會委員) and the Founding Chief Advisor of Hong Kong Aircraft Leasing and Aviation Finance Association (香港飛機租賃和航空融資協會創始首席顧問). 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Ms. LIU Wanting

Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer

Ms. LIU Wanting, aged 36, is an Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer. Within the Group, Ms. LIU is also a director of certain subsidiaries of the Company and a member of its Strategy Committee. Ms. LIU is responsible for the Group's overall strategic planning and implementation, as well as managing overall commercial operations, including business development, aircraft leasing, financing and aircraft procurement.

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

Ms. LIU is currently a director of a company indirectly wholly-owned by Mr. POON Ho Man who is an executive director, the Chief Executive Officer and one of the substantial shareholders of the Company.

Ms. LIU is a senior adviser to the Foreign Investment Office of Tianjian Municipal People's Government 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 2014 to 2016. Ms. LIU was our representative in the Leasing Committee of China Association Enterprise with Foreign Investment from April 2010 to April 2011.

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

Mr. TANG Chi Chun

Non-executive Director

Mr. TANG Chi Chun, aged 56, is a Non-executive Director appointed on 12 August 2013 and is also a member of Strategy Committee of the Company. Mr. TANG is responsible for advising the business development and financial related operations of the Group. Mr. TANG is also a director of ARI.

Mr. TANG is an executive director and the chief financial officer of China Everbright Limited, a company listed on the Hong Kong Stock Exchange (stock code: 165). Mr. TANG was a director of Everbright Securities Company Limited, a company listed on the Shanghai Stock Exchange (stock code: SH 601788) and the Hong Kong Stock Exchange (stock code: 6178), during the period from February 2008 to January 2011. Mr. TANG is a Certified Public Accountant and is a graduate of the Accountancy Department, Hong Kong Polytechnic (now known as Hong Kong Polytechnic University). He is a member of the Association of Chartered Certified Accountants in the United Kingdom ("ACCA") and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He is also a founding member of Hong Kong Business Accountants Association. He has over 30 years of experience in audit, investment, accounting and finance. Since 1990, Mr. TANG had been engaged as head of the financial and operational functions of various international financial institutions.

Mr. GUO Zibin

Non-executive Director

Mr. GUO Zibin, aged 49, is a Non-executive Director appointed on 10 March 2014 and also a member of Audit Committee of the Company. Mr. GUO is responsible for attending meetings of the Board to perform duties as a member of the Board, but not participating in the day-to-day management of the Company's business operations.

Mr. GUO has been acting as the vice general manager of China Aerospace Investment Holdings Ltd (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 between April 1998 and April 2000. Mr. GUO also served as a project manager, assistant to the general manager and vice general manager of the Investment Management Division of China Everbright Investment Management Corporation (中國光大投資管理公司) during the period between August 2004 and February 2014.

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

Ms. CHEN Chia-Ling

Non-executive Director

Ms. CHEN Chia-Ling, aged 47, is a Non-executive Director appointed on 19 January 2016.

Ms. CHEN holds a master's degree in international business from the University of Bristol in the United Kingdom and a bachelor's degree from York University in Canada. Ms. CHEN has over 20 years of experience in the financial services industry and over 10 years of experience in asset management, including experience with regard to launching exchange-traded funds ("ETF"). Since 2015, Ms. CHEN has been appointed as an independent trustee of CSOP ETF Trust ("CSOP Trust") and a member of the board of trustees of CSOP Trust. As of 31 December 2017, CSOP Trust consisted of three investment portfolios: CSOP FTSE China A50 ETF (AFTY:US), CSOP China CSI 300 A-H Dynamic ETF (HAHA:US) and CSOP MSCI China A International Hedged ETF (CNHX:US), all of which are listed on New York Stock Exchange. Currently, Ms. CHEN is also a director of Chyang Sheng Dyeing & Finishing Co., Ltd. (1463:TW), a company listed on Taiwan Stock Exchange.

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

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. FAN Yan Hok, Philip

Independent Non-executive Director

Mr. FAN Yan Hok, Philip, aged 68, is an Independent Non-executive Director appointed on 11 September 2013. Mr. FAN is also the chairman of Remuneration Committee and a member of Nomination Committee of the Company. Mr. FAN is currently holding directorships in the following companies listed on the securities market in Hong Kong:

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

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

Name of listed company	Securities exchange/ market and stock code	Position held	Period
Guolian Securities Co., Ltd.	Hong Kong Stock Exchange: 1456	Independent non-executive director	March 2015 – July 2016
Goodman Group	Australian Stock Exchange: GMG	Independent director	December 2011 – November 2017

Mr. FAN obtained the degree of bachelor of science in 1973 and the degree of master of science in the same year from Stanford University in the United States and the degree of master of science in management in 1976 from Massachusetts Institute of Technology in the United States.

Mr. NIEN Van Jin, Robert

Independent Non-executive Director

Mr. NIEN Van Jin, Robert, aged 70, is an Independent Non-executive Director appointed on 27 August 2014. Mr. NIEN is also a member of each of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. NIEN was an executive director of Hopewell Holdings Limited ("Hopewell"), a company listed on the Hong Kong Stock Exchange (stock code: 54), during 1980 to 2010, and then became a principal consultant during 2010 to 2011. He retired from Hopewell in July 2011. Before joining Hopewell in 1976, Mr. NIEN worked with a renowned multi-national bank during 1972 to 1976. Mr. NIEN holds a bachelor's degree in economics from the University of Pennsylvania and a master's degree in business administration from the Wharton Graduate School of Business. He is a member of The Hong Kong Institute of Directors ("HKIoD"). Mr. NIEN has over 40 years' extensive financing experience in property in Hong Kong and infrastructure projects in PRC Pearl River Delta area, particularly in power plant and highway. He also has experience in the areas of corporate governance and corporate public relations.

Mr. CHEOK Albert Saychuan

Independent Non-executive Director

Mr. CHEOK Albert Saychuan, aged 67, is an Independent Non-executive Director appointed on 8 May 2015. Mr. CHEOK is also the chairman of Nomination Committee and a member of each of Audit Committee and Remuneration Committee of the Company.

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

Between May 1979 and February 1982, Mr. CHEOK was an advisor to the Australian Government Inquiry into the Australian Financial System which introduced comprehensive reforms to the Australian banking system. He was the chief manager at the Reserve Bank of Australia from October 1988 to September 1989 before becoming the deputy commissioner of Banking of Hong Kong for about three and a half years. He was subsequently appointed as an executive director in charge of banking supervision at the Hong Kong Monetary Authority from April 1993 to May 1995. Mr. CHEOK was the chairman of Bangkok Bank Berhad in Malaysia, a wholly-owned subsidiary of Bangkok Bank of Thailand, from September 1995 to November 2005. Mr. CHEOK was formerly the vice chairman of Export and Industry Bank, Inc., which is listed on The Philippine Stock Exchange, from February 2006 to April 2012. Mr. CHEOK was also an independent non-executive director of (i) Metal Reclamation Berhad, listed in Malaysia, from 1 July 1998 to 17 June 2015; (ii) Adavale Resources Limited, listed in Australia from 20 December 2012 to 27 April 2017; and (iii) Hongkong Chinese Limited, listed on the Hong Kong Stock Exchange, from 17 January 2002 to 31 December 2017. Mr. CHEOK was also the independent non-executive chairman of (i) AcrossAsia Limited, a company listed on the Hong Kong Stock Exchange (stock code: 8061) and was privatized on 13 June 2017 (retired on 26 August 2016); (ii) Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust ("REIT"), a healthcare REIT listed in Singapore, from 17 May 2006 to 16 April 2017; (iii) Auric Pacific Group Limited, a food group formerly listed in Singapore and was privatized on 17 April 2017 (retired on 28 April 2017); and (iv) Lippo Malls Indonesia Retail Trust ("LMIRT") Management Limited, the manager of LMIRT, a shopping mall REIT listed in Singapore (resigned on 30 September 2017).

Mr. CHEOK is the independent non-executive chairman of (i) Amplefield Limited, listed in Singapore; (ii) International Standard Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 91); and (iii) 5G Networks Limited, listed in Australia.

Outside his various board capacities, Mr. CHEOK is a well accomplished personal investment banker and financial adviser to select clients in Hong Kong, China and South East Asia. In this capacity he has been involved in several high profile mergers and acquisitions, asset acquisitions, corporate re-structuring, corporate strategies, brand image and building and private fund management. He has also been an adviser to governments in various capacities.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. CHOW Kwong Fai, Edward, *JP*

Independent Non-executive Director

Mr. Chow Kwong Fai, Edward, *JP*, aged 65, is an Independent Non-executive Director appointed on 19 July 2016. Mr. CHOW is also the chairman of Audit Committee, a member of each of Remuneration Committee and Nomination Committee of the Company.

Mr. CHOW holds an honours bachelor's degree in business studies from Middlesex Polytechnic (now Middlesex University) in the United Kingdom and is a fellow member of The Institute of Chartered Accountants in England and Wales ("ICAEW") and chairman of its Hong Kong Chapter. He served on the Council of ICAEW for six years from 2000 to June 2016 and chaired its Commercial Board. He is a past president of the HKICPA and chaired its Corporate Governance Committee and Professional Accountants in Business Committee. He also served as a Deputy Chairman of HKIoD, of which he is a fellow member, chaired the Professional Accountants in Business Committee of the International Federation of Accountants, served as an expert advisor of the Accounting Standards Committee of the Ministry of Finance, the People's Republic of China and was a Standing Committee member and a convenor of the Eleventh Zhejiang Province Committee of the CPPCC, and a member of the Election Committee of HKSAR.

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

Mr. CHOW is currently a core member of the OECD/World Bank Asian Corporate Governance Roundtable, an adviser of the Business and Professionals Federation of Hong Kong, a non-executive director of the Urban Renewal Authority, a member of Council and Court of The University of Hong Kong.

Mr. CHOW is also an independent non-executive director of Wing Lung Bank Limited, Redco Properties Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1622), and Melco International Development Limited, a company listed on the Hong Kong Stock Exchange (stock code: 200). Mr. CHOW was previously the chairman of CIG Yangtze Ports PLC (stock code: 8233) and an independent non-executive director of COSCO Pacific Limited (stock code: 1199) and China Merchants Bank Co., Ltd. (stock code: 3968), both companies listed on the Hong Kong Stock Exchange.

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

SENIOR MANAGEMENT

Mr. MOK Chung Tat, Barry

Deputy Chief Executive Officer and Chief Financial Officer

Mr. MOK Chung Tat, Barry, aged 59, joined the Group in June 2015. Mr. MOK assists in formulating the Group's overall strategic planning and implementation, also oversees accounting, corporate and project finance and other corporate functions. Mr. MOK is a director of a subsidiary of the Company and ARI.

Mr. MOK has over 30 years of extensive corporate and banking experience, and has arranged around HK$500 billion debt capital market facilities. Mr. MOK was previously Executive Director of Hopewell Holdings Limited (stock code: 54) and Hopewell Highway Infrastructure Limited (stock code: 737), both listed on the Hong Kong Stock Exchange. Mr. MOK worked for BOCI Capital Limited as Chief Executive, and during 1987 to 2004, he was responsible for the syndicated loans and debt capital market businesses of the Bank of China group in Hong Kong.

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

Mr. TANG Yu Ping, Pitney

Chief Operating Officer

Mr. TANG Yu Ping, aged 48, is the Chief Operating Officer, oversees all aspects of transaction-related functions and is responsible for transaction planning and closing, business analysis and pricing, portfolio trading, tax planning as well as structured finance. Mr. TANG joined the Group on 7 November 2011 as financial controller who was responsible for financial management and accounting. Mr. TANG is also the alternate director of certain subsidiaries of the Company.

Prior to joining the Group, Mr. TANG held senior financial positions in various companies listed in Hong Kong. He has over 20 years of experience in corporate development, financial management and consulting for various industries including aircraft leasing, aviation logistics, corporate finance advisory and manufacturing. By profession, Mr. TANG is a certified public accountant in Hong Kong and a chartered accountant in England and Wales. He is also a fellow member of the HKICPA, the ACCA and the ICAEW.

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

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Ms. CHEUNG Kit Yan, Hatty

Chief Risk Officer

Ms. CHEUNG Kit Yan, Hatty, aged 43, joined the Group in February 2018 as the Chief Risk Officer. Ms. CHEUNG is responsible for the risk management and internal controls of the Group.

With over 20 years of broad international exposure, Ms. CHEUNG has in-depth understanding of enterprise risk management, with wide-ranging experience in auditing, internal controls, process re-engineering, corporate governance, and financial planning and analysis with best-in-class Fortune 500 multinational companies and world leaders in their respective industries, including The Dairy Farm Group, PepsiCo Inc., The Coca-Cola Company and IBM Ltd.

Ms. CHEUNG holds a degree of master of business administration in financing and marketing from Wichita State University, the United States. She is a Certified Internal Auditor, Institute of Internal Auditors IIA, and Certified Management Accountant, Institute of Management Accountants in the United States.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the Shareholders of China Aircraft Leasing Group Holdings Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 105 to 187, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment on working capital sufficiency
- Provision for tax positions
- Disposal of finance lease receivables
- Classification of lease

Key audit matter	How our audit addressed the key audit matter
Assessment on working capital sufficiency	
Refer to Note 2.1(a) to the consolidated financial statements As at 31 December 2017, the Group had capital commitments amounting to HK$76,030.6 million mainly relating to aircraft purchase, of which HK$7,738.0 million was payable within one year. The directors focus on the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The Group has prepared detailed cash flow projections. The Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 31 December 2017 and therefore continue as a going concern. The directors' forecasts are based on a number of assumptions including the aircraft delivery and leasing schedules, available financing resources that have been granted or will be granted and the amount of capital commitments. We focused on this matter because the preparation of cash flow forecasts require the directors to make significant judgement.	We obtained the Group' cash flow forecasts, which covered a period of not less than twelve months from 31 December 2017. We focused on the key assumptions made in those cash flow forecasts, in particular the forecast aircraft delivery schedule, available financing resources and capital commitments. To test the aircraft delivery and leasing schedules, we examined aircraft purchase agreements entered into by the Group and the aircraft manufacturers; and lease agreements or letters of intent entered by the Group and airline companies. To test available financing resources, we obtained independent confirmations from relevant financial institutions, examined loan agreements or letters of intent issued by financial institutions during the year. We confirmed the Group's year end cash and cash equivalents, and borrowing balances by obtaining independent confirmations from the financial institutions. To test the amount of capital commitments, we examined aircraft purchase agreements entered by the Group and aircraft manufacturers. We compared the actual outcome with the budget of the year 2017. We performed sensitivity analysis over the assumptions with uncertainty contained in the cash flow forecasts to ascertain the extent of change that would make the Group incapable of meeting its ongoing obligation as they fall due. Based on the work performed, the directors' assumptions of the cash flow forecasts were supported by available evidence.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for tax positions	
Refer to Note 4.1(a) and Note 27 to the consolidated financial statements As at 31 December 2017, current income tax liabilities were HK$17.3 million and deferred income tax liabilities were HK$544.5 million. We focused on this area because the Group was subject to taxation in many jurisdictions and, in many cases, the ultimate tax treatment was not determined until concluded with the relevant tax authority. Consequently, the directors were required to exercise significant judgement in determining the appropriate amount of tax provisions based on the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of lease terms.	We recalculated the directors' valuations of tax provisions and determined whether the calculations were in line with the Group's tax policies and had been applied consistently. We evaluated the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of lease terms by checking the lease agreements and testing the calculation of depreciation and estimated realisable values. We examined the correspondence between the Group and the relevant tax authorities and between the Group and its external advisers. We made reference to the taxation law of the relevant tax jurisdictions and other similar taxation matters to assess the available evidence and the provision made by the directors. Based on the work performed, the provisions were supported by available evidence.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Disposal of finance lease receivables	
Refer to Note 2.8, Note 3.1.4, Note 4.2(b) and Note 22 to the consolidated financial statements	We examined all relevant documents entered into by the CALC SPCs and relevant trusts.
Certain wholly-owned subsidiaries of the Group (collectively "the CALC SPCs") signed contracts with trust plans or banks, pursuant to which, the CALC SPCs transferred to the trust plans or asset-backed securities programme their future aircraft finance lease receivables under their separate aircraft leasing agreements with airline companies.	We evaluated the directors' assessment on derecognition of finance lease receivables. We independently assessed the risk and rewards to be borne and received by the Group after disposal of the finance lease receivables and reconciled our assessment with the directors' assessment.
The Group assessed that it did not control the trust plans or asset-backed securities programme as the Group did not have the power to direct the relevant activities of the trust plans or asset-backed securities programme.	We evaluated the directors' assessment on consolidation of trust plans by inspecting their analysis of powers when assessing the control over the trust plans.
The directors assessed the Group had transferred substantially all the risks and rewards related to the lease receivables to the trust plans or asset-backed securities programme, so the corresponding finance lease receivables were derecognised.	Based on the work performed, the directors' assessments were supported by available evidence.
We focused on this matter because the assessment of whether derecognition criteria were met involved significant judgement.	

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Classification of leases	
Refer to Note 2.20 and Note 4.2(a) to the consolidated financial statements The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership to the lessee depends on an assessment of the relevant arrangements relating to the lease. The Group takes several factors into consideration when determining the classification of leases, which include: – 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 the lease aircraft at the inception of the lease term. – whether the term of the aircraft lease represents the major part of the economic life of an aircraft. We focused on this matter because the classification of leases required the directors to make significant judgement.	We compared the lease periods, lease rental amounts to those stated in the lease agreements entered by the Group and lessees. We also evaluated the directors' assessment on economic life of the aircraft and estimated residual values of the aircraft at the end of the lease terms. We examined the amount of guaranteed residual values by checking the insurance agreements entered into by the Group and relevant third parties. We tested the calculation of the present value of the minimum lease payments. Based on the work performed, the directors' assessments were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in Chairman's Statement, CEO's Statement, Management Discussion and Analysis, Corporate Governance Report which we obtained prior to the date of this auditor's report, and Company Profile, Financial Highlights and Five-year Financial Summary, Major Achievements, Environmental, Social and Governance Report, Risk Management Report, Report of the Directors, Directors and Senior Management's Profile and Corporate Information, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company Profile, Major Achievements, Environmental, Social and Governance Report, CEO's Statement and Corporate Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wenping Yao.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
ASSETS			
Property, plant and equipment	5	**13,059,424**	6,214,103
Interests in and loans to an associate	6	**870,188**	444,369
Finance lease receivables – net	7	**12,556,201**	15,030,972
Derivative financial assets	19	**90,835**	131,113
Prepayments and other receivables	8	**4,021,516**	3,062,797
Restricted cash	9	**372,826**	176,087
Cash and cash equivalents	10	**7,023,359**	5,840,746
Total assets		**37,994,349**	30,900,187
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	11	**67,818**	66,990
Reserves	12	**1,861,658**	1,839,694
Retained earnings		**1,497,677**	1,136,662
Total equity		**3,427,153**	3,043,346
LIABILITIES			
Deferred income tax liabilities	13	**544,549**	332,824
Bank borrowings	14	**16,458,411**	17,834,742
Long-term borrowings	15	**5,329,396**	2,346,110
Medium-term notes	16	**798,094**	740,126
Convertible bonds	17	**153,190**	292,706
Bonds	18	**8,538,932**	4,611,878
Derivative financial liabilities	19	**207**	14,973
Income tax payables		**17,254**	43,274
Interest payables		**226,761**	153,392
Other payables and accruals	20	**2,500,402**	1,486,816
Total liabilities		**34,567,196**	27,856,841
Total equity and liabilities		**37,994,349**	30,900,187

The notes on pages 112 to 187 are an integral part of these consolidated financial statements.

The financial statements on pages 105 to 187 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf.

CHEN Shuang
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Revenue			
Finance lease income	21	**1,017,462**	1,163,127
Operating lease income	21	**828,756**	416,041
		1,846,218	1,579,168
Other income	22	**1,045,377**	868,984
Revenue and other income		**2,891,595**	2,448,152
Expenses			
Interest expenses	23	**(1,240,964)**	(1,029,282)
Depreciation	5	**(327,064)**	(163,982)
Other operating expenses	24	**(351,191)**	(399,486)
		(1,919,219)	(1,592,750)
Operating profit		**972,376**	855,402
Share of loss of an associate	6	**(2,203)**	(7,364)
Other gains	26	**42,067**	44,071
Profit before income tax		**1,012,240**	892,109
Income tax expenses	27	**(277,577)**	(253,694)
Profit for the year		**734,663**	638,415
Profit attributable to shareholders of the Company		**734,663**	638,415
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	28(a)	**1.088**	1.009
– Diluted earnings per share	28(b)	**1.084**	0.984

The notes on pages 112 to 187 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Profit for the year		**734,663**	638,415
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss			
Share of reserves of an associate		**(181)**	(7,799)
Cash flow hedges	19	**(2,438)**	100,325
Currency translation differences		**7,252**	(3,313)
Total other comprehensive income for the year, net of tax		**4,633**	89,213
Total comprehensive income for the year		**739,296**	727,628
Total comprehensive income for the year attributable to shareholders of the Company		**739,296**	727,628

The notes on pages 112 to 187 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2016	60,592	1,437,497	690,452	2,188,541	19,461	2,208,002
Comprehensive income						
Profit for the year	–	–	638,415	638,415	–	638,415
Other comprehensive income						
Share of reserves of an associate	–	(7,799)	–	(7,799)	–	(7,799)
Cash flow hedges (Note 19)	–	100,325	–	100,325	–	100,325
Currency translation differences	–	(3,313)	–	(3,313)	–	(3,313)
Total comprehensive income	–	89,213	638,415	727,628	–	727,628
Transactions with shareholders						
Issue of new shares (Note 11(a))	4,000	315,991	–	319,991	–	319,991
Share option scheme:						
– Value of services (Note 12(a))	–	7,915	–	7,915	–	7,915
– Issue of new shares from exercise of share options (Note 11(b))	2,398	68,495	–	70,893	–	70,893
Repurchase of convertible bonds (Note 17)	–	(79,378)	12,773	(66,605)	–	(66,605)
Purchase of non-controlling interests (Note 12(b))	–	(39)	–	(39)	(19,461)	(19,500)
Dividends	–	–	(204,978)	(204,978)	–	(204,978)
Total transactions with shareholders	6,398	312,984	(192,205)	127,177	(19,461)	107,716
Balance as at 31 December 2016	66,990	1,839,694	1,136,662	3,043,346	–	3,043,346

The notes on pages 112 to 187 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company			
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total equity HK$'000
Balance as at 1 January 2017	66,990	1,839,694	1,136,662	3,043,346
Comprehensive income				
Profit for the year	–	–	734,663	734,663
Other comprehensive income				
Share of reserves of an associate	–	(181)	–	(181)
Cash flow hedges (Note 19)	–	(2,438)	–	(2,438)
Currency translation differences	–	7,252	–	7,252
Total comprehensive income	–	4,633	734,663	739,296
Transactions with shareholders				
Share option scheme:				
– Value of services (Note 12(a))	–	15,185	–	15,185
– Issue of new shares from exercise of share options (Note 11(b))	828	20,728	–	21,556
Repurchase of convertible bonds (Note 17)	–	(18,582)	12,541	(6,041)
Dividends (Note 29)	–	–	(386,189)	(386,189)
Total transactions with shareholders	828	17,331	(373,648)	(355,489)
Balance as at 31 December 2017	67,818	1,861,658	1,497,677	3,427,153

The notes on pages 112 to 187 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Profit after income tax		**734,663**	638,415
Adjustments for:			
– Depreciation		**327,064**	163,982
– Interest expenses		**1,240,964**	1,029,282
– Share-based payments		**15,185**	7,915
– Unrealised currency exchange gains		**(1,488)**	(2,089)
– Fair value gains on interest rate and currency swaps	19	**(49,354)**	(27,913)
– Gain on disposal of Aircraft Recycling International Limited ("ARI") Group	32(d)	**–**	(8,731)
– Gain on disposal of property, plant and equipment	26	**(50)**	–
– Loss on repurchase of convertible bonds	17	**3,055**	39
– Share of loss of an associate		**2,203**	7,364
– Interest income		**(99,901)**	(34,240)
		2,172,341	1,774,024
Changes in working capital:			
– Finance lease receivables – net		**2,369,103**	1,217,008
– Prepayments and other receivables		**(334,103)**	121,987
– Other payables and accruals		**1,063,060**	760,676
– Income tax payables		**(26,020)**	5,620
– Deferred income tax liabilities		**205,327**	212,944
Net cash flows generated from operating activities		**5,449,708**	4,092,259
Cash flows from investing activities			
Purchase of property, plant and equipment		**(6,809,429)**	(3,669,249)
Proceeds from disposal of property, plant and equipment		**50**	–
Deposit paid for acquisition of aircraft		**(2,766,856)**	(1,730,821)
Deposit refunds for acquisition of aircraft		**2,220,094**	1,811,731
Interest received		**28,453**	15,435
Proceeds from disposal of ARI Group	32(d)	**–**	322,840
Payments relating to interests in and loans to an associate		**(356,755)**	(469,569)
Net cash flows used in investing activities		**(7,684,443)**	(3,719,633)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Cash flows from financing activities			
Proceeds from issue of new shares		**21,556**	390,884
Proceeds from bank borrowings and long-term borrowings		**13,070,923**	9,577,342
Issue of medium-term notes, net of transaction costs		**–**	384,680
Issue of bonds, net of transaction costs		**3,861,548**	4,608,628
Refinancing and repayments of bank borrowings and long-term borrowings		**(11,700,659)**	(8,999,729)
Purchase of non-controlling interests	12(b)	**–**	(19,500)
Repurchase of convertible bonds, including transaction costs		**(156,899)**	(591,014)
Interest paid in respect of derivative financial instruments		**(27,544)**	(30,950)
Interest paid in respect of borrowings, notes and bonds		**(1,251,280)**	(1,029,233)
Proceeds from disposal of derivative financial instruments		**76,091**	–
(Increase)/decrease in deposits pledged in respect of bank borrowings		**(256,785)**	59,872
Decrease/(increase) in deposits pledged in respect of derivative financial instruments		**71,382**	(33,462)
Dividends paid to shareholders		**(386,189)**	(204,232)
Net cash flows generated from financing activities		**3,322,144**	4,113,286
Net increase in cash and cash equivalents		**1,087,409**	4,485,912
Cash and cash equivalents at beginning of the year		**5,840,746**	1,389,289
Currency exchange difference on cash and cash equivalents		**95,204**	(34,455)
Cash and cash equivalents at end of the year		**7,023,359**	5,840,746

The notes on pages 112 to 187 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands. The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Company and its subsidiaries (together, "the Group") have operations mainly in Mainland China and other countries or regions in Europe and Asia.

The consolidated financial statements for the year ended 31 December 2017 are presented in Hong Kong Dollars ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Going concern

Aircraft leasing is a capital-intensive business. As at 31 December 2017, the Group had total capital commitments of HK$76,030.6 million (Note 33(b)) mainly relating to aircraft purchase, of which HK$7,738.0 million is payable within one year. The Group will satisfy these capital commitments through the Group's internal resources and may need to raise additional funds through pre-delivery payments ("PDP") financing, new commercial aircraft bank loans, issuance of notes under the US$3,000 million medium-term note programme set up in December 2017 ("MTN Programme"), and other debt and equity financing. In view of such circumstance, the directors of the Company have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The directors of the Company adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) ***Going concern*** *(continued)*

– According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next twelve months from 31 December 2017 amounted to HK$3,149.7 million. Up to the approval date of the consolidated financial statements, the Group had signed PDP financing agreements with various commercial banks which have agreed to provide financing of HK$2,311.5 million to the Group in the next twelve months from 31 December 2017. The remaining balance of PDP amounting to HK$838.2 million is to be funded by internal resources, available banking facilities or additional financing.

– The new commercial aircraft bank borrowings are primarily used for the PDP financing and aircraft acquisition cost. Such aircraft acquisition borrowing will only be confirmed before delivery of the relevant aircraft and based on industry practice and prior experience, long-term aircraft borrowings will be granted by the banks if the aircraft can be leased out to airline companies. Lease agreements or letters of intent have already been signed for the aircraft scheduled for delivery in the next twelve months from 31 December 2017. The directors of the Company thus believe that long-term aircraft borrowings can be obtained or other internal resources, issuing bonds and available banking facilities can be used to settle the PDP financing and the balance payments of the aircraft acquisition costs due in the next twelve months from 31 December 2017.

– For the existing long-term aircraft borrowings, under the business model of the Group, the expected cash inflows from lease receivables generally are sufficient for the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft.

– As at 31 December 2017, the Group had cash and cash equivalents amounting to HK$7,023.4 million. In addition, the Group set up the MTN Programme of US$3,000 million in December 2017, pursuant through which the Group may raise necessary funds as when needed. Each issuance of the note from such MTN Programme will be subject to the board of directors' approval and other external factors.

The directors of the Company have reviewed the Group's cash flow forecasts prepared by management, covering a period of not less than twelve months from 31 December 2017. The forecasts are based on a number of assumptions including aircraft delivery and leasing schedules, planned disposal of finance lease receivables and/or disposal of aircraft, internal resources, available banking facilities that have been granted or will be granted, other available sources of financing; and the amount of capital commitments.

On this basis, the directors of the Company are of the opinion that, the Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 31 December 2017. Accordingly, the directors of the Company consider that the Group will be in a position to continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) Changes in accounting policy and disclosure

(i) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Amendments to HKAS 12, 'Income taxes'
- Amendments to HKAS 7, 'Statement of cash flows'
- Amendment to HKFRS 12, 'Disclosure of interest in other entities'.

The adoption of these amendments did not have any impact on the amounts recognised in the current year or any prior year.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities (Note 30).

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2017.

	Effective Date
HKFRS 9, 'Financial instruments'	1 January 2018
HKFRS 15, 'Revenue from contracts with customers'	1 January 2018
Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'	1 January 2018
Amendment to HKAS 28, 'Investments in associates and joint ventures'	1 January 2018
HK (IFRIC) 22, 'Foreign currency transactions and advance consideration'	1 January 2018
HKFRS 16, 'Leases'	1 January 2019
HK (IFRIC) 23, 'Uncertainty over income tax treatments'	1 January 2019
Amendments to HKFRS 10 and HKAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far the Group has identified some aspects of the new and revised HKFRSs that are expected to have an impact on the Group's accounting policies and are discussed below, which mainly include HKFRS 9, HKFRS 15 and HKFRS 16. Other new and revised HKFRSs are not expected to have a material impact on the Group's financial performance and position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) Changes in accounting policy and disclosure *(continued)*

(ii) New standards and interpretations not yet adopted (continued)

HKFRS 9, 'Financial instruments'

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group has assessed that its debt instruments currently classified as loans and receivables and measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39, 'Financial Instruments: recognition and measurement' and have not been changed under HKFRS 9.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECLs) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, 'Revenue from contracts with customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects the increase in the loss allowance for lease receivables by approximately US$1,268,000 (equivalent to HK$9,909,000).

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) Changes in accounting policy and disclosure (continued)

(ii) New standards and interpretations not yet adopted (continued)

HKFRS 15, 'Revenue from contracts with customers'

HKFRS 15 replaces the previous revenue standards: IAS/HKAS 18, 'Revenue' and IAS/HKAS 11, 'Construction contracts', and the related interpretations on revenue recognition. The directors of the Company have performed a preliminary assessment. Based on this assessment, it is noted that HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date. According to the business model of the Group and assessment, the Group does not expect a significant impact on the accounting from HKFRS 15.

HKFRS 16, 'Leases'

HKFRS 16 will result in virtually all leases being recognised on the balance sheet for the lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the operating leases where the Group is a lessee. As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$26.7 million, see Note 33(c). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments, and how this will affect the Group's profit and classification of cash flows.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) 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 consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(a) ***Consolidation*** *(continued)*

(ii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Disposal of subsidiaries*

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. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(b) ***Separate financial statement***

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) ***Structured entities***

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, the Group has determined that the trust plans set up to acquire certain finance lease receivables from the Group are structured entities over which the Group has no control and are therefore not consolidated. They are referred to as unconsolidated structured entities (Note 3.1.4).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in profit or loss.

2.4 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency. Functional currencies of the subsidiaries of the Company include Renminbi ("RMB"), US dollar ("US$") and HK$.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

(c) Group companies

The results and financial position of all the entities of the Group (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);

(iii) all resulting foreign exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 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 are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft	25 years from the date of manufacture	15%
Leasehold improvements	Shorter of lease term or 3 years	0%
Office equipment	2 to 5 years	5%
Others	4 to 10 years	0%

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 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating income/expenses' in the consolidated statement of income.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets

The Group classifies its financial assets into the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

During the year ended 31 December 2017, other than loans and receivables and derivatives at fair value through profit or loss, the Group did not hold any financial assets in other categories.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (ii) those that the Group upon initial recognition designates as available-for-sale; or (iii) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration. The Group's loans and receivables comprise "loans to an associate", "other receivables", "restricted cash" and "cash and cash equivalents" on the consolidated balance sheet.

Loans and receivables are initially recognised at fair value which the cash is paid to originate the assets including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

Interest on loans and receivables is recognised using the effective interest method and is included in the consolidated statement of 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 financial assets for the purpose of derecognition and impairment.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Offsetting financial instruments *(continued)*

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The financial assets and financial liabilities of the Group that are subject to such enforceable master netting arrangements or similar agreements are not offset in accordance with HKFRSs.

As at 31 December 2017, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements were not material to the Group.

2.10 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 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 notes to the consolidated financial statements. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in "Other gains" in the consolidated statement of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the forecast transaction being hedged affects profit or loss (for example, when the interest payment that is hedged occurs). They are recorded in the expense lines in the consolidated statement of 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" in the consolidated statement of income.

2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 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 from the proceeds.

2.14 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 income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and is included in the computation of the loan's effective interest rate. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Interests related to progress payments made in respect of aircraft in the process of construction on forward order are capitalised and such amounts are added to prepayments on aircraft. The amount of interest capitalised is the actual interest costs incurred on funding specific to the progress payments or the amount of interest costs which could have been avoided in the absence of such progress payments.

Other borrowing costs are expensed as incurred.

2.15 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to ordinary shares of the Company at the option of the holders, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on redemption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Compound financial instruments *(continued)*

When the Group extinguishes the compound financial instruments through an early redemption in condition that the original conversion privileges are unchanged, the Group allocates the consideration paid (including any transaction costs) to the instrument's liability and equity components at the date of redemption. In making the allocation, the Group used the same methodology (using current market data) that was used in the original allocation of proceeds received from the issue of compound financial instruments between the separate components on the initial recognition. Once the allocation of the consideration has been made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

– The difference between the consideration allocated to the liability component and its carrying value is recognised in profit or loss.

– The difference between the consideration allocated to the equity component and its carrying value is recognised in equity. The resulting balance relating to the equity component is transferred to retained earnings.

2.16 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 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.

2.18 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Share-based payments *(continued)*

(a) Equity-settled share-based payment transactions (continued)

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares over which the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

In addition, in some circumstances employees or consultants may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the financial statements of the Company.

2.19 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases

(a) *Where the Group is the lessor*

Finance lease

A finance lease is a lease that the Group as the lessor uses to transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. At the commencement of the lease term, the Group recognises the minimum lease amounts receivable by the Group as a finance lease receivable and records the unguaranteed residual value as an asset within the same category. The difference between (a) the aggregate of the minimum lease amounts and the unguaranteed residual value and (b) their present value (presented in the balance sheet as finance lease receivables – net) is recognised as unearned finance income. Minimum lease amounts are the payments over the lease term that the lessee is or can be required to make plus any residual value guaranteed to the lessor by the lessee, or a party unrelated to the lessor.

Unearned finance income is allocated to each period during the lease term using the effective interest method that allocates each rental between finance income and repayment of capital in each accounting period in such a way that finance income is recognised as a constant periodic rate of return (implicit effective interest rate) on the lessor's net investment in the lease. Lease agreements for which the base rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate existing at the commencement of the lease; any increase or decrease in lease payments that result from subsequent changes on floating interest rate is recorded as an increase or a decrease in finance lease income in the period of the interest rate change.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

See Notes 2.8 and 2.10 for accounting policies for derecognition and impairment of finance lease receivables.

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts received from lessees under operating leases (net of any incentives grant to the lessee) are recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

Initial direct costs incurred by the Group as the lessor in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

(b) *Where the Group is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

2.21 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) *Finance lease income*

The income under finance lease is recognised in the consolidated statement of income using the effective interest rate implicit in the lease over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

(b) *Operating lease income*

The income under operating lease is recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

(c) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(d) *Service income*

Service income is recognised in the accounting period in which the service is rendered.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the consolidated statement of income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of income on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 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 by the Company to banks, financial institutions and other bodies to support subsidiaries in securing loans, overdrafts and other banking facilities.

Where a financial guarantee in relation to borrowings or other payables of subsidiaries is provided for no compensation, its fair value is accounted for as an equity contribution and recognised as part of the cost of the investment in subsidiaries in the financial statements of the Company.

2.24 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.

2.25 Segment information

The Group is engaged in the provision of aircraft leasing services to airline companies mainly in China. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

3.1.1 Market risk

(a) *Currency exchange risk*

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other receivables, financial liabilities including borrowings, other payables and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and the corresponding borrowings used to finance the leases are mainly denominated in US$ and RMB. Currency exchange risk may arise when the finance lease receivables and corresponding borrowings are denominated in different currencies. The management minimises the currency exchange risk by matching the finance lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk *(continued)*

(b) *Cash flow and fair value interest rate risk*

The Group's interest rate risk mainly arises from finance lease receivables, bank borrowings, bonds and medium-term notes. Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, bonds and medium-term notes at fixed rates expose the Group to fair value interest rate risk.

The Group's primary objective is to manage cash flow interest rate risk.

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank borrowings do not match. As at 31 December 2017, the Group had 22 outstanding floating-to-fixed interest rate swaps (2016: 26 swaps) to manage its unmatched interest rate risk exposure. 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 unhedged exposure, the Group closely monitors the interest rate trend and may 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 2016 and 2017. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax by approximately HK$34,392,000 (2016: HK$19,937,000); and would also have increased/decreased the Group's reserves by approximately HK$88,832,000 (2016: HK$104,493,000), because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheet date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service.

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as their shareholders' support. The Group also obtained deposits from the lessees (Note 20). All these strengthen the control and management of credit risk.

The Group is also exposed to credit risk associated with its interest rate swaps arrangement with four investment banks, which has a high credit quality. The interest rate swaps were secured by pledged deposits placed by the Group.

(a) *Probability of default*

Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

Late payment risk – in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which it may apply towards the payment or discharge of any obligation owed by the lessee.

(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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

(c) Impairment allowance policies

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group's policy requires a review of the financial statements of the lessee or its parent company and a valuation of the residual value of the aircraft (effectively the collateral held) under the lease regularly as circumstances require. Follow-up actions are carried out on overdue amounts to minimise credit risk exposures.

When there is overdue amounts, provision for impairment allowance is considered based on a number of factors, such as the background of the lessees and their creditworthiness, economic conditions and the value of underlying rental deposits received from the lessees. As at 31 December 2017, lease receivables of HK$7,981,000 (2016: Nil) were past due but not impaired. These relate to customers for whom there was no recent history of default and the lease receivables were subsequently received, thus no impairment allowance was made for lease rental receivables and financial assets of the Group as at 31 December 2017 (2016: Nil).

(d) Concentration of credit risk

During the year ended 31 December 2017, the lessees of the Group are airline companies located in the United States, Mainland China and other countries or regions in Europe and Asia. Please see Note 7 and Note 21 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

To manage this risk, the Group assesses the business performance of the airline companies on a regular basis. In view of the fact that the airline companies are operating smoothly and the sound collection history of the receivable due from them, management believes that the credit risk inherent in the Group's outstanding finance lease receivable balances (Note 7) and operating lease receivables (Note 33(d)) from these airline companies is insignificant.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or due to be settled within twelve months from the balance sheet date:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Current assets		
Finance lease receivables – net	**25,453**	327,675
Derivative financial assets	**5,587**	–
Prepayments and other receivables	**347,297**	14,577
Loans to an associate	**870,188**	441,985
Cash and cash equivalents	**7,023,359**	5,840,746
	8,271,884	6,624,983
Current liabilities		
Deferred income tax liabilities	**79,126**	22,061
Bank borrowings	**5,306,682**	4,422,976
Long-term borrowings	**89,190**	1,246
Convertible bonds	**153,190**	2,017
Derivative financial liabilities	**414**	23,405
Income tax payables	**17,254**	43,274
Interest payables	**226,761**	153,392
Other payables and accruals	**1,708,174**	974,254
	7,580,791	5,642,625
Net current assets	**691,093**	982,358

The assets and liabilities of the Group not included in the above table are expected to be recovered or due to be settled more than twelve months from the balance sheet date.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk *(continued)*

The following table shows the remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date of the Group's financial assets, finance lease receivables and operating lease receivables for the purpose of this analysis and financial liabilities as well as operating lease commitments, based on contractual undiscounted cash flows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2017					
Financial assets					
Finance lease receivables (i)	851,211	973,015	2,086,233	9,748,716	13,659,175
Loans to an associate	870,188	–	–	–	870,188
Other receivables excluding prepayments	70,440	–	1,495	19,046	90,981
Restricted cash	–	–	–	372,826	372,826
Cash and cash equivalents	7,023,359	–	–	–	7,023,359
Off-balance sheet – operating lease receivables (ii)	1,244,863	1,240,260	3,634,867	4,406,922	10,526,912
Derivative financial instruments	5,678	24,788	45,355	19,430	95,251
	10,065,739	2,238,063	5,767,950	14,566,940	32,638,692
Financial liabilities					
Bank borrowings	5,872,335	2,011,001	4,299,930	7,124,120	19,307,386
Long-term borrowings	402,436	402,830	1,293,131	5,797,948	7,896,345
Medium-term notes	43,156	43,156	864,569	–	950,881
Convertible bonds	160,203	–	–	–	160,203
Bonds	449,357	2,724,665	5,452,065	1,691,926	10,318,013
Other payables and accruals (iii)	1,002,912	23,942	29,341	328,777	1,384,972
Off-balance sheet – operating lease commitments (iv)	15,412	6,981	2,793	1,501	26,687
Derivative financial instruments	416	(213)	–	–	203
	7,946,227	5,212,362	11,941,829	14,944,272	40,044,690
Net	2,119,512	(2,974,299)	(6,173,879)	(377,332)	(7,405,998)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk *(continued)*

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2016					
Financial assets					
Finance lease receivables (i)	1,317,014	1,316,599	3,839,951	11,608,091	18,081,655
Loans to an associate	441,985	–	–	–	441,985
Other receivables excluding prepayments	13,638	–	5,704	–	19,342
Restricted cash	–	–	–	176,087	176,087
Cash and cash equivalents	5,840,746	–	–	–	5,840,746
Off-balance sheet – operating lease receivables (ii)	653,183	630,716	1,715,991	2,181,319	5,181,209
Derivative financial instruments	(7,440)	15,381	97,621	32,929	138,491
	8,259,126	1,962,696	5,659,267	13,998,426	29,879,515
Financial liabilities					
Bank borrowings	5,089,568	2,045,429	4,691,642	10,001,283	21,827,922
Long-term borrowings	165,036	149,284	457,844	3,136,819	3,908,983
Medium-term notes	40,131	40,131	844,095	–	924,357
Convertible bonds	20,171	320,405	–	–	340,576
Bonds	251,239	251,239	5,063,170	–	5,565,648
Other payables and accruals (iii)	426,457	24,051	46,364	190,420	687,292
Off-balance sheet – operating lease commitments (iv)	20,109	13,014	6,681	1,950	41,754
Derivative financial instruments	16,084	3,397	(2,767)	(1,987)	14,727
	6,028,795	2,846,950	11,107,029	13,328,485	33,311,259
Net	2,230,331	(884,254)	(5,447,762)	669,941	(3,431,744)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk *(continued)*

(i) For the purpose of liquidity risk analysis, finance lease receivables do not include unguaranteed residual values as they are not contractual cash inflows.

(ii) Off-balance sheet receivables represent operating lease rentals which will be received according to the schedules in the lease contracts.

(iii) For the purpose of liquidity risk analysis, tax payables, operating lease rentals received in advance, bonuses and director fee payables are not included.

(iv) Off-balance sheet operating lease commitments are the operating lease rentals which will be paid according to the schedules in the lease contracts.

The Group has arranged PDP financing to support its financing needs for the PDP. Such PDP financing will be replaced by aircraft project loan upon the delivery of the aircrafts as scheduled. As at 31 December 2017, the Group has made PDP amounting to HK$3,433,531,000 (2016: HK$2,862,803,000) (Note 8). PDP is prepayment in nature which do not represent contractual cash inflows and thus is not included in the analysis of the remaining contractual maturities above. The balance of PDP financing amounted to HK$1,709,129,000 as at 31 December 2017 (2016: HK$2,236,897,000) (Note 14). The analysis above includes the remaining contractual maturities of PDP financing.

Please also refer to Note 2.1 for the analysis of liquidity risk in greater detail.

3.1.4 Unconsolidated structured entities and transferred finance lease receivables

Certain wholly-owned subsidiaries of the Group (collectively "the CALC SPCs") signed contracts with trust plans or banks, pursuant to which, the CALC SPCs transferred to the trust plans or asset-backed securities programme their future aircraft finance lease receivables under their separate aircraft leasing agreements with airline companies. The gross, undiscounted amount of the finance lease receivables due and payable up to the end of lease terms of the aircraft leasing agreements ("undiscounted amount"), the discounted carrying amount of these finance receivables at the date of the transfer ("discounted amount") and the consideration for the transfer ("consideration") for the year ended 31 December 2017 are set out below.

	Undiscounted amount HK$'000	Discounted amount HK$'000	Consideration HK$'000
For the year ended 31 December 2017	**6,285,445**	**4,615,694**	**5,603,627**
For the year ended 31 December 2016	4,518,756	3,163,276	3,936,758

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4 *Unconsolidated structured entity and transferred finance lease receivables (continued)*

The trust plans or asset-backed securities programme also appointed the CALC SPCs as the service agent to collect the lease rentals from the airline companies. The services to be provided include maintaining relationship with the airline companies, collecting of rental on behalf the trust plan or asset-backed securities programme, following up assessments of the lease item, inquiring and reporting on lease rentals collection. CALC SPCs recognised service fee income over the lease servicing period. For the year ended 31 December 2017, service fee income of HK$706,000 (2016: HK$344,000) was included in Group's other income.

No member of the Group has any option or obligation to reacquire the transferred lease receivables.

The trust plans or asset-backed securities programme were not established by the Group and the Group has no control over the trust plans or asset-backed securities programme. They are unconsolidated structured entities. The following table shows the total assets size of the above mentioned unconsolidated structured entities and the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities:

	Unconsolidated structured entities			
	Size HK$'000	Funding provided by the Group (Note (i)) HK$'000	Group's maximum exposure (Note (ii)) HK$'000	Interest held by Group
As at 31 December 2017	**10,147,703**	**3,633**	**122,569**	**Service fee**
As at 31 December 2016	5,475,770	3,386	121,621	Service fee

Note:

(i) The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of HK$3,633,000 (2016: HK$3,386,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2017 (Note 9).

(ii) The Group converted the US$ lease rentals received on behalf of one of the trust plans during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement includes a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000. As at 31 December 2017, the fair value of this currency swap contract amounted to HK$14,966,000 (2016: HK$24,186,000) and the fair value loss of HK$9,381,000 was recognised in "Other gains" for the year ended 31 December 2017 (2016: gain of HK$8,038,000) (Note 19(a)).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plan or asset-backed securities programme as at 31 December 2017. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2017.

The Group monitors capital risk using an asset-liability ratio, which is calculated as total liabilities divided by total assets. The asset-liability ratios are as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Total liabilities	**34,567,196**	27,856,841
Total assets	**37,994,349**	30,900,187
Asset-liability ratio	**91.0%**	90.2%

3 FINANCIAL RISK MANAGEMENT *(continued)*

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 Group 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).

Financial assets and financial liabilities measured at fair values

The following table presents the Group's financial assets and financial liabilities that were measured at fair values.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2017				
Assets				
Currency swap	–	**14,966**	–	**14,966**
Interest rate swaps	–	**75,869**	–	**75,869**
	–	**90,835**	–	**90,835**
Liabilities				
Interest rate swaps	–	**207**	–	**207**
As at 31 December 2016				
Assets				
Currency swap	–	24,186	–	24,186
Interest rate swaps	–	106,927	–	106,927
	–	131,113	–	131,113
Liabilities				
Interest rate swaps	–	14,973	–	14,973

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The fair values of the interest rate swaps for hedging and the currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, US$/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and bank balances, other receivables, loans to an associate, interest payable and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year, are not sensitive to changes in inputs to valuation techniques.

The carrying amounts and fair values of the finance lease receivables, bank and long-term borrowings, medium-term notes, convertible bonds and bonds are as follows:

	31 December 2017		31 December 2016	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables – net	**12,556,201**	**13,270,358**	15,030,972	17,678,164
Bank borrowings	**16,458,411**	**16,490,975**	17,834,742	18,840,630
Long-term borrowings	**5,329,396**	**5,528,775**	2,346,110	2,462,542
Medium-term notes	**798,094**	**808,874**	740,126	779,000
Convertible bonds	**153,190**	**158,050**	292,706	315,183
Bonds	**8,538,932**	**8,819,974**	4,611,878	4,772,383

The fair values of finance lease receivables, borrowings, medium-term notes and convertible bonds 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.

The fair values of bonds are the quoted price in the active market. Their fair values are considered to be of level 1 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.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(a) Income taxes and deferred tax

The Group is subject to taxation in many jurisdictions and, in many cases, the ultimate tax treatment is not determined until concluded with the relevant tax authority. Consequently, the directors are required to exercise significant judgement in determining the appropriate amount of tax provisions based on the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of lease terms. Since the settlement of the Group's tax position is subject to future negotiation with various tax authorities, the calculation of the provision are subject to inherent uncertainty.

In accordance with the corporate income tax laws in the People's Republic of China ("PRC"), a 5% or 10% withholding tax is levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. No deferred tax liability has been provided by the Group on the retained earnings of approximately HK$1,356,137,000 as at 31 December 2017 (2016: HK$935,803,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

(b) Estimation of unguaranteed residual value on leased assets

Unguaranteed residual value is a portion of the residual value of a leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor. The unguaranteed residual value of the aircraft at the inception of the lease is based on management's estimates with reference to valuation reports issued by independent valuers. Please refer to Note 7 for the unguaranteed residual values recognised at the end of each reporting period.

The estimation of unguaranteed residual value at the inception of the leases impacts the determination of unearned finance income. Subsequent to initial recognition, estimated unguaranteed residual values are reviewed regularly. If there is a reduction in the estimated unguaranteed residual value, the income allocation over the remaining lease term will be revised and the reduction in respect of net present value of unguaranteed residual value will be adjusted immediately in profit or loss. The directors of the Company are of the opinion that there had been no impairment in the carrying amount of the unguaranteed residual value as at 31 December 2017.

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 unguaranteed residual values of the aircraft under the 69 (2016: 63) finance leases as at 31 December 2017 were approximately HK$7,284,728,000 (2016: HK$6,693,720,000). A 5% decrease in the expected unguaranteed residual value from the management's current estimates would result in a decrease in profit before income tax for the year ended 31 December 2017 by approximately HK$20,226,000 (2016: HK$19,350,000).

(c) 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.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(c) Impairment of non-financial assets (continued)

The Group obtains fair values of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in a similar condition. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate the present value.

(d) Fair values of derivative financial instruments

The fair values of derivative financial instruments that are not traded in an active market (for example, over-the-counter interest rate swaps used for hedging) is determined by using valuation techniques. The Group uses its judgement to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for the derivative financial instruments that are not traded in active markets.

(e) Recognition of share-based compensation expenses

The Company has granted share options. Binomial valuation model was used to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as the risk free interest rate, dividend yield, expected volatility, is required to be made by the directors in applying the Binomial valuation model (Note 12(a)).

4.2 Critical judgements in applying the Group's accounting policies

(a) 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 (which include lease payments and residual values guaranteed by third parties) of the lease amount to at least substantially all of the fair values of the leased assets at the inception of the leases. Accordingly, the Group has excluded the aircraft from its consolidated balance sheet and has instead, recognised finance lease receivables (Note 7). Otherwise the Group includes the aircraft under operating lease in property, plant and equipment. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

(b) Disposal of finance lease receivables

The Group considers that the trust plans or asset-backed securities programme as described in Note 3.1.4 are structured entities which are run according to predetermined criteria that are part of its initial design.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Group's accounting policies *(continued)*

(b) Disposal of finance lease receivables *(continued)*

The Group has assessed that it does not control the trust plans or asset-backed securities programme as the Group does not have the current ability to direct the relevant activities of the trust plans or asset-backed securities programme. Accordingly, the trust plans or asset-backed securities programme are not consolidated by the Group. The determination of whether there are controls over the trust plans or asset-backed securities programme depends on an assessment of the relevant arrangements relating to the trust plans or asset-backed securities programme and this has involved critical judgements by management. For further details about these unconsolidated structured entities, see Note 3.1.4.

The directors assessed the Group has transferred substantially all the risks and rewards related to the lease receivables to the trust plans or asset-backed securities programme, and thus the corresponding finance lease receivables were derecognised.

5 PROPERTY, PLANT AND EQUIPMENT

	Aircraft HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2016						
Cost	2,631,830	4,522	4,890	15,397	692	2,657,331
Accumulated depreciation	(240,327)	(2,153)	(1,615)	–	(692)	(244,787)
Net book amount	2,391,503	2,369	3,275	15,397	–	2,412,544
Year ended 31 December 2016						
Opening net book amount	2,391,503	2,369	3,275	15,397	–	2,412,544
Additions	3,994,051	411	2,795	32,110	–	4,029,367
Depreciation	(161,731)	(777)	(1,474)	–	–	(163,982)
Disposal (Note 32(d))	–	–	(13)	(47,086)	–	(47,099)
Currency translation difference	(16,290)	(8)	(8)	(421)	–	(16,727)
Closing net book amount	6,207,533	1,995	4,575	–	–	6,214,103
As at 31 December 2016 and 1 January 2017						
Cost	**6,605,076**	**4,910**	**7,646**	**–**	**692**	**6,618,324**
Accumulated depreciation	**(397,543)**	**(2,915)**	**(3,071)**	**–**	**(692)**	**(404,221)**
Net book amount	**6,207,533**	**1,995**	**4,575**	**–**	**–**	**6,214,103**
Year ended 31 December 2017						
Opening net book amount	**6,207,533**	**1,995**	**4,575**	**–**	**–**	**6,214,103**
Additions	**7,078,566**	**82**	**851**	**–**	**13,884**	**7,093,383**
Depreciation	**(323,684)**	**(802)**	**(1,858)**	**–**	**(720)**	**(327,064)**
Currency translation difference	**78,966**	**20**	**16**	**–**	**–**	**79,002**
Closing net book amount	**13,041,381**	**1,295**	**3,584**	**–**	**13,164**	**13,059,424**
As at 31 December 2017						
Cost	**13,772,903**	**4,299**	**8,549**	**–**	**13,884**	**13,799,635**
Accumulated depreciation	**(731,522)**	**(3,004)**	**(4,965)**	**–**	**(720)**	**(740,211)**
Net book amount	**13,041,381**	**1,295**	**3,584**	**–**	**13,164**	**13,059,424**

5 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Lease rentals amounting to HK$828,756,000 relating to the lease of aircraft for the year ended 31 December 2017 are included in "operating lease income" in the consolidated statement of income (2016: HK$416,041,000).

As at 31 December 2017, the net book value of aircraft under operating leases amounting to HK$8,679,902,000 (2016: HK$4,248,250,000) were pledged as collateral for bank borrowings for aircraft acquisition financing (Note 14) and borrowings from trust plans (Note 15).

6 INTERESTS IN AND LOANS TO AN ASSOCIATE

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Interests in and loans to an associate	**870,188**	444,369

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Share of loss of an associate	**(2,203)**	(7,364)

As at 31 December 2017, the Group had direct interests in the following associate:

Name of entity	Country of incorporation	% of ownership interest	Measurement method
ARI	Cayman Islands	48%	Equity

ARI is an investment holding company and its subsidiaries have operations mainly in the Mainland China, United States and other countries principally engaged in the leasing of used aircraft and recycling business. As at 31 December 2016, the Group's interests in ARI amounted to HK$2,384,000 and the outstanding loans balance receivable from ARI amounted to HK$441,985,000. As at 31 December 2017, the Group's outstanding loans balance receivable from ARI amounted to HK$870,188,000.

Pursuant to the shareholders' loan agreement dated 6 April 2016, the loans to ARI are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears at six-monthly intervals from the date of issue of the loan note. The loan is repayable on demand.

There are no contingent liabilities relating to the Group's interests in the associate. As the result of the associate is not material to the Group, no summarised financial information of the associate is disclosed.

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Finance lease receivables	**7,139,331**	12,357,712
Guaranteed residual values	**6,519,844**	5,723,943
Unguaranteed residual values	**7,284,728**	6,693,720
Gross investment in leases	**20,943,903**	24,775,375
Less: Unearned finance income	**(8,387,702)**	(9,744,403)
Net investment in leases	**12,556,201**	15,030,972
Less: Accumulated allowance for impairment (a)	**–**	–
Finance lease receivables – net	**12,556,201**	15,030,972

(a) The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balance due from airline companies is insignificant. No impairment allowance was made for the finance lease receivables as at 31 December 2017. 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.

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Gross investment in finance leases	**20,943,903**	24,775,375
Less: Unguaranteed residual values	**(7,284,728)**	(6,693,720)
Minimum lease payments receivable	**13,659,175**	18,081,655
Less: Unearned finance income related to minimum lease payments receivable	**(4,996,644)**	(6,390,192)
Present value of minimum lease payments receivable	**8,662,531**	11,691,463

7 FINANCE LEASE RECEIVABLES – NET *(continued)*

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of the reporting period:

	As at 31 December 2017 HK$'000	2016 HK$'000
Gross investment in finance leases		
– Not later than 1 year	**851,211**	1,317,014
– Later than 1 year and not later than 5 years	**3,557,303**	5,450,682
– Later than 5 years	**16,535,389**	18,007,679
	20,943,903	24,775,375

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:

	As at 31 December 2017 HK$'000	2016 HK$'000
Present value of minimum lease payments receivable		
– Not later than 1 year	**298,044**	563,904
– Later than 1 year and not later than 5 years	**863,357**	2,281,551
– Later than 5 years	**7,501,130**	8,846,008
	8,662,531	11,691,463

The following table sets forth the finance lease receivables attributable to airline companies:

	As at 31 December 2017 HK$'000	2017 %	2016 HK$'000	2016 %
Categorised by customer in term of lease receivables:				
Five largest airline companies	**9,314,147**	**74%**	10,098,289	67%
Other airline companies	**3,242,054**	**26%**	4,932,683	33%
Finance lease receivables – net	**12,556,201**	**100%**	15,030,972	100%

8 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
PDP (a)	**3,433,531**	2,862,803
Interest capitalised	**154,903**	134,784
Prepayments and receivables relating to aircraft acquisition	**366,396**	44,928
Deposits paid	**42,112**	6,210
Amount due from a related party (Note 32 (e))	**588**	–
Others (b)	**23,986**	14,072
	4,021,516	3,062,797

(a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S ("Airbus") for the purchase of 100 aircraft. In December 2017, the Group further entered into an agreement with Airbus for the purchase of additional 65 aircraft which was executed in the form of amendment agreement to the aircraft purchase agreement signed in December 2014.

In June 2017, the Group entered into aircraft purchase agreements with The Boeing Company for the purchase of 50 aircraft.

Prepayments are made according to the payment schedules set out in the aircraft purchase agreements. The aircraft will be delivered in stages by 2023.

(b) The "Others" above were unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
US$	**3,977,981**	3,043,908
RMB	**32,853**	13,232
HK$	**5,372**	4,281
Other currencies	**5,310**	1,376
	4,021,516	3,062,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 RESTRICTED CASH

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Pledged for secured bank borrowings for aircraft acquisition financing (Note 14)	**312,434**	51,698
Pledged for long-term borrowings (Note 15)	**41,969**	–
Pledged for letters of guarantee issued by a bank	**–**	35,293
Pledged for interest rate swap contracts (Note 19(b))	**14,790**	85,710
Pledged for a currency swap contract (Note 19(a))	**3,633**	3,386
	372,826	176,087

The carrying amounts of the Group's restricted cash are denominated in the following currencies:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
US$	**187,080**	85,712
RMB	**185,746**	90,375
	372,826	176,087

The average effective interest rate as at 31 December 2017 was 0.67% (2016: 0.40%).

10 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Cash at bank and on hand	**7,023,359**	5,840,746

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
US$	**6,125,590**	5,174,771
RMB	**854,459**	533,551
HK$	**36,034**	129,736
Other currencies	**7,276**	2,688
	7,023,359	5,840,746

The average effective interest rate as at 31 December 2017 was 0.91% (2016: 0.45%).

11 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK$
Issued:			
As at 1 January 2016	HK$0.1	605,923,800	60,592,380
Issue of new shares upon share subscription under general mandate (a)	HK$0.1	40,000,000	4,000,000
Issue of new shares from exercise of share options (b)	HK$0.1	23,976,840	2,397,684
As at 31 December 2016 and 1 January 2017	**HK$0.1**	**669,900,640**	**66,990,064**
Issue of new shares from exercise of share options (b)	**HK$0.1**	**8,278,720**	**827,872**
As at 31 December 2017	**HK$0.1**	**678,179,360**	**67,817,936**

(a) On 26 August 2016, the Company entered into subscription agreements with certain investors, independent third parties, for the subscriptions of an aggregate 40,000,000 shares at subscription price of HK$8.0 each, subject to a lock-up period of twelve months. The subscriptions were completed on 8 September 2016. The net proceeds from the subscriptions, after deducting the issuing cost, were approximately HK$319,991,000, of which HK$4,000,000 and HK$315,991,000 were credited to share capital and share premium respectively.

(b) During the year ended 31 December 2017, certain grantees exercised share options granted under share option schemes, resulting in 8,278,720 (2016: 23,976,840) new shares being issued, with total proceeds of HK$21,556,000 (2016: HK$70,893,000). The related weighted average share price at the time of exercise was HK$9.65 (2016: HK$7.87) per share. As at 31 December 2017, 8,432,220 (2016: 853,380) share options were exercisable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Capital Reserve HK$000	Share–based payments HK$'000	Cash flow hedges HK$'000	Convertible bonds HK$'000	Currency translation differences HK$'000	Total HK$'000
Balance as at 1 January 2016	683,372	623,720	–	24,173	(12,863)	116,541	2,554	1,437,497
Share of reserves of an associate	–	–	–	–	–	–	(7,799)	(7,799)
Cash flow hedges (Note 19)	–	–	–	–	100,325	–	–	100,325
Currency translation differences	–	–	–	–	–	–	(3,313)	(3,313)
Issue of new shares (Note 11(a))	315,991	–	–	–	–	–	–	315,991
Share option scheme:								
– Value of services (Note 12(a))	–	–	–	7,915	–	–	–	7,915
– Issue of new shares from exercise of share options (Note 11(b))	76,594	–	–	(8,099)	–	–	–	68,495
Repurchase of convertible bonds (Note 17)	–	–	–	–	–	(79,378)	–	(79,378)
Purchase of non-controlling interests (Note 12(b))	–	–	(39)	–	–	–	–	(39)
Balance as at 31 December 2016	1,075,957	623,720	(39)	23,989	87,462	37,163	(8,558)	1,839,694
Balance as at 1 January 2017	**1,075,957**	**623,720**	**(39)**	**23,989**	**87,462**	**37,163**	**(8,558)**	**1,839,694**
Share of reserves of an associate	**–**	**–**	**–**	**–**	**–**	**–**	**(181)**	**(181)**
Cash flow hedges (Note 19)	**–**	**–**	**–**	**–**	**(2,438)**	**–**	**–**	**(2,438)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**7,252**	**7,252**
Share option scheme:								
– Value of services (Note 12(a))	**–**	**–**	**–**	**15,185**	**–**	**–**	**–**	**15,185**
– Issue of new shares from exercise of share options (Note 11(b))	**23,270**	**–**	**–**	**(2,542)**	**–**	**–**	**–**	**20,728**
Repurchase of convertible bonds (Note 17)	**–**	**–**	**–**	**–**	**–**	**(18,582)**	**–**	**(18,582)**
Balance as at 31 December 2017	**1,099,227**	**623,720**	**(39)**	**36,632**	**85,024**	**18,581**	**(1,487)**	**1,861,658**

12 RESERVES *(continued)*

(a) Share-based payments

(i) Pre-IPO Share Option Scheme

The Group adopted a share option scheme ("Pre-IPO Share Option Scheme") on 4 August 2011 and taken over by the Company under the corporate reorganisation of the Group on 23 June 2014.

During the year ended 31 December 2011, options to subscribe for 45,000,000 shares were granted to the directors, Friedmann Pacific Asset Management Limited ("FPAM"), China Everbright Aerospace Holdings Limited ("CE Aerospace"), eligible employee and the consultants of the Group. Subject to the Group achieving the performance targets and the holders of options achieving individual performance targets, if any, and also remaining as full time employees or consultants of the Group, share options are exercisable, according to individual vesting schedule, commencing from the first financial year results publication date (the "First Publication Date") after the IPO of the Company and ending on 24 months after the First Publication Date. All the options shall lapse or expire after three years from the first financial year results publication date after the IPO of the Company. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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 for those options exercised thereafter.

(ii) Post-IPO Share Option Scheme

First Post–IPO Share Option

On 2 September 2014, options to subscribe for 26,990,000 shares (the "First Post-IPO Share Option") with an exercise price of HK$6.38 per share were granted to certain directors of the Company and selected employees and consultants of the Group. The vesting of the First Post-IPO Share Option is conditional upon the individual performance of respective grantees and the achievement of certain performance targets of the Group.

The weighted average fair value of the First Post-IPO Share Option on the grant date determined using the Binominal valuation model was approximately HK$1.0, (directors and employees) and HK$0.9 (consultants) per option respectively, with a total value of HK$26,000,193.

Second Post–IPO Share Option

On 22 July 2016, options to subscribe for 26,240,000 shares (the "Second Post–IPO Share Option") with an exercise price of HK$8.80 per share were granted to certain directors of the Company and selected employees of the Group. Among the 26,240,000 shares under the Second Post-IPO Share Option, 17,400,000 shares were granted to the directors and the connected person of the Company. The vesting of the Second Post–IPO Share Option in a connected person of the Company is conditional upon the achievement of her certain performance targets. Subject to the holders achieving individual performance targets, if any, options to subscribe for a maximum of 8,659,200 shares, 8,659,200 shares and 8,921,600 shares will become exercisable on and from 22 January 2017, 22 January 2018 and 22 January 2019 respectively and will expire on 21 July 2020.

The weighted average fair value of the Second Post–IPO Share Option on the grant date determined using Binomial valuation model was approximately HK$1.66 per option with total value of HK$43,661,305.

12 RESERVES *(continued)*

(a) Share-based payments *(continued)*

Other than the exercise price mentioned above, significant judgement on parameters, such as spot price at the grant date, risk free interest rate, dividend yield, expected volatility and suboptimal exercise factor are required to be made by the directors in applying the Binomial valuation model. The parameters used are as follows:

	Pre-IPO Share Option Scheme	First Post-IPO Share Option Scheme		Second Post-IPO Share Option Scheme
		Tranche A	Tranche B	
Spot share price at the grant date	US$0.12	HK$5.66	HK$5.66	HK$8.31
Risk free rate	0.94%	0.38%	0.71%	0.63%
Dividend yield	17.50%	2.73%	2.73%	3.09%
Expected volatility	45.00%	41.06%	42.09%	34.94%
Suboptimal exercise factor	2.5	2.5	2.5	2.5

Movement of outstanding share options granted by the Group is as follows:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Pre-IPO	Post-IPO	Total	Pre-IPO	Post-IPO	Total
Beginning of year	6,606,140	27,955,600	34,561,740	23,028,000	24,748,000	47,776,000
Granted during the year	–	–	–	–	26,240,000	26,240,000
Exercised during the year	(6,510,320)	(1,768,400)	(8,278,720)	(16,417,840)	(7,559,000)	(23,976,840)
Lapsed during the year	(91,800)	(312,200)	(404,000)	(4,020)	(15,473,400)	(15,477,420)
End of year	4,020	25,875,000	25,879,020	6,606,140	27,955,600	34,561,740

For share options outstanding as at 31 December 2017, the exercise price per share of Pre-IPO Share Option Scheme and Second Post-IPO Share Option Scheme was US$0.215 and HK$8.80, respectively. Their weighted average remaining contractual life of options outstanding as at 31 December 2017 was approximately 2.6 years (2016: 3.0 years).

12 RESERVES *(continued)*

(a) Share-based payments *(continued)*

During the year ended 31 December 2017, the amount of share-based compensation was adjusted by approximately HK$2,097,000 (2016: HK$13,497,000) as certain share options to grantees were lapsed during the year as they did not meet the performance conditions. After the adjustment, the net amounts of share-based compensation recognised as expense with a corresponding credit to reserves of the Group during the year are as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Directors and employees	**15,185**	20,823
Consultants	**–**	(12,908)
	15,185	7,915

(b) Purchase of non-controlling interests

On 30 June 2016, the Group purchased the remaining 25% of equity interest in China Corporate Jet Investment Limited for an aggregate cash consideration of US$2,500,000 (equivalent to approximately HK$19,500,000), resulting in a reduction in non-controlling interests by HK$19,461,000 and capital reserve by HK$39,000.

13 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Deferred tax liabilities:		
– To be settled within 12 months	**79,126**	22,061
– To be settled after 12 months	**465,423**	310,763
	544,549	332,824

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13 DEFERRED INCOME TAX LIABILITIES *(continued)*

The movement of the deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of leased assets HK$'000
Deferred tax liabilities	
As at 1 January 2016	122,132
Charged to profit or loss (Note 27)	212,944
Currency translation difference	(2,252)
As at 31 December 2016	332,824
As at 1 January 2017	**332,824**
Charged to profit or loss (Note 27)	**205,327**
Currency translation difference	**6,398**
As at 31 December 2017	**544,549**

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 2017, certain subsidiaries of the Group had unused tax losses of approximately HK$624,690,000 (2016: HK$566,910,000) available to offset against future profits, for which deferred tax asset of HK$90,829,000 (2016: HK$83,616,000) had not been recognised as their future realisation is uncertain.

The expiry dates of the unused tax losses are as follows:

	As at 31 December	
	2017 HK$'000	2016 HK$'000
Year		
2017	**–**	4,291
2018	**12,306**	12,306
2019	**12,750**	12,750
2020	**14,953**	14,953
2021	**49,672**	49,672
2022	**52,381**	–
No expiry date	**482,628**	472,938
	624,690	566,910

14 BANK BORROWINGS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Secured bank borrowings for aircraft acquisition financing (a)	**13,981,599**	15,131,613
PDP financing (b)	**1,709,129**	2,236,897
Working capital borrowings (c)	**767,683**	466,232
	16,458,411	17,834,742

(a) Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 31 December 2017, the bank borrowings were secured by, in addition to other legal charges, the related 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 companies of the Group, and pledge of deposits amounting to HK$312,434,000 (2016: HK$51,698,000).

(b) In October 2017, the Group signed the first unsecured syndicated loan for PDP financing. Other PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, and guarantees from certain companies of the Group.

(c) As at 31 December 2017, the Group had aggregate unsecured working capital borrowings of HK$767,683,000 (2016: HK$466,232,000) which were guaranteed by certain companies of the Group.

The borrowings are repayable as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Within 1 year	**5,306,682**	4,422,976
Between 1 and 2 years	**1,529,991**	1,491,163
Between 2 and 5 years	**3,250,802**	3,344,064
Over 5 years	**6,370,936**	8,576,539
	16,458,411	17,834,742

The exposure of bank borrowings to interest rate changes at the end of balance sheet date are as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Fixed-interest rate	**2,359,952**	3,747,198
Floating-interest rate	**14,098,459**	14,087,544
	16,458,411	17,834,742

14 BANK BORROWINGS *(continued)*

The average effective interest rate as at 31 December 2017 of bank borrowings was 4.10% (2016: 4.18%). The carrying amounts of borrowings are principally denominated in US$.

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Floating rate:		
– Expiring within one year	**78,149**	348,944
– Expiring beyond one year	**4,162,946**	1,353,529
	4,241,095	1,702,473

15 LONG-TERM BORROWINGS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Borrowings from trust plans (a)	**5,018,672**	2,195,235
Other borrowings (b)	**310,724**	150,875
	5,329,396	2,346,110

(a) As at 31 December 2017, 43 borrowings (2016: 21 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposal of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (2016: 6.0% to 7.8%) per annum for remaining terms of six to 11 years (2016: seven to 11 years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$41,969,000 (2016: Nil).

(b) As at 31 December 2017, four borrowings (2016: two borrowings) were obtained through a structured financing arrangement for four aircraft (2016: two aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2016: 5.7%) per annum for their remaining terms of seven to eight years (2016: eight years) and are guaranteed by the Company.

16 MEDIUM-TERM NOTES

In July 2015, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB340 million due in 2020, bearing coupon interest at 6.50% per annum.

In November 2016, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB330 million due in 2021, bearing coupon interest at 4.19% per annum.

As at 31 December 2017, after deducting the issuing cost, the total carrying amount of these notes was HK$798,094,000 (2016: HK$740,126,000).

17 CONVERTIBLE BONDS

	Liability HK$'000	Equity HK$'000	Total HK$'000
Carrying value as at 1 January 2016	796,506	116,541	913,047
Repurchase of convertible bonds during 2016	(524,370)	(79,378)	(603,748)
Interest accrued at effective interest rate (inclusive of arrangement fees) during 2016	70,289	–	70,289
Interest paid (inclusive of arrangement fees) during 2016	(49,719)	–	(49,719)
Carrying value as at 31 December 2016 and 1 January 2017	**292,706**	**37,163**	**329,869**
Repurchase of convertible bonds during 2017	**(147,802)**	**(18,582)**	**(166,384)**
Interest accrued at effective interest rate (inclusive of arrangement fees) during 2017	**23,107**	**–**	**23,107**
Interest paid (inclusive of arrangement fees) during 2017	**(14,821)**	**–**	**(14,821)**
Carrying value as at 31 December 2017	**153,190**	**18,581**	**171,771**

In April and May 2015, the Company completed the issue of convertible bonds at par values of HK$387.9 million, HK$116.4 million and HK$387.9 million respectively to China Huarong International Holdings Limited ("Huarong"), China Great Wall AMC (International) Holdings Company Limited ("Great Wall", formerly known as Great Wall Pan Asia International Investment Co., Limited) and China Everbright Financial Investments Limited ("CE Financial"). These bonds bear coupon interest at 3.0% per annum and arrangement fees of 3.5% per annum with maturity of three years from the issue date and can be converted into shares at the holder's option at any time between the 41st day from issue date and to the 10th day prior to maturity date. The conversion price is HK$11.28 per share, subject to adjustment in accordance with the terms and conditions of the bonds.

In July 2016, the Company entered into separate agreements with Huarong, Great Wall and CE Financial to repurchase issued convertible bonds in the aggregate principal amount of HK$581,850,000 for an aggregate consideration of HK$590,578,000 plus the relevant interest and fees. This included a repurchase from CE Financial in a principal amount of HK$77,580,000. Based on the fair value estimated and redemption expenses at the completion of repurchase on 25 July 2016, a liability component of HK$524,370,000 and equity component of HK$79,378,000 were derecognised, and a net loss of HK$39,000 was charged to "Other gains" for the year ended 31 December 2016.

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17 CONVERTIBLE BONDS *(continued)*

In May 2017, the Company entered into a separate agreement with CE Financial to repurchase issued convertible bonds in the aggregate principal amount of HK$155,160,000 for an aggregate consideration of HK$156,711,600 plus the relevant interest and fees. Based on the fair value estimated and redemption expenses at the completion of repurchase on 15 May 2017, a liability component of HK$147,802,000 and equity component of HK$18,582,000 were derecognised, of which HK$12,541,000 was realised and reclassified from convertible bonds reserve to retained earnings, and a net loss of HK$3,055,000 was charged to "Other gains" for the year ended 31 December 2017. After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155,160,000.

Interest expenses (Note 23) on the carrying amount of the liability component are accrued at the effective interest rate (inclusive of arrangement fees) of 11.8% (2016: 11.8% to 14.1%) to adjust the carrying amount of the liability component to its amortised cost, being the present value of the expected future cash flows relating to periodic interest payments and principal repayment at par value at the maturity date.

18 BONDS

In May 2016, the Group issued three-year US$300 million senior unsecured bonds due in 2019, bearing coupon interest at 5.9% per annum, payable semi-annually.

In August 2016, the Group issued five-year US$300 million senior unsecured bonds due in 2021, bearing coupon interest at 4.9% per annum, payable semi-annually.

In March 2017, the Group issued senior unsecured bonds in an aggregate principal amount of US$500 million, of which US$300 million are five-year bonds due in 2022 and US$200 million are seven-year bonds due in 2024. The bonds bear coupon interest at 4.7% and 5.5% per annum, respectively, payable semi-annually.

These bonds were listed on the Stock Exchange and are guaranteed by the Company. After deducting the issuing cost, total carrying amount of these bonds as at 31 December 2017 was HK$8,538,932,000 (2016: HK$4,611,878,000).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Derivative financial assets		
– Currency swap (a) (Note 3.1.4)	**14,966**	24,186
– Interest rate swaps (b)	**75,869**	106,927
	90,835	131,113
Derivative financial liabilities		
– Interest rate swaps (b)	**207**	14,973

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

(a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000. As at 31 December 2017, the fair value of this currency swap contract amounted to HK$14,966,000 (2016: HK$24,186,000) and the fair value loss of HK$9,381,000 was recognised in "Other gains" for the year ended 31 December 2017 (2016: gain of HK$8,038,000). As at 31 December 2017, this arrangement was secured by a pledge deposit of HK$3,633,000 (2016: HK$3,386,000).

(b) As at 31 December 2017, the Group had 22 outstanding interest rate swap contracts (2016: 26 contracts) which will expire at various dates from 21 September 2018 to 21 December 2024 (2016: 21 September 2018 to 21 December 2024), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.3% to 2.0% (2016: 1.1% to 2.1%). As at 31 December 2017, these interest rate swap contracts were secured by pledged deposits of HK$14,790,000 (2016: HK$85,710,000). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

(i) All the 22 outstanding interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective during the year ended 31 December 2017. During the year ended 31 December 2016, only 21 outstanding interest rate swap contracts were accounted for as effective cash flow hedges and total five swaps did not meet the criteria for hedge accounting and total fair value gains of HK$7,726,000 was recognised to "Other gains" for the year ended 31 December 2016.

(ii) In December 2013, the Group terminated one interest rate swap contract with a realised gain of US$1,947,000. This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to interest expense during the remaining interest repayment period of the hedged bank borrowing from 2014 to 2026. During the period from 1 January 2016 to 31 August 2016, the realised gain of HK$592,000 was reclassified from cash flow hedges reserve to interest expense. On 31 August 2016, the hedged bank borrowing was fully repaid and the remaining balance of realised gain of HK$12,149,000 was reclassified from cash flow hedges reserve to "Other gains" for the year ended 31 December 2016.

(iii) During the year ended 31 December 2016, the Group repaid four bank borrowings which were hedged by interest rate swaps. As a result, the hedges no longer met the criteria for hedge accounting and the cumulative fair value losses of HK$9,356,000 were reclassified from cash flow hedges reserve to "Other gains" upon the repayment of bank borrowings for the year ended 31 December 2016.

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

During the year ended 31 December 2017, the Group terminated total 15 interest rate swap contracts listed out as follows:

(iv) Five interest rate swap contracts were terminated with total realised gains of US$994,000 (equivalent to HK$7,764,000). As their hedged bank borrowing was already repaid during 2015 and 2016 with cumulative fair value gains of HK$4,501,000 recognised in retained earnings as at 31 December 2016, total gains of HK$3,231,000 was directly recognised in "Other gains" for the year ended 31 December 2017.

(v) The Group repaid four bank borrowings which was hedged by interest rate swaps and the cumulative fair value gains of HK$3,568,000 were reclassified from cash flow hedges reserve to "Other gains" for the year ended 31 December 2017 as the hedges no longer meet the criteria for hedge accounting. Subsequently, all these four interest rate swap contracts were terminated with total realised gains of US$1,114,000 (equivalent to HK$8,681,000) was recognised in "Other gains" for the year ended 31 December 2017.

(vi) The Group further terminated six interest rate swaps with total realised gains of US$7,657,000 (equivalent to HK$59,665,000 of which gains of HK$46,823,000 was recognised in "Other gains" and gains of HK$3,506,000 was credited to interest expenses). These realised gains were first recognised in the cash flow hedges reserve and were progressively reclassified from equity to interest expense until the repayment of bank borrowings. Subsequently, the hedged bank borrowings for five out of six swap contracts were repaid in 2017. For the year ended 31 December 2017, total cumulative fair value gains of HK$44,899,000 was reclassified from cash flow hedges reserve to interest expense and "Other gains".

The fair value changes of derivative financial instruments recognised in other comprehensive income and profit or loss are as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Recognised in other comprehensive income		
– Change in fair value of interest rate swaps (b)(i)	**46,029**	103,710
– Reclassified from other comprehensive income to profit or loss (b)(ii), (iii), (iv), (v) and (vi)	**(48,467)**	(3,385)
	(2,438)	100,325
Recognised in other gains of profit or loss		
– Fair value gains on interest rate swaps (b)(i)	**–**	7,726
– Unrealised (loss)/gain on currency swap (a)	**(9,381)**	8,038
– Realised gains on interest rate swaps (b)(ii), (iv), (v) and (vi)	**58,735**	12,149
	49,354	27,913

20 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Deposits and fund received for lease and aircraft projects	**1,520,619**	853,785
Consultant and insurance premium payable	**152,071**	125,342
Value-added tax and withholding tax payables	**477,613**	317,483
Operating lease rentals received in advance	**118,176**	61,906
Amounts due to related parties (Note 32(e))	**–**	2,974
Others (including salary and bonus payable)	**231,923**	125,326
	2,500,402	1,486,816

21 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2017, the Group was engaged in a single business segment, the provision of aircraft leasing services to airline companies in the United States, Mainland China and other countries or regions in Europe and Asia. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

	Year ended 31 December			
	2017		2016	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	**195,807**	**11%**	243,163	15%
Airline Company – B	**184,255**	**10%**	186,472	12%
Airline Company – C	**180,621**	**10%**	179,020	11%
Airline Company – D	**177,541**	**10%**	169,443	11%
Airline Company – E	**133,364**	**7%**	129,827	8%
Other airline companies	**974,630**	**52%**	671,243	43%
Total finance and operating lease income	**1,846,218**	**100%**	1,579,168	100%

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22 OTHER INCOME

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Gain from disposal of finance lease receivables (a)	**711,167**	562,025
Government grants (b)	**204,207**	260,738
Interest income from loans to an associate (Note 32(d))	**71,448**	18,805
Bank interest income	**28,453**	15,435
Operating lease income on office premises from a related party (Note 32(a))	**1,275**	2,646
Operating lease income on other assets from a related party (Note 32(c))	**1,320**	–
Operating lease income on office premises from an associate (Note 32(d))	**3,790**	–
Others	**23,717**	9,335
	1,045,377	868,984

(a) As described in Note 3.1.4, the CALC SPCs signed separate contracts with the trust plans, to transfer their future aircraft lease receivables under their separate aircraft lease agreements with certain airline companies to the trust plans. As the Group has transferred substantially all the risks and rewards related to the lease receivables to the trust plans, it de-recognised the corresponding finance lease receivables. For the year ended 31 December 2017, the Group disposed of finance lease receivables of 21 aircraft (2016: 14 aircraft) and recognised total gain of HK$711,167,000 (2016: HK$562,025,000), determined by comparing the net proceeds with the carrying amount of the finance lease receivables de-recognised, less transaction costs and tax and surcharges accrued.

(b) Government grants represent the grants and subsidies principally received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone as incentives provided by the government to support the development of aircraft leasing industry.

23 INTEREST EXPENSES

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Interest expense on bank borrowings and long-term borrowings	**896,119**	918,818
Fair value loss on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	**14,420**	30,950
Interest expense on convertible bonds (a)	**23,107**	70,289
Interest expense on medium-term notes	**43,524**	28,873
Interest expense on bonds	**430,069**	139,174
	1,407,239	1,188,104
Less: Interest capitalised on qualifying assets (b)	**(166,275)**	(158,822)
	1,240,964	1,029,282

(a) Interest expense on convertible bonds consists of interest paid or payable of HK$6,374,000 (2016: HK$19,246,000) which is calculated based on interest rate of 3.0% per annum. The remaining amount represents arrangement fee based on a rate of 3.5% per annum and the notional adjustment to accrete the carrying amount of liability component of convertible bonds to the present value of estimated future cash flows expected to be required for settlement up to maturity date.

(b) Interest expenses capitalised on qualifying assets represent the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

24 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Employee benefit expenses (Note 25)	**142,076**	124,136
Value-added tax and other taxes	**64,766**	124,363
Professional service expenses	**49,479**	54,413
Rental and utilities expenses	**26,989**	23,747
Office and meeting expenses	**15,713**	11,292
Travelling and training expenses	**15,140**	15,209
Auditor's remuneration		
– Audit service	**4,010**	3,950
– Non-audit service	**2,546**	6,662
Others	**30,472**	35,714
	351,191	399,486

25 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Wages, salaries and bonuses	**116,037**	97,760
Share-based compensation (Note 12(a))	**15,185**	20,823
Welfare, medical and other expenses	**10,854**	5,553
	142,076	124,136

26 OTHER GAINS

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Unrealised (loss)/gain on currency swap (Note 19)	**(9,381)**	8,038
Realised gains on interest rate swaps (Note 19)	**58,735**	12,149
Fair value gains on interest rate swaps (Note 19)	**–**	7,726
Currency exchange (losses)/gains	**(4,282)**	7,466
Gain on disposal of ARI Group (Note 32(d))	**–**	8,731
Loss on repurchase of convertible bonds (Note 17)	**(3,055)**	(39)
Gain on disposal of property, plant and equipment	**50**	–
	42,067	44,071

27 INCOME TAX EXPENSES

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	**72,250**	40,750
Deferred income tax	**205,327**	212,944
	277,577	253,694

27 INCOME TAX EXPENSES *(continued)*

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at 25% (2016: 25%). The leasing income of the subsidiaries in Mainland China is subject to VAT at 17% from 1 May 2016.

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% on the estimated assessable profits.

Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first EUR200,000 of its taxable income and a rate of 25% over its taxable income in excess of EUR200,000.

The subsidiary incorporated in France is subject to income tax at 33.33%.

The subsidiary incorporated in Singapore is subject to income tax at 17%.

The subsidiaries incorporated in Labuan are subject to income tax at 3% on the net profits or at Malaysian Ringgit 20,000 as elected annually by the subsidiaries.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% during the year ended 31 December 2017, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

27 INCOME TAX EXPENSES *(continued)*

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Profit before income tax	**1,012,240**	892,109
Tax calculated at a tax rate of 25%	**253,060**	223,027
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	**(5,230)**	(3,627)
– Income not subject to tax	**(92,036)**	(54,448)
– Non-deductible expenses	**118,332**	54,884
– Utilisation of previously unrecognised tax losses	**(4,835)**	(9)
– Tax losses for which no deferred income tax assets were recognised	**8,286**	33,867
Tax charge	**277,577**	253,694

28 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2016 and 2017.

	Year ended 31 December	
	2017	2016
Profit for the year (HK$'000)	**734,663**	638,415
Weighted average number of ordinary shares in issue (number of shares in thousands)	**675,464**	632,849
Basic earnings per share (HK$ per share)	**1.088**	1.009

28 EARNINGS PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, the weighted average number of ordinary shares is adjusted to include the additional shares issued upon conversion and the net profit is adjusted to eliminate the post-tax interest expense charged to profit or loss during the financial period. For share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2017	2016
Earnings		
Profit for the year (HK$'000)	**734,663**	638,415
Adjustments for:		
– Interest expenses net of tax on convertible bonds, excluding capitalised amount (HK$'000) (Note)	**–**	49,746
– Loss on repurchase of convertible bonds (HK$'000) (Note)	**–**	39
	734,663	688,200
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	**675,464**	632,849
Adjustment for:		
– Share options (number of shares in thousands)	**2,574**	9,947
– Assumed conversion of convertible bonds (number of shares in thousands) (Note)	**–**	56,684
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	**678,038**	699,480
Diluted earnings per share (HK$ per share)	**1.084**	0.984

Note: Only potential ordinary shares that are dilutive are considered in the calculation of diluted earnings per share.

29 DIVIDENDS

On 24 March 2017, the Board declared a final dividend of HK$0.39 per ordinary share totalling HK$264.1 million for the year ended 31 December 2016, which was paid in June 2017.

On 25 August 2017, the Board declared an interim dividend of HK$0.18 per ordinary share totalling HK$122.1 million, which was paid in September 2017.

On 23 March 2018, the Board declared a final dividend of HK$0.42 per ordinary share totalling HK$284.8 million which is calculated based on 678,183,380 issued shares as at 23 March 2018. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2017, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Interim dividend paid of HK$0.18 (2016: HK$0.14) per ordinary share	**122,072**	93,777
Proposed final dividend of HK$0.42 (2016: HK$0.39) per ordinary share	**284,837**	264,117
Total	**406,909**	357,894

30 NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Cash and cash equivalents	**7,023,359**	5,840,746
Bank borrowings	**(16,458,411)**	(17,834,742)
Long-term borrowings	**(5,329,396)**	(2,346,110)
Medium-term notes	**(798,094)**	(740,126)
Convertible bonds	**(153,190)**	(292,706)
Bonds	**(8,538,932)**	(4,611,878)
Net debt	**(24,254,664)**	(19,984,816)
Cash and cash equivalent	**7,023,359**	5,840,746
Gross debt – fixed interest rates	**(17,179,564)**	(11,738,018)
Gross debt – variable interest rates	**(14,098,459)**	(14,087,544)
Net debt	**(24,254,664)**	(19,984,816)

		Liabilities from financing activities					
	Cash and cash equivalent HK$'000	**Bank borrowings HK$'000**	**Long-term borrowings HK$'000**	**Medium-term notes HK$'000**	**Convertible bonds HK$'000**	**Bonds HK$'000**	**Total HK$'000**
Net debt as at 1 January 2017	5,840,746	(17,834,742)	(2,346,110)	(740,126)	(292,706)	(4,611,878)	(19,984,816)
Cash flows	1,087,409	1,580,374	(2,950,638)	–	162,623	(3,861,548)	(3,981,780)
Currency exchange adjustments	95,204	(145,445)	(26,946)	(55,879)	–	(47,344)	(180,410)
Interest expense	–	–	–	–	(23,107)	–	(23,107)
Other non-cash movements (a)	–	(58,598)	(5,702)	(2,089)	–	(18,162)	(84,551)
Net debt as at 31 December 2017	7,023,359	(16,458,411)	(5,329,396)	(798,094)	(153,190)	(8,538,932)	(24,254,664)

(a) Other non-cash movements represent amortisation of upfront fees and issuing cost in relation to borrowings.

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Year ended 31 December 2016

	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Housing allowance HK$'000	Share-based payments HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman, executive director							
Mr. Chen Shuang (i)	75	–	5,000	–	8,179	–	13,254
Executive director							
Ms. Liu Wanting	75	2,025	8,789	–	2,051	18	12,958
Non-executive directors							
Mr. Tang Chichun	225	40	–	–	41	–	306
Mr. Guo Zibin	285	40	–	–	41	–	366
Ms. Chen Chia-Ling (ii)	210	30	–	–	137	–	377
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	300	80	–	–	41	–	421
Mr. Ng Ming Wah, Charles (iii)	125	40	–	–	41	–	206
Mr. Nien Van Jin, Robert	360	115	–	–	41	–	516
Mr. Cheok Albert Saychuan	365	115	–	–	137	–	617
Mr. Chow Kwong Fai, Edward (iv)	167	50	–	–	137	–	354
	2,187	2,535	13,789	–	10,846	18	29,375

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' emoluments *(continued)*

Year ended 31 December 2017

	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Housing allowance HK$'000	Share-based payments HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman, executive director							
Mr. Chen Shuang (i)	–	–	–	–	7,073	–	7,073
Executive directors							
Mr. Poon Ho Man (v)	–	1,467	18,056	–	–	17	19,540
Ms. Liu Wanting	–	2,553	13,056	–	1,782	18	17,409
Non-executive directors							
Mr. Tang Chichun	200	30	–	–	5	–	235
Mr. Guo Zibin	200	110	–	–	5	–	315
Ms. Chen Chia-Ling (ii)	200	25	–	–	119	–	344
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	200	165	–	–	5	–	370
Mr. Nien Van Jin, Robert	200	244	–	–	5	–	449
Mr. Cheok Albert Saychuan	200	254	–	–	119	–	573
Mr. Chow Kwong Fai, Edward (iv)	200	242	–	–	119	–	561
	1,400	5,090	31,112	–	9,232	35	46,869

Note:

(i) Resigned as chief executive officer on 19 January 2017

(ii) Appointed on 19 January 2016

(iii) Retired on 17 May 2016

(iv) Appointed on 19 July 2016

(v) Appointed on 19 January 2017

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2017 in relation to their services to these companies.

No emoluments were paid to any directors in respect of accepting office as director and in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking for the year ended 31 December 2017 (2016: Nil).

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

During the year ended 31 December 2017, the five individuals whose emoluments were the highest in the Group include three directors and two individuals (2016: two directors and three individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2017, the emoluments paid to two (2016: three) remaining individuals are as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Basic salaries and allowances	**5,795**	4,950
Discretionary bonuses	**3,264**	17,156
Share-based payments	**3,803**	4,376
Other benefits	**18**	18
	12,880	26,500

The emoluments of the above two (2016: three) individuals fell within the following bands:

	Year ended 31 December	
	2017	2016
HK$3,000,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$5,000,000	**1**	–
HK$8,000,001 to HK$9,000,000	**1**	1
HK$13,000,001 to HK$14,000,000	**–**	1

During the years ended 31 December 2017 and 2016, 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.

32 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 12(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

(a) Transactions with FPAM and its subsidiaries (collectively as "FPAM Group")

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Operating lease income on office premises receivable from:		
Friedmann Pacific Financial Service Limited	**1,275**	2,646
Information technology support service fee charged by:		
富泰科信技術開發(深圳)有限公司	**–**	173
Friedmann Pacific Financial Technology (HK) Limited	**–**	2,802

(b) Transactions with CEL and its subsidiaries

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Operating lease expenses on office premises charged by:		
CEL Venture Capital (Shenzhen) Limited	**254**	229

(c) Transactions with China Everbright Group Ltd. ("CE Group")

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of CEL and CEL indirectly holds approximately 33.6% equity interest in the Company as at 31 December 2017. Accordingly, CE Group is deemed as a controlling shareholder of the Company, and thus CE Group and its subsidiaries, have become related parties of the Company.

(i) Deposit, loan and facilities services provided by CE Group

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group will provide deposit services to the Group through its associate, China Everbright Bank Co., Ltd. ("CE Bank"). Pursuant to the loan services framework agreement, CE Group will provide secured loan services and guarantees to the Group through CE Bank and through the trustee of a trust plan of which CE Group is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group will assign the finance lease receivables to the trustee.

32 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with China Everbright Group Ltd. ("CE Group") *(continued)*

(i) Deposit, loan and facilities services provided by CE Group *(continued)*

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Interest income from CE Group	**3,138**	863
Interest expenses to CE Group	**224,802**	136,139
Loans upfront and arrangement fee to CE Group	**22,378**	30,290
Transactions handling charges to CE Group	**6,966**	3,246
Guarantee issuing fee to CE Group	**149**	590
Cash consideration from CE Group for disposal of finance lease receivables	**2,528,720**	3,936,758

	As at 31 December	
	2017	2016
	HK$'million	HK$'million
Bank deposits placed in CE Group	**2,586.2**	1,147.3
Borrowings due to CE Group	**4,798.5**	3,287.1
Guarantees provided by CE Group	**–**	174.5
Undrawn facilities provided by CE Group	**646.2**	344.6

(ii) Compliance advisory service provided by CE Group

On 30 June 2014, the Group entered into a compliance advisory service agreement with China Everbright Capital Limited and the agreement was expired on 31 March 2016 (2016: service fee of HK$174,000).

(iii) Repurchase of convertible bonds to CE Financial

During the year ended 31 December 2017, the Company repurchased issued convertible bonds in the aggregate principal amount of HK$155,160,000 from CE Financial (Note 17). As at 31 December 2017, the carrying amount of liability component of convertible bonds was HK$153,190,000 (2016: HK$292,706,000) and the interest expenses incurred at an effective interest of 11.8% amounted to HK$23,107,000 for the year ended 31 December 2017 (2016: HK$37,030,000).

32 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with China Everbright Group Ltd. ("CE Group") *(continued)*

(iv) Lease of other assets to CEL Management Services Limited ("CEL Management")

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Operating lease income on other assets receivable from:		
CEL Management	**1,320**	–

(d) Transactions with an associate

(i) Lease of office premises to an associate

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Operating lease income on office premises receivable from:		
ARI	**3,790**	–

(ii) Loans to an associate

On 26 July 2016, the Group transferred the right to acquire the land and construction in progress relating to the aircraft recycling centre, to a subsidiary of ARI for total consideration of approximately HK$322,840,000. The consideration equals to the aggregate amounts of payment for the land, construction in progress, total advance payments incurred in the ordinary course of business at early stage of aircraft recycling centre paid by the Group plus an interest charge calculated at the rate of 9% per annum. Immediately after that, the Group's share interests in ARI was diluted from 100% to 48% through share allotment by ARI to the Group, China Aero Investment Limited, Sky Cheer International Limited and Neo Modern Limited. Such dilution constituted a disposal of subsidiary, which resulted in a gain of HK$8,731,000 for the year ended 31 December 2016.

In addition, an option right was granted to the Group, at any time during the period of six years from the grant date, to subscribe 612,245 shares of ARI at US$1.0 per share, subject to the condition that the total shares held by the Group after exercise the option would not exceed 50% of the enlarged issued share capital of ARI.

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, interest bearing at 4% per annum above the prime lending rate quoted by The Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. As at 31 December 2017, the outstanding balance receivable from ARI was amounted to HK$870,188,000 (2016: HK$441,985,000) (Note 6) and the share of interest income for the year ended 31 December 2017 was HK$71,448,000 (2016: HK$18,805,000) (Note 22).

32 RELATED PARTY TRANSACTIONS *(continued)*

(e) Amounts due from/(to) related parties:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
ARI	**588**	–
FPAM Group	**–**	(2,974)

The above amounts due from/(to) related parties were unsecured, interest-free and repayable on demand.

(f) Key management compensation

Key management includes directors of the Company. The compensation paid or payable to key management is shown below:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Director fee, salaries, bonus and other short-term employee benefits	**46,714**	40,653
Share-based payments	**13,035**	15,222
	59,749	55,875

33 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

The Group had no material contingent liabilities outstanding at the end of each of the year ended 31 December 2017 (2016: Nil).

(b) Capital commitments

Capital expenditures contracted but not provided for at the end of the reporting period are as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft	**76,030,351**	35,448,982
Additions to property, plant and equipment excluding aircraft	**255**	–
	76,030,606	35,448,982

33 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(c) Operating lease commitments – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Not later than one year	**15,412**	20,109
Later than one year and not later than five years	**9,774**	19,695
Later than five years	**1,501**	1,950
	26,687	41,754

(d) Operating lease arrangement – where the Group is the lessor

The Group had future minimum lease receipts under non-cancellable operating sub-leases in respect of office premises and other assets from related parties as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Not later than one year	**5,063**	2,398
Later than one year and not later than five years	**3,960**	1,457
	9,023	3,855

The Group had future minimum lease receipts under non-cancellable operating leases in respect of aircraft as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Not later than one year	**1,239,800**	650,785
Later than one year and not later than five years	**4,871,167**	2,345,250
Later than five years	**4,406,922**	2,181,319
	10,517,889	5,177,354

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	**1,669,134**	1,651,990
Amounts due from subsidiaries	**8,710,248**	4,109,581
Prepayments and other receivables	**293**	115
Cash and cash equivalents	**380,914**	910,339
Total assets	**10,760,589**	6,672,025
EQUITY		
Share capital	**67,818**	66,990
Reserves	**1,850,417**	1,833,086
Retained earnings	**577,698**	476,164
Total equity	**2,495,933**	2,376,240
LIABILITIES		
Convertible bonds	**153,190**	292,706
Amounts due to subsidiaries	**8,102,523**	3,993,239
Other payables and accruals	**8,943**	9,840
Total liabilities	**8,264,656**	4,295,785
Total equity and liabilities	**10,760,589**	6,672,025

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(a) Reserve movement of the Company

	Reserves HK$'000	Retained earnings HK$'000
Balance as at 1 January 2016	1,520,063	254,782
Comprehensive income		
Profit for the year	–	413,587
Total comprehensive income	–	413,587
Transactions with shareholders		
Issue of new shares	315,991	–
Share option scheme:		
– Value of services	7,915	–
– Issue of new shares from exercise of share options	68,495	–
Repurchase of convertible bonds	(79,378)	12,773
Dividends	–	(204,978)
Total transactions with shareholders	313,023	(192,205)
Balance as at 31 December 2016	1,833,086	476,164
Balance as at 1 January 2017	**1,833,086**	**476,164**
Comprehensive income		
Profit for the year	**–**	**475,182**
Total comprehensive income	**–**	**475,182**
Transactions with shareholders		
Share option scheme:		
– Value of services	**15,185**	**–**
– Issue of new shares from exercise of share options	**20,728**	**–**
Repurchase of convertible bonds	**(18,582)**	**12,541**
Dividends	**–**	**(386,189)**
Total transactions with shareholders	**17,331**	**(373,648)**
Balance as at 31 December 2017	**1,850,417**	**577,698**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 SUBSIDIARIES

As at 31 December 2017, the Company had direct or indirect interests in the following principal subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
Directly owned:					
China Aircraft Leasing Company Limited	British Virgin Islands ("BVI") 24 March 2006	US$200,000,000	100%	Investment/ asset holding	Limited liability entity
Aircraft Recycling International Holdings Limited	BVI 24 February 2016	US$1	100%	Investment holding	Limited liability entity
CALC Bond 1 Limited	BVI 15 March 2016	US$1	100%	Investment holding	Limited liability entity
CALC Bond 2 Limited	BVI 21 July 2016	US$1	100%	Investment holding	Limited liability entity
CALC Bond 3 Limited	BVI 17 February 2017	US$1	100%	Investment holding	Limited liability entity
CALC Bonds Limited	BVI 26 October 2017	US$1	100%	Investment holding	Limited liability entity
Indirectly owned:					
CALC 8-Aircraft Limited	Ireland 15 July 2010	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 10-Aircraft Limited	Ireland 20 June 2012	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 11-Aircraft Limited	Ireland 10 December 2014	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 12-Aircraft Limited	Ireland 6 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 15-Aircraft Limited	Ireland 4 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 16-Aircraft Limited	Ireland 4 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 18-Aircraft Limited	Ireland 2 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC 19-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 20-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 23-Aircraft Limited	Ireland 23 September 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 24-Aircraft Limited	Ireland 23 September 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 25-Aircraft Limited	Ireland 9 December 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 26-Aircraft Limited	Ireland 9 December 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 27-Aircraft Limited	Ireland 6 April 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 30-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 31-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 32-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 34-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 35-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 36-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 37-Aircraft Limited	Ireland 5 May 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 38-Aircraft Limited	Ireland 5 May 2017	EUR1	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC 39-Aircraft Limited	Ireland 5 May 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 40-Aircraft Limited	Ireland 15 May 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 41-Aircraft Limited	Ireland 5 May 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC Aviation Assets Limited	Labuan 30 December 2015	US$100	100%	Aircraft trading	Limited liability entity
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR100	100%	Provision of financing	Partnership
CALC Global Leasing Limited	Ireland 18 December 2014	EUR1	100%	Investment holding	Limited liability entity
CALC Herring Limited	BVI 8 October 2015	US$1	100%	Provision of financing	Limited liability entity
CALC Mackerel Limited	BVI 18 November 2014	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 2 Limited	Cayman Islands 12 January 2016	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 3 Limited	BVI 15 May 2017	US$1	100%	Provision of financing	Limited liability entity
CALC Satu Limited	Labuan 21 June 2013	US$100	100%	Aircraft trading and leasing	Limited liability entity
CALC Trout Limited	BVI 29 April 2015	US$1	100%	Provision of financing	Limited liability entity
China Aircraft Assets Limited	Hong Kong 3 May 2013	HK$1	100%	Provision of financing	Limited liability entity
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HK$1	100%	Provision of management services	Limited liability entity

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
Sino Teamwork Limited	Hong Kong 9 January 2013	HK$1	100%	Provision of financing	Limited liability entity
ZF Ireland Aircraft 42 Limited	Ireland 22 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
中永順融資租賃(上海)有限公司	PRC 27 November 2013	US$150,000,000	100%	Investment holding	Limited liability entity
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛天复租賃(天津)有限公司 (CALC Tianfu Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛太和租賃(天津)有限公司 (CALC Taihe Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛文明租賃(天津)有限公司 (CALC Wenming Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛永昌租賃(天津)有限公司 (CALC Yongchang Limited)	PRC 24 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛永淳租賃(上海)有限公司 (CALC Yongchun Limited)	PRC 10 October 2012	RMB1,000,000	100%	Aircraft leasing	Limited liability entity
中飛永徽租賃(天津)有限公司 (CALC Yonghui Limited)	PRC 24 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛如意租賃(天津)有限公司 (CALC Ruyi Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	PRC 25 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建中租賃(天津)有限公司 (CALC Jianzhong Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	PRC 8 November 2011	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛建炎租賃(天津)有限公司 (CALC Jianyan Limited)	PRC 5 May 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建德租賃(天津)有限公司 (CALC Jiande Limited)	PRC 4 November 2011	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US$420,000,000	100%	Investment holding	Limited liability entity
中飛乾元融資租賃(天津)有限公司 (CALC Qianyuan Financial Leasing Limited)	PRC 8 August 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛乾寧融資租賃(天津)有限公司 (CALC Qianning Financial Leasing Limited)	PRC 5 August 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛淳佑租賃(天津)有限公司 (CALC Chunyou Limited)	PRC 20 January 2015	RMB900,000	100%	Aircraft leasing	Limited liability entity
中飛開元融資租賃(天津)有限公司 (CALC Kaiyuan Financial Leasing Limited)	PRC 8 August 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛開禧租賃(天津)有限公司 (CALC Kaixi Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛隆興租賃(天津)有限公司 (CALC Longxing Limited)	PRC 5 May 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嘉定租賃(天津)有限公司 (CALC Jiading Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嘉熙租賃(天津)有限公司 (CALC Jiaxi Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛端平租賃(天津)有限公司 (CALC Duanping Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛廣明租賃(天津)有限公司 (CALC Guangming Limited)	PRC 15 August 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛龍紀租賃(天津)有限公司 (CALC Longji Limited)	PRC 15 August 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛龍朔租賃(天津)有限公司 (CALC Longshuo Limited)	PRC 24 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛寶佑租賃(天津)有限公司 (CALC Baoyou Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛顯聖融資租賃(天津)有限公司 (CALC Xiansheng Financial Leasing Limited)	PRC 5 August 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛麟德租賃(天津)有限公司 (CALC Linde Limited)	PRC 24 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. CHEN Shuang, *JP* *(Chairman)*
Mr. POON Ho Man *(Chief Executive Officer)*
Ms. LIU Wanting *(Deputy Chief Executive Officer)*

Non-executive Directors

Mr. TANG Chi Chun
Mr. GUO Zibin
Ms. CHEN Chia-Ling

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. CHOW Kwong Fai, Edward, *JP*

COMPOSITION OF COMMITTEES

Audit Committee

Mr. CHOW Kwong Fai, Edward, *JP* *(Chairman)*
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. GUO Zibin

Remuneration Committee

Mr. FAN Yan Hok, Philip *(Chairman)*
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. CHOW Kwong Fai, Edward, *JP*

Nomination Committee

Mr. CHEOK Albert Saychuan *(Chairman)*
Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHOW Kwong Fai, Edward, *JP*

COMPANY SECRETARY

Ms. TAI Bik Yin

AUTHORISED REPRESENTATIVES

Ms. LIU Wanting
Ms. TAI Bik Yin

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Linklaters

COMPANY'S WEBSITE

www.calc.com.hk

INVESTOR RELATIONS CONTACT

ir@calc.com.hk

STOCK CODE

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 01848

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS AND FINANCIAL INSTITUTIONS

Bank of China Limited
Bank of Communications Co., Ltd.
The Bank of East Asia, Ltd.
Bank of Jiangsu Co., Ltd.
Bank SinoPac Co., Ltd.
BNP Paribas
Cathay United Bank Co., Ltd.
China Construction Bank Corporation
China Development Bank
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
Chiyu Banking Corporation Ltd.
Chong Hing Bank Limited
Credit Agricole Corporate and Investment Bank
Crédit Industriel et Commercial
Dah Sing Bank Limited
Development Bank of Japan Inc.
E.Sun Commercial Bank, Ltd.
EnTie Commercial Bank
The Export-Import Bank of China
The Hong Kong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
KDB Asia Limited
KEB Hana Bank
KfW IPEX-Bank GmbH
The Korea Development Bank
Mega International Commercial Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
SinoPac Leasing Corp.
Stellwagen Finance Limited
Taiwan Cooperative Bank Limited
Toronto-Dominion Bank

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