ANNUAL REPORT | 2018

Strength
to Strength

CALC

China Aircraft Leasing Group Holdings Limited

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

Stock code : 01848

Contents

ABOUT CALC

CALC:

Full Value Chain
Aircraft Solutions Provider

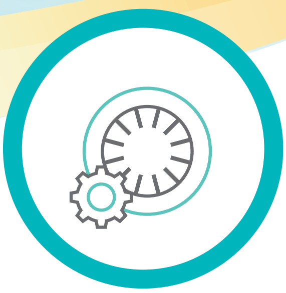
Aircraft leasing,
purchase and leaseback

Aircraft sourcing and sales

Aircraft trading and
portfolio sales

ABOUT CALC

CALC ("China Aircraft Leasing Group Holdings Limited") is a full value chain aircraft solutions provider for the global aviation industry. Leveraging on respective expertise and resources, CALC, together with its 48% owned associate Aircraft Recycling International Limited ("ARI"), offer value-added fleet solutions for airline clients globally. CALC's services cover the full life cycle of an aircraft, including aircraft leasing, purchase and leaseback; aircraft sourcing and sales; aircraft trading and portfolio sales; aircraft disassembly and component sales, and maintenance, repair & overhaul ("MRO").



Aircraft disassembly and component sales

Maintenance, repair & overhaul ("MRO")

About CALC

At a Glance

As of 31 December 2018

133 *Aircraft fleet*
115 owned aircraft
+ 18 managed for CAG

232 *Aircraft on order book backlog*

3.7 years *average fleet age*

8.3 years *average remaining lease period*

HK$41.4b *total assets*

33 *airline clients spread across* **15** *countries and regions*

2018 Highlights

Global recognitions

- "**Aircraft Lessor of the Year 2018**" by *Global Transport Finance*

Global Transport Finance
Aircraft Lessor
of the Year 2015-2018

- "**Asia-Pacific Lessor of the Year 2018**"
by *Airline Economics*

Establishment of China Aircraft Global Limited ("CAG")

CALC officially launched its aircraft leasing and investment vehicle, China Aircraft Global Limited ("CAG"), with an asset size expected to grow to US$1.265 billion, comprising US$95 million from CALC and US$380 million from mezzanine investors. CAG's funding has been further supplemented by a senior syndicated loan of US$790 million arranged by four global top-tier aviation banks and three reputable PRC commercial banks. CALC and the mezzanine financiers own 20% and 80% of the ordinary shares in CAG respectively.

As at 31 December 2018, 18 aircraft has been injected into CAG, with another seven to 10 aircraft expected to be injected. It marks a major step for the Group to transform into an asset manager role and asset-light business model which has laid a solid foundation for further business expansion and opened up new growth opportunities for the Group.

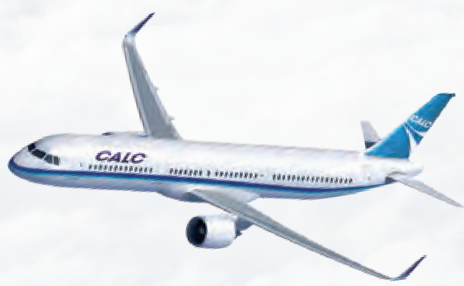
2018 Highlights

Commencement of Operation of Aircraft Recycling Base in Harbin

In June 2018, Phase I of CALC's aircraft recycling base in Harbin, China has formally commenced operations. The base is Asia's first large-scale aircraft recycling facility, offering comprehensive solutions for mid-aged and retiring aircraft and extending CALC's downstream value chain.

Substantial Order Book

CALC added 65 aircraft to its order book, showcasing its capability to deliver energy-efficient in-demand new aircraft to its worldwide clients. As at 31 December 2018, CALC had a total order book for new deliveries of 232 aircraft. With such a strong order book, CALC was listed as one of the top five global lessors by *Airfinance Journal*.



2018 Highlights

Extension of Hong Kong Leasing Platform

CALC successfully delivered its first aircraft under Hong Kong's tax regime, reaching a milestone in its extension of Hong Kong as one of its major leasing platforms, to push forward the development of Hong Kong aviation industry.

Completion of the Redelivery, Export and Lease of 20-year-old A321 aircraft

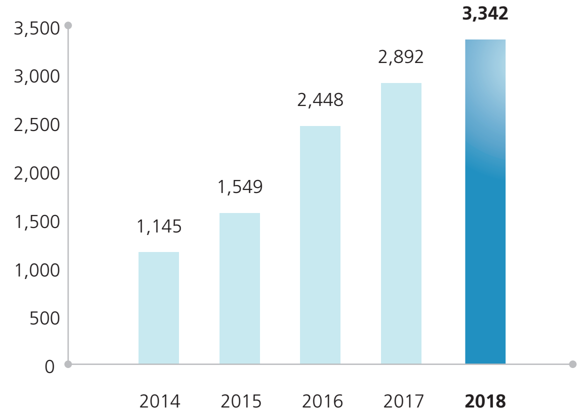
CALC and ARI jointly completed the redelivery, export and lease of a 20-year-old A321. This was the first Airbus A321 to be imported into China 20 years ago.

This end-of-lease aircraft was redelivered by the Group from a Chinese carrier, and subsequently leased to a European carrier, showcasing the Group's distinct capabilities in aircraft full value chain asset management.

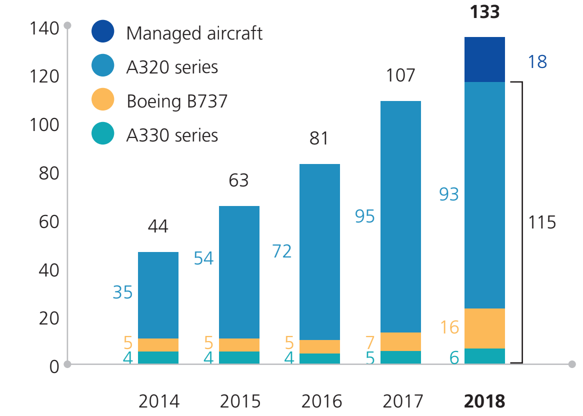
FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

REVENUE AND OTHER INCOME

(HK$ million)

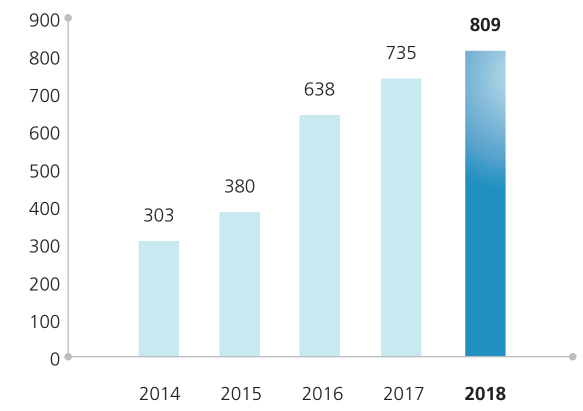


AIRCRAFT OWNED & MANAGED



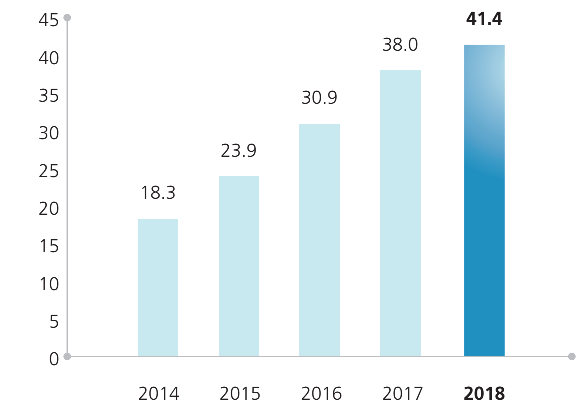
PROFIT FOR THE YEAR

(HK$ million)

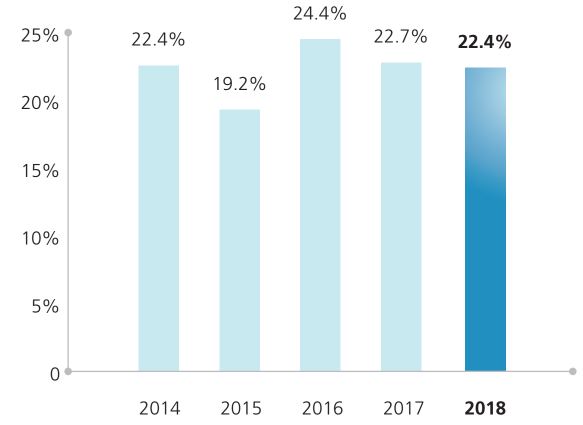


TOTAL ASSETS

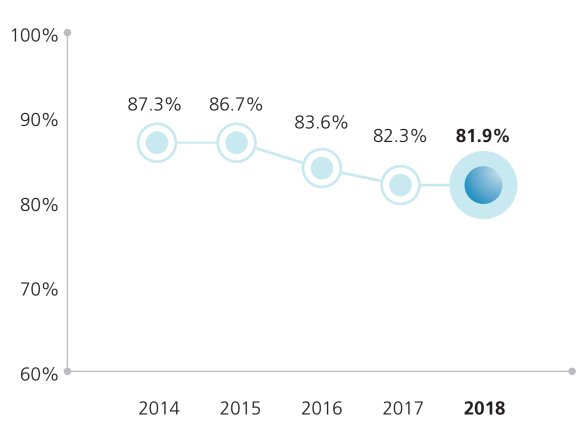
(HK$ billion)



RETURN ON EQUITY



GEARING



FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2014 HK$'m	2015 HK$'m	2016 HK$'m	2017 HK$'m	**2018 HK$'m**
Revenue and other income	1,145	1,549	2,448	2,892	**3,342**
Profit for the year	303	380	638	735	**809**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2014 HK$'m	2015 HK$'m	2016 HK$'m	2017 HK$'m	**2018 HK$'m**
ASSETS					
Property, plant and equipment	1,707	2,413	6,214	13,059	**18,886**
Interests in and loans to associates	–	–	444	870	**959**
Finance lease receivables – net	11,443	16,473	15,031	12,556	**10,021**
Financial asset at fair value through profit or loss	–	–	–	–	**499**
Derivative financial assets	15	19	131	91	**123**
Prepayments and other assets	3,503	3,444	3,063	4,022	**6,772**
Cash and bank balances	1,645	1,598	6,017	7,396	**4,167**
Total assets	18,313	23,947	30,900	37,994	**41,427**
LIABILITIES					
Total borrowings	15,985	20,767	25,826	31,278	**33,942**
Other liabilities	547	972	2,031	3,289	**3,705**
Total liabilities	16,532	21,739	27,857	34,567	**37,647**
Net assets	1,781	2,208	3,043	3,427	**3,780**

Per-Share-Basis	2014	2015	2016	2017	**2018**
Basic earnings per share (HK cents)	57.7	63.6	100.9	108.8	**119.4**
Net asset value per share (HK$) (note 1)	3.0	3.6	4.5	5.1	**5.6**

Financial Ratios	2014	2015	2016	2017	**2018**
Gearing ratio (total borrowings vs total assets)	87.3%	86.7%	83.6%	82.3%	**81.9%**
Return on average shareholders' equity	22.4%	19.2%	24.4%	22.7%	**22.4%**
Interest coverage (note 2)	186.8%	175.8%	202.6%	207.9%	**210.5%**

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 expenses.

CHAIRMAN'S STATEMENT

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 2018 consolidated results for the year ended 31 December 2018.

PERFORMANCE AND DIVIDENDS

The year 2018 was another exciting year for CALC with outstanding developments on multiple fronts. During the year, the Group continued to evolve ahead of the industry by realising its corporate mission of providing aircraft full life cycle solutions for the global aviation industry. Meanwhile, its gradual transformation into an asset-light business model has laid a solid foundation for further business expansion and opened up new growth opportunities for the Group.

During the year, total lease income and other income of the Group reached HK$3,341.5 million, representing a year-on-year increase of 15.6%. Profit for the year grew by 10.1% year-on-year, amounting to HK$808.9 million. Earnings per share was HK$1.194 (2017: HK$1.088).

The Board recommends the payment of a final dividend of HK$0.44 (2017: HK$0.42) per share to those shareholders whose names appear on the register of members of the Company on 22 May 2019. Together with the 2018 interim dividend of HK$0.22 (2017: HK$0.18) per share, the full-year dividend will amount to HK$0.66 per share for 2018 (2017: HK$0.60), with the dividend pay-out ratio standing at 55.3% (2017: 55.1%).

DEVELOPING INTO A GLOBAL AIRCRAFT FULL VALUE CHAIN SOLUTIONS PROVIDER

In order to excel in competitive skies, airline clients now demand both a wide breadth of service offerings and depth in terms of quality expertise from their lessors. They need a one-stop aircraft asset manager that will spare them the capacity to focus on providing their passengers with quality airline operations. At CALC, we pride ourselves on staying a step ahead of our customers. Not only do we take a proactive approach to understanding their current fleet management requirements in order to offer them the most tailored solutions possible, but we also anticipate their emerging need in the longer term for handling mid-aged to retiring aircraft. This forms an important pillar of our business strategy.

During the year under review, I was pleased to see the Group continue to make headway in the deployment of its full solutions business. The Group is now set to provide services including aircraft leasing and purchase and leaseback; sourcing and sales; aircraft trading and portfolio sales; aircraft disassembly, component sales, and maintenance, repair and overhaul ("**MRO**"). CALC is striving to develop various integrated global aircraft leasing and investment platforms while further building up its diversified financing mix and channels. I believe our customers value and appreciate our commitment to providing services that exceed their requirements, backed by the expertise and capacity that the teams across the Group has built.

During the year, CALC successfully launched China Aircraft Global Limited ("**CAG**"), an international aircraft leasing and investment platform. By leveraging its existing aircraft solutions platform and extensive global aviation network, CALC was able to tap into investors' strong appetite for a quality and liquid aircraft asset class with long-term and stable US dollar cash flow. This has bolstered CALC's financing capacity while reinforcing its position as a full value chain solutions provider. This unique business model has enabled us to thrive in the evolving leasing industry and ensure long-term sustainability.

AWARDS

As a testament to its unique position and commitment to offering innovative and comprehensive service offerings, CALC was named "Aircraft Lessor of the Year" by *Global Transport Finance* for the fourth consecutive year and "Asia-Pacific Lessor of the Year" for the second year in a row by *Airline Economics* during the year. These accolades demonstrate the tremendous level of recognition across the industry of the Group's capabilities.

GRASPING REGIONAL OPPORTUNITIES IN THE LEASING INDUSTRY

As a Hong Kong-based aircraft lessor, CALC is an avid supporter of the city's aspiration to develop into an aircraft leasing and financing centre. We are extremely pleased that further to the reform of the dedicated tax regime to allow profits tax concessions to aircraft leasing and related businesses, Hong Kong is being positioned as an international aviation hub under the development plan for the Guangdong-Hong Kong-Macau Greater Bay Area, a national blueprint to transform Hong Kong and 10 other neighbouring cities into a thriving global centre of technology, innovation and economic vibrancy. Hong Kong is to consolidate and enhance its status in global aviation by developing high value-added aircraft leasing and aviation financing services, among others. Such policies will build a solid foundation for the development of aviation industry in Hong Kong and I am confident that CALC will benefit from it.

During the year under review, CALC successfully delivered its first aircraft under the new tax regime through Hong Kong, reaching a milestone in its extension of Hong Kong as one of its major leasing platforms. With its extensive clientele worldwide, CALC is looking to lease more aircraft to global airlines through Hong Kong. With both its active engagement in the global arena and leadership in the Hong Kong Aircraft Leasing and Aviation Finance Association, CALC is seeking to communicate with relevant authorities and institutions and share insights on such issues as withholding tax, double tax treaty networks and an extension to the Cape Town Convention, with the aim to create a more conducive environment for the industry to thrive and flourish in the city.

OUTLOOK

It has been broadly accepted as market consensus that 2019 will be a year where the aircraft leasing industry will need to tackle headwinds after enjoying an extended bull run. More clouds are expected to hang over the industry, including trade tensions with protectionist tariffs, geopolitical instability, and slower GDP growth across major economies. In spite of such market uncertainties, early 2019 has shown signs for optimism, with the US government's efforts to stabilise oil prices, and the Federal Reserve's indication that it will slow down the pace of interest rate hikes and end its balance sheet reduction programme. Moreover, given that relatively higher GDP growth is expected to continue in emerging markets that boast large middle-class populations that yearn for air travel, CALC believes that the demand for air transportation will remain strong, and thus so will the demand for aircraft leasing.

As it manoeuvres through this competitive landscape, the Group will continue to strengthen its asset management capabilities to embrace new market momentum and enhance its professional capabilities across a number of areas, including procurement, sales and placement, financing and risk management. Furthermore, when outlining its strategic roadmap for the short and long term, China Everbright Group ("**CE Group**") highlighted "becoming a leading global aircraft leasing company" as one of its four primary goals in the next five to ten years. This signifies how CE Group values CALC's business. I believe CE Group will extend strong backing to CALC when realising its strategic goal. With a steadfast commitment to creating innovative solutions and value-added services that meet the needs of its global clients, CALC is set to solidify its leading position in the competitive global aviation industry.

ACKNOWLEDGEMENTS

I would like to express my sincere appreciation 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. 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, 21 March 2019

CEO'S STATEMENT

POON HO MAN
Executive Director and
Chief Executive Officer

ENVISION, TRANSFORM, SYNERGISE

CALC is delighted to present another year of outstanding results. As the aircraft leasing industry has evolved, quality lessors have emerged to offer a wide range of aviation services spanning diverse airlines' requirements for aircraft asset management. Capturing market opportunities and riding on market momentum, the Group once again demonstrated its unique position and competitive advantages in the global aviation industry. During the year under review, several milestones were achieved that echo our mission of offering all-round tailored asset management solutions that match airlines' requirements.

The establishment of our sidecar CAG marked a major step towards establishing our asset-light business model and the Group's further transition into an asset manager role. The successful extension of its value chain, through its 48%-owned associate company, Aircraft Recycling International Limited ("**ARI**"), including the commencement of operations of Asia's first large-scale aircraft recycling facility in Harbin and the establishment of a joint venture to delve into the new business of comprehensive aircraft MRO, has added to a solid foundation that will support sustainable growth in the future.

As the scope of business continues to expand, synergy within the Group has become more important. We are maximising the synergy across our 14 branches and offices throughout the world by sharing our aviation expertise, aviation partner networks and clientele, so that we can bolster our overall strength through improved efficiency and effectiveness.

2018 BUSINESS REVIEW

Riding on its transition from traditional capital-intensive industry practices into an asset-light approach, CALC continued to deliver strong results in 2018 with its sharpened fundamentals:

(1) Fleet Optimisation

During the year, the Group expanded its fleet with a total of 29 further aircraft deliveries, another record high. The fleet is backed by a diverse range of sourcing channels, including new aircraft order book, purchase and leaseback and portfolio acquisition. As of 31 December 2018, our fleet size had increased to 133 aircraft, of which 115 are owned by CALC and 18 are managed for CAG.

CALC continued to maintain one of the youngest and most modern fleets in the industry, with an average age of 3.7 years and average remaining lease period of 8.3 years as at 31 December 2018. We also maintained a high utilisation rate, with 99.1% of our aircraft in operation.

In addition, CALC started to engage in the aircraft trading business to optimise its fleet portfolio by utilising ARI's flexible aircraft asset management capabilities and rich international second-hand aircraft market resources. During the year, CALC sold three old-aged aircraft to ARI, which was remarketed for different purposes based on the independent valuation of each aircraft to ensure maximum value was being extracted.

(2) Substantial Order Book

In 2018, the Group significantly built up its order book with the most advanced aircraft models. A substantial order book is a valuable asset for aircraft lessors owing to sustained growth in aviation traffic demand amid disciplined production capacity of the original equipment manufacturers ("**OEMs**"). During the year, CALC added a total of 65 aircraft to its order book, showcasing CALC's focus on delivering new energy-efficient in-demand aircraft to its clients.

As at 31 December 2018, CALC had a total backlog for new deliveries of 232 aircraft, all due for delivery by 2023. With such a strong order book, CALC was listed as one of the top five global lessors by *Airfinance Journal*, a testimony to the robust relationship CALC has built with the OEMs since its inception.

(3) Extensive Clientele

CALC continued to expand its presence proactively around the globe and diversify its clientele through the implementation of its global business strategy. In 2018, CALC further strengthened its global market presence in Asia Pacific, Europe, North America and Latin America. As at 31 December 2018, of the current fleet of 115 owned and 18 managed aircraft, the share of non-mainland Chinese clients had grown to 31% from approximately 28% at the end of 2017 while its client portfolio included 33 airlines widely spread across 15 countries and regions. This lays a solid foundation to further expansion of our global presence.

(4) Asset-Light Model in Motion

CALC has benefited from its transition towards an asset-light model, enhancing its role as an asset manager for aircraft trading and lease management. During the year under review, CALC collaborated with four leading state-owned enterprises as mezzanine investors to roll out its aircraft investment vehicle, CAG. The asset size of the vehicle is expected to grow to US$1.265 billion, comprising US$95 million from CALC and US$380 million from mezzanine investors, and further supplemented by a senior syndicated loan of US$790 million arranged by four global top-tier aviation banks and three reputable PRC commercial banks.

As at 31 December 2018, 18 aircraft had been injected into CAG, with seven to 10 more aircraft expected to be injected. By acting as the exclusive service provider to this platform, CALC fully utilises its expertise in aircraft sourcing, leasing and portfolio trading, sharpening its focus as an aircraft asset manager. In recognition of the deal's innovative nature, CALC won "Editor's Deal of the Year for Innovation" award presented by *Airline Economics* in 2018.

Moreover, we disposed finance lease receivables for three aircraft and sold three old-aged aircraft to ARI during the year under review. Together, this asset-light strategy is scaling up overall aircraft assets under the Group's management, ultimately maximising returns on equity through an efficient turnover of its capital.

(5) Diversified Financing Patterns

To further strengthen its financing capabilities, the Group continued to extend its sources of financing patterns, both onshore and offshore, and enhance its flexibility with the introduction of new financing products. As at 31 December 2018, 41% of the Group's total outstanding borrowings were unsecured, up from 35% at the end of 2017, which is indicative of the investor and banking community's confidence in CALC.

In December 2018, CALC signed a US$500 million five-year unsecured syndicated revolving loan facility for aircraft Pre-Delivery Payment ("**PDP**") with six leading banks in the region as mandated lead managers. The facility is subject to upsize in case of oversubscription following the complete syndication.

Moreover, ARI has beefed up its independent financing strength to fuel its next phase of development. During the year, it raised approximately US$100 million bank financings through diversified patterns on its own.

(6) Completing the Full Aviation Value Chain

Capitalising on CALC's well-founded platform, ARI is on board to a trajectory of encouraging development with its well-placed business deployment.

In June 2018, Phase I of ARI's aircraft recycling base in Harbin (the "**Harbin base**") formally commenced operations with a handling capacity of 20 aircraft per year. Together, the Harbin base and another aircraft recycling base in Tupelo, Mississippi (the "**Mississippi base**") will create a synergy to tap into market opportunities worldwide. During the year under review, a total of 21 aircraft were disassembled. In addition, with full support from ARI, the Mississippi base was able to purchase strong aviation assets to augment trading and component support opportunities for its customer base worldwide.

To further enrich its service offering, CALC and ARI joined forces during the year with FL Technics, one of the leading aircraft MRO service providers in Europe, to form a MRO joint venture ("**JV**"), held at a ratio of 11%, 49% and 40% respectively. The JV will extend its services to aircraft base maintenance, scheduled checks and overhaul among other services in the Harbin base and targets to commence operation in 2019.

In terms of aircraft and engine leasing, the Group continued to bring together the respective advantages of its member companies to maximise overall strengths. Of the three aircraft redelivered by CALC, ARI leased a 20-year old Airbus A321 to a European carrier, sold another one to an overseas buyer and moved the third to Harbin base for disassembly with all of its components sold to our aviation partner, perfectly illustrating the synergy within the Group. During the year, ARI leased four engines to airlines.

STRATEGIC OUTLOOK

Despite the aviation industry's exceptional level of resilience in a dynamic environment over the past few decades, last year saw a mood of subdued optimism as rising interest rates and higher oil prices triggered a shakeout in the sector, exacerbated by fierce competition. Against this backdrop, it is essential for aircraft lessors to sharpen their business fundamentals so that they are strong enough to stand out in this highly specialised and technically intensive industry, and hence ride out any volatility and blaze a successful trail behind them.

Going forward, the Group will continue to press ahead with its vision to provide value-added aircraft solutions that cover every part of the aircraft value chain. The Group will continue its vertical and horizontal integration with the aim of managing its asset effectively and maximising overall economic benefits.

In parallel, as it further extends the value chain, a higher degree of resources and expertise is required, and CALC is exploring more new opportunities with investors and institutions searching for quality aviation assets by devising innovative financing models and investment platforms that will serve to strengthen CALC's aviation ecosystem on a global scale.

POON Ho Man
Executive Director and Chief Executive Officer
Hong Kong, 21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

For the year ended 31 December 2018, the Group delivered 29 aircraft and disposed 21 aircraft. Its fleet size was increased to 115 owned aircraft and managed 18 aircraft. Total revenue and other income was HK$3,341.5 million in 2018, an increase of HK$449.9 million or 15.6% from HK$2,891.6 million in 2017. Profit for the year in 2018 amounted to HK$808.9 million, an increase of HK$74.2 million or 10.1% compared with HK$734.7 million in 2017. This was mainly due to increased lease income from continued expansion of the Group's aircraft leasing business.

Total assets amounted to HK$41,427.1 million as at 31 December 2018, compared with HK$37,994.3 million as at 31 December 2017, an increase of HK$3,432.8 million or 9.0%. The increase in assets was mainly due to the increase in fleet size and the increase in PDP made to aircraft manufacturers for aircraft acquisition during 2018. Total liabilities amounted to HK$37,647.3 million, an increment of HK$3,080.1 million or 8.9% compared with HK$34,567.2 million as at 31 December 2017.

The equity attributable to shareholders of the Company was HK$3,779.9 million as at 31 December 2018 compared with HK$3,427.2 million as at 31 December 2017, an increase of HK$352.7 million or 10.3%.

2. ANALYSIS OF INCOME AND EXPENSES

	Year ended 31 December		
	2018 HK$'Million	2017 HK$'Million	Change
Finance lease income	**792.5**	1,017.5	–22.1%
Operating lease income	**1,541.6**	828.7	86.0%
Total lease income	**2,334.1**	1,846.2	26.4%
Net gain from aircraft transactions	**625.7**	711.2	–12.0%
Government grants	**222.1**	204.2	8.8%
Interest income from loans to an associate	**85.9**	71.4	20.3%
Bank interest income	**18.9**	28.5	–33.7%
Sundry income	**54.8**	30.1	82.1%
Other income	**1,007.4**	1,045.4	–3.6%
Total revenue and other income	**3,341.5**	2,891.6	15.6%
Total operating expenses	**(2,425.6)**	(1,919.3)	26.4%
Other gains	**71.2**	42.1	69.1%
Share of loss of an associate	**–**	(2.2)	N/A
Profit before income tax	**987.1**	1,012.2	–2.5%
Income tax expenses	**(178.2)**	(277.5)	–35.8%
Profit for the year	**808.9**	734.7	10.1%

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Total Revenue and Other Income

For the year ended 31 December 2018, the total revenue and other income amounted to HK$3,341.5 million, compared with HK$2,891.6 million in 2017, an increase of HK$449.9 million or 15.6%. This was mainly due to an increase in lease income.

Lease income from finance leases and operating leases for the year 2018 totalled HK$2,334.1 million, compared with HK$1,846.2 million in 2017, an increase of HK$487.9 million or 26.4%. The decrease in finance lease income was due to disposal of three aircraft's finance lease receivables and reclassification of eight aircraft from finance leases to operating leases during the year 2018. The growth in operating lease income was attributable to the increase in fleet size under operating leases from 37 as at 31 December 2017 to 52 as at 31 December 2018.

During the year ended 31 December 2018, the Group's average lease rental yield of the finance leases and operating leases was 11.7% (2017: 10.9%) and 9.2% (2017: 9.9%), respectively. Average lease rental yield for finance leases and operating leases is calculated by annual gross lease receipt divided by net book value of aircraft.

The Group recognised a net gain from aircraft transactions of HK$625.7 million during 2018 (2017: HK$711.2 million), a decrease of HK$85.5 million or 12.0%. In 2018, the Group completed disposal of finance lease receivables of three aircraft, disposal of three aircraft to ARI and disposal of 18 aircraft to CAG with aggregate net book value of HK$7,165.0 million. During the year ended 31 December 2017, the Group completed disposal of finance lease receivables of 21 aircraft with aggregate net book value of HK$4,615.7 million.

Government grants for the year amounted to HK$222.1 million, compared with HK$204.2 million in 2017, an increase of HK$17.9 million or 8.8%. The increase in government grants was mainly due to increase in fleet size in the Mainland China.

2.2 Total Operating Expenses

During the year ended 31 December 2018, the Group had the following operating expenses.

	Year ended 31 December		
	2018	2017	Change
	HK$'Million	HK$'Million	
Interest expenses	**1,422.9**	1,241.0	14.7%
Depreciation	**585.5**	327.1	79.0%
Other operating expenses	**417.2**	351.2	18.8%
Total operating expenses	**2,425.6**	1,919.3	26.4%

(a) Interest Expenses

For the year ended 31 December 2018, interest expenses incurred by the Group amounted to HK$1,422.9 million, compared with HK$1,241.0 million in 2017, an increase of HK$181.9 million or 14.7%. This was mainly due to an increase in interest-bearing borrowings to finance the new delivery of aircraft in 2018.

(b) Depreciation

The amount mainly represented depreciation on aircraft under operating leases, leasehold improvements, office equipment, office building and other assets. Depreciation for the year ended 31 December 2018 was HK$585.5 million compared with HK$327.1 million in 2017, an increase of HK$258.4 million or 79.0%. This was attributable to increase in number of aircraft under operating leases.

(c) Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, value-added tax surcharge and other taxes, rentals and office administration expenses. The increase was mainly due to the Group's globalisation strategy, which includes plans to diversify its overseas client base and expand overseas offices. In addition, increase in aircraft deliveries and transactions led to an increase in related professional fees and tax expenses.

2.3 Other Gains

Other gains of HK$71.2 million (2017: HK$42.1 million) mainly generated from fair value changes from interest rate and currency swaps as well as currency exchange differences, of which HK$42.9 million (2017: HK$58.7 million) was recognised from fair value gains on interest rate swaps and termination of interest rate swaps for the year ended 31 December 2018.

2.4 Income Tax Expenses

Income tax for the year ended 31 December 2018 was HK$178.2 million (2017: HK$277.5 million), mainly resulting from the profits achieved through growth in the leasing business. Decrease in the amount was mainly due to the relatively low tax rate applicable to net gains from aircraft transactions with CAG.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 31 December 2018, the Group's total assets amounted to HK$41,427.1 million compared with HK$37,994.3 million as at 31 December 2017, an increase of HK$3,432.8 million or 9.0%.

	As at 31 December		
	2018 HK$'Million	2017 HK$'Million	Change
Finance lease receivables – net	**10,020.8**	12,556.2	–20.2%
Property, plant and equipment	**18,886.3**	13,059.4	44.6%
Interests in and loans to associates	**959.1**	870.2	10.2%
Cash and bank balances	**4,166.5**	7,396.2	–43.7%
Prepayments and other assets	**6,771.9**	4,021.5	68.4%
Derivative financial assets	**123.2**	90.8	35.7%
Financial asset at fair value through profit or loss	**499.3**	–	N/A
Total assets	**41,427.1**	37,994.3	9.0%

MANAGEMENT DISCUSSION AND ANALYSIS

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

The majority of total assets as at 31 December 2018 represented finance lease receivables of HK$10,020.8 million (2017: HK$12,556.2 million) and property, plant and equipment of HK$18,886.3 million (2017: HK$13,059.4 million).

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$12,556.2 million as at 31 December 2017 to HK$10,020.8 million as at 31 December 2018 because the Group completed disposal of finance lease receivables for three aircraft and reclassified eight aircraft from finance leases to operating leases during 2018.

Property, plant and equipment mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. The increase in property, plant and equipment was mainly due to aircraft delivered during 2018 under operating leases.

3.1.2 Interests in and Loans to Associates

Pursuant to the shareholders' loan agreement entered into in 2016, 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. In October 2018, a supplemental agreement was entered into amongst the ARI shareholders to revise the interest rate to 3% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited with effect from 28 November 2018. The increase in the amount of interests in and loans to associates was due to the increase in loan amounts granted to ARI. As at 31 December 2018, the outstanding loan balance receivable from ARI amounted to HK$959.1 million (2017: HK$870.2 million).

3.1.3 Cash and Bank Balances

Cash and bank balances decreased by HK$3,229.7 million or 43.7% from HK$7,396.2 million as at 31 December 2017 to HK$4,166.5 million as at 31 December 2018. Decrease in balance was mainly resulted from utilisation of the Group's own cash for purchase of aircraft.

3.1.4 Prepayments and Other Assets

Prepayments mainly represented PDP made to aircraft manufacturers for aircraft acquisition. The increase in balance was due to an increase in aircraft purchase commitment during year 2018.

3.1.5 Financial Asset at Fair Value through Profit or Loss

Balance represented funds injected through shareholder's loan from the Group to CAG for aircraft investment during year 2018.

3.2 Liabilities

As at 31 December 2018, the Group's total liabilities amounted to HK$37,647.3 million, compared with HK$34,567.2 million as at 31 December 2017, an increase of HK$3,080.1 million or 8.9%.

An analysis is given as follows:

	As at 31 December		
	2018 HK$'Million	2017 HK$'Million	Change
Bank borrowings	19,166.8	16,458.4	16.5%
Bonds	8,580.4	8,538.9	0.5%
Long-term borrowings	5,436.4	5,329.4	2.0%
Medium-term notes	758.8	798.1	–4.9%
Deferred income tax liabilities	670.4	544.5	23.1%
Convertible bonds	–	153.2	N/A
Interest payables	269.8	226.8	19.0%
Income tax payables	29.3	17.3	69.4%
Derivative financial liabilities	–	0.2	N/A
Other liabilities and accruals	2,735.4	2,500.4	9.4%
Total liabilities	37,647.3	34,567.2	8.9%

3.2.1 Bank Borrowings

The analysis of bank borrowings is as follows:

	As at 31 December		
	2018 HK$'Million	2017 HK$'Million	Change
Bank borrowings for aircraft acquisition financing	15,634.4	13,981.6	11.8%
PDP financing	3,455.3	1,709.1	102.2%
Working capital borrowings	77.1	767.7	–90.0%
Total bank borrowings	19,166.8	16,458.4	16.5%

Bank borrowings for aircraft acquisition financing are principally based on fixed rates or floating US$ LIBOR. As at 31 December 2018, certain 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$128.7 million (2017: HK$312.4 million). The increase in bank borrowings was mainly due to drawdowns of PDP loans and bank loans for aircraft delivery during year 2018.

3.2.2 Bonds

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

Issue date	Terms	Maturity date	Coupon interest per annum	US$'Million
May 2016	3 years	May 2019	5.9%	300.0
August 2016	5 years	August 2021	4.9%	300.0
March 2017	5 years	March 2022	4.7%	300.0
March 2017	7 years	March 2024	5.5%	200.0
Total principal amount				**1,100.0**
Issuing cost				(4.3)
Carrying amount				**1,095.7**

As at 31 December 2018, after deducting the issuing cost, the total carrying amount of these bonds were US$1,095.7 million (equivalent to HK$8,580.4 million).

3.2.3 Long-term Borrowings

Increase in long-term borrowings was mainly resulted from 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 43 as at 31 December 2017 to 46 as at 31 December 2018. The effective average interest rates of these borrowings range from 3.5% to 7.8% (2017: 3.5% to 7.8%) per annum for remaining terms of five to 11 years (2017: six 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$44.3 million (2017: HK$42.0 million) as at 31 December 2018.

As at 31 December 2018, long-term borrowings also included four borrowings (2017: four borrowings) obtained through a structured financing arrangement. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2017: 3.9% to 5.7%) per annum for their remaining terms of six to seven years (2017: seven to eight years) and are guaranteed by the Company.

3.2.4 Medium-term Notes

The following table summarises the senior unsecured medium-term notes issued by the Group:

Issue date	Terms	Maturity date	Coupon interest per annum	RMB'Million
July 2015	5 years	July 2020	6.50%	340.0
November 2016	5 years	November 2021	4.19%	330.0
Total principal amount				**670.0**
Issuing cost				(3.8)
Carrying amount				**666.2**

As at 31 December 2018, after deducting the issuing cost, the total carrying amount of these medium-term notes was RMB666.2 million (equivalent to HK$758.8 million).

3.2.5 Convertible Bonds

In May 2018, the convertible bonds with aggregate principal amount of HK$155.2 million were fully redeemed upon maturity.

4. ANALYSIS OF CASH FLOWS

The following table illustrates the cash position and cash flows for the year ended 31 December 2018:

		Year ended 31 December	
		2018	2017
		HK$'Million	HK$'Million
I:	Aircraft in operation		
	Lease income	**2,233.4**	1,995.1
	Bank interest and repayment	**(1,820.4)**	(1,425.6)
		413.0	569.5
II:	Aircraft purchase and delivery		
	Capital expenditure	**(10,568.4)**	(9,141.3)
	Bank borrowings	**7,810.4**	6,017.6
		(2,758.0)	(3,123.7)
III:	New aircraft not yet delivered		
	PDP paid	**(3,931.3)**	(2,766.9)
	PDP refunded	**1,133.7**	2,220.1
	PDP financing	**2,425.4**	1,119.1
	PDP financing interest and repayment	**(838.6)**	(1,758.5)
		(1,210.8)	(1,186.2)
IV:	Net capital movement		
	Proceeds from issue of new shares from exercise of share options	**–**	21.5
	Buy-back of shares, including transaction costs	**(7.3)**	–
	Dividends paid	**(433.8)**	(386.2)
	Proceeds from disposal of finance lease receivables and aircraft and proceeds from long-term borrowings	**7,694.3**	8,568.9
	Early loan repayments on disposal of finance lease receivables and aircraft	**(4,285.7)**	(5,963.4)
	Net proceeds from issuance of bonds	**–**	3,861.5
	Net payments relating to loans to an associate	**(3.0)**	(356.7)
	Convertible bonds repurchase, interest and repayment	**(160.2)**	(156.9)
	Investment in financial asset at fair value through profit or loss	**(490.3)**	–
	Working capital loan net repayments and net cash generated from other operating activities	**(1,755.5)**	(760.8)
		558.5	4,827.9
Net (decrease)/increase in cash and cash equivalents		**(2,997.3)**	1,087.5
Cash and cash equivalents at beginning of the year		**7,023.4**	5,840.7
Currency exchange difference on cash and cash equivalents		**(36.0)**	95.2
Cash and cash equivalents at end of the year		**3,990.1**	7,023.4

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 growth 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 the asset-light strategy including disposal of aircraft. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities, and establishing various aircraft investment platform like CAG.

For the year ended 31 December 2018, 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		
	2018	2017	Change
	HK$'Million	HK$'Million	
Interest-bearing debts included in total liabilities	**33,942.4**	31,278.0	8.5%
Total assets	**41,427.1**	37,994.3	9.0%
Gearing ratio	**81.9%**	82.3%	–0.4p.p.

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

6. HUMAN RESOURCES

As at 31 December 2018, staff of the Group numbered 184 (2017: 161). Total remuneration of employees for 2018 amounted to HK$167.4 million (2017: HK$142.1 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 2018 (2017: Nil).

7.2 Capital Commitments for Aircraft Acquisition and Aircraft Purchase Mandate

The Group's total aircraft purchase commitment amounted to HK$96.5 billion as at 31 December 2018 (2017: HK$76.0 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 31 December 2018, the Group had 232 aircraft in its order book, comprising 132 Airbus A320 and 100 Boeing B737 aircraft, which will be delivered by the end of 2023.

Under the terms of a general mandate (the "**2017 Aircraft Purchase Mandate**") granted to the Directors by the shareholders of the Company on 22 May 2017, the Directors are authorised to purchase from either Airbus or Boeing, each limited to 70 new aircraft of certain types with an aggregate 2017 list price not exceeding approximately US$8.9 billion and US$8.3 billion respectively (equivalent to approximately HK$69.70 billion and HK$65.00 billion respectively). Further details of the 2017 Aircraft Purchase Mandate are set out in the circular of the Company dated 19 April 2017.

Pursuant to the 2017 Aircraft Purchase Mandate, the Group has committed to purchase a cumulative number of 50 aircraft from Boeing with an aggregate 2017 list price of approximately US$5.8 billion (equivalent to approximately HK$45.42 billion) and 70 aircraft from Airbus with an aggregate 2017 list price of approximately US$7.54 billion (equivalent to approximately HK$59.05 billion). Please refer to the Company's announcements dated 14 June 2017, 21 December 2017, 28 December 2017 and 4 January 2018 for further details.

At the 2018 annual general meeting of the Company held on 9 May 2018, shareholders of the Company granted to the Directors a new general mandate (the "**2018 Aircraft Purchase Mandate**") increasing the limits of purchase from either Airbus or Boeing, each limited to 100 new aircraft of certain types with an aggregate 2018 list price not exceeding approximately US$13 billion (equivalent to approximately HK$101.81 billion). Further details of the 2018 Aircraft Purchase Mandate are set out in the circular of the Company dated 9 April 2018. As at the date of this announcement, the Group has not committed to purchase any aircraft pursuant to the 2018 Aircraft Purchase Mandate.

Amendments to Chapter 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") which took effect on 15 October 2018 provided Qualified Aircraft Lessors (as defined in the Listing Rules) with exemption from specific announcement, circular and/or shareholders' approval requirements previously applicable to Notifiable Transactions (as defined in the Listing Rules) in respect of Qualified Aircraft Leasing Activities (as defined in the Listing Rules) (the "**Exemption**").

The Board confirms that the Company is a listed issuer actively engaged in aircraft leasing with aircraft operators as a principal business in its ordinary and usual course of business and the Company is therefore a Qualified Aircraft Lessor. As acquisition of aircraft is a Qualified Aircraft Leasing Activity, purchases from Airbus and Boeing are now exempt from shareholders' approval. As such, the Company will not be seeking shareholders' approval for the renewal of the 2018 Aircraft Purchase Mandate at the forthcoming annual general meeting.

Subsequent to the Exemption came into effect on 15 October 2018, the Group has committed to purchase a cumulative number of 50 aircraft from Boeing. Please refer to the Company's announcements dated 24 December 2018 and 31 December 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 Group 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 manufacturers' list prices.

7.3 Aircraft Disposal Mandate

Under the terms of a specific mandate (the "**Aircraft Disposal Mandate**") granted to the Directors by the shareholders of the Company on 18 January 2018, the Directors are authorised to dispose any additional aircraft other than Initial Aircraft Portfolio (as defined in the Aircraft Disposal Mandate) by the Group to CAG. Further details of the Aircraft Disposal Mandate are set out in the circular of the Company dated 29 December 2017.

As at the date of this announcement, no aircraft were disposed by the Group to CAG pursuant to the Aircraft Disposal Mandate. Subsequent to the Exemption came into effect on 15 October 2018, as disposal of aircraft is a Qualified Aircraft Leasing Activity, the Group disposed of a cumulative number of 2 additional aircraft (other than the Initial Aircraft Portfolio) to CAG. Please refer to the Company's announcement dated 14 December 2018 for further details.

7.4 Shareholder Loan Commitment for Investment in CAG

The Group has committed shareholder loan for investment in CAG amounting to approximately US$94.7 million (equivalent to approximately HK$741.8 million), of which US$65.6 million (equivalent to approximately HK$513.8 million) had been drawn down up to 31 December 2018. The Group's outstanding committed shareholder loan for investment in CAG as at 31 December 2018 was amounted to US$29.1 million (equivalent to approximately HK$228.0 million).

Other than the capital commitment stated above, the Group had no material plans for major investment or acquisition/disposal of capital assets.

8. OTHER EVENT

Reference is made to the Company's announcement at the Stock Exchange dated 16 June 2017. Due to the non-fulfilment of certain terms and conditions under the Longjiang Aircraft Lease Agreements by Longjiang Airlines, the Group 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 Group commenced legal proceedings in Heilongjiang High Court against Longjiang Airlines seeking, inter alia, damages arising from the above termination.

In February 2019, a final judgment from Supreme People's Court in favour of the Group was received in respect of the used Airbus A321-211 aircraft and Longjiang Airlines was ordered to return it to the Group. The new Airbus A321-211 aircraft was never delivered to Longjiang Airlines because of the termination of the Longjiang Aircraft Lease Agreements. The case in respect of the new Airbus A321-211 aircraft is in second trial. 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

1. ABOUT CALC

China Aircraft Leasing Group Holdings Limited ("CALC" or the "Company", together with its subsidiaries, the "Group") is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") (SEHK stock code: 01848. HK). CALC is a one-stop aircraft full life-cycle solutions provider for the global aviation industry. The Group offers services at every stage of an aircraft life cycle, from new aircraft, mid-aged aircraft, and retiring aircraft, capturing the asset value of an aircraft fleet by proactive asset management. The Group's scope of business includes regular operations such as aircraft leasing, purchase and leaseback, and structured financing, as well as value-added services such as fleet planning, fleet upgrade, aircraft disassembling and recycling, as well as component trading.

CALC is currently the largest independent aircraft lessor in China. With such a strong order book, CALC was listed as one of the top five global aircraft lessors by *Airfinance Journal*. As of 31 December 2018, CALC's fleet totalled 133 aircraft, with a strong order book backlog for new aircraft of 232 aircraft.

CALC is the founder and the largest shareholder of Aircraft Recycling International Limited ("ARI"), which is a multi-strategy aviation company providing asset management services and comprehensive solutions for mid-to-end-of-life aftermarket aircraft. Its comprehensive service offerings include aircraft and engine leasing, direct purchases and portfolio trades, aircraft purchase and leaseback, supply of serviceable aircraft components, disassembly and recycling, aircraft maintenance, repair and overhaul ("MRO"), aircraft conversion and more.

To support its continued expansion, CALC is adopting an asset-light approach in this traditionally capital-intensive industry. In June 2018, CALC partnered with mezzanine financiers to roll out China Aircraft Global Limited ("CAG"), for investing in aircraft portfolios on lease to global airlines.

2. MESSAGE FROM THE CEO

CALC believes that governance, environmental protection and social participation are crucial to the sustainable development of the Group. During the period from 1 January 2018 to 31 December 2018 (the "Reporting Period"), CALC continued to keep tight control of various governance risks as well as the safeguard of the environmental and social responsibility.

In this year, we are pleased to inform that our aircraft recycling facility in Harbin (the "Harbin Base"), which is also Asia's first large-scale aircraft recycling facility, has commenced operation. It reflects our aspiration in developing aircraft recycling and our commitment to environmental sustainability. As a good corporate citizen, CALC keeps leveraging our resources to support different segments in the communities where we operate and serve.

With its established infrastructure, CALC is well poised to continue its vertical and horizontal integration to amplify its competitive strengths. Looking ahead, CALC will seek to manage an enlarged and diversified aircraft portfolio powered by its asset-light business model. Meanwhile, CALC, aided by the technical expertise of ARI and its wholly-owned subsidiary Universal Asset Management, Inc. ("UAM"), will continue to strengthen its operational efficiency, widen its financing base and expand its technical know-how to solidify its leading position as a full value chain aircraft solutions provider.

3. ABOUT THIS REPORT

This report is the fifth Environmental, Social and Governance ("ESG") Report published by the Group. We are pleased to present this report which highlights our commitments and progress in achieving environmental and social sustainability.

This report is available in both Chinese and English, and can be accessed on the websites of the Company and the Hong Kong Exchanges and Clearing Limited. In case of any conflict or inconsistency between the Chinese version and the English version, the English version shall prevail.

The Group welcomes your feedback on our sustainability performance. Please send your opinion to feedback@calc.com.hk.

Scope and Reporting Boundary

This report covers our sustainability performances of our operations with controlling interests, including our Hong Kong headquarters and Mainland China offices during the Reporting Period[1]. For easy comparison of the Group's yearly performance, the structure of this report and the previous one aligns as closely as possible.

1 Sub-contractors and outsourced services are excluded.

Reporting Frequency and Referenced Guidelines

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 SEHK.

Reference is made to the guidelines[2] published by the Environmental Protection Department, the National Development and Reform Commission of the People's Republic of China, and International Civil Aviation Organisation ("ICAO")[2] in our greenhouse gas ("GHG") emissions analysis.

UNSDG Alignment

The Sustainable Development Goals ("SDGs") are series of international development goals announced by the United Nations ("UN") which aimed at making improvements in social, environmental and economic aspects. The Group's vision is aligned with the SDGs. We strive to play a proactive role in implementing SDGs in our business activities. Among the 17 SDGs that set by the UN, the 6 SDGs below are those which our stakeholders value the most.

3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages
5 GENDER EQUALITY	Achieve gender equality and empower all women and girls
8 DECENT WORK AND ECONOMIC GROWTH	Promote inclusive and sustainable economic growth, employment and decent work for all
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructure, promote sustainable industrialisation and foster innovation
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns
13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts

[2] Please refer to the "Sustainability" chapter of this Report for more information

4. STAKEHOLDER ENGAGEMENT AND MATERIALITY ANALYSIS

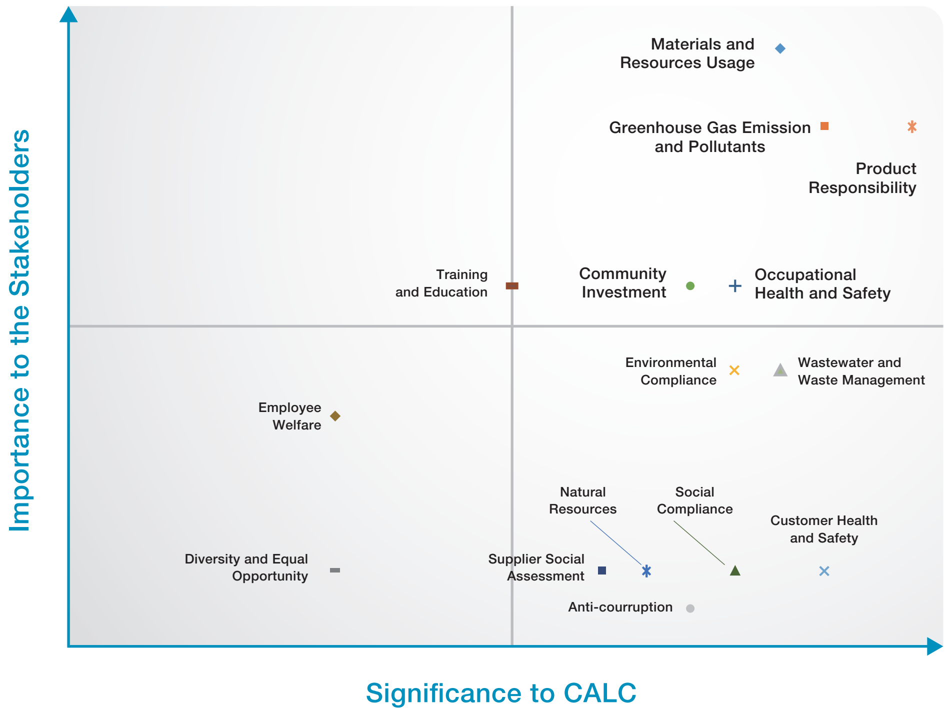
CALC believes that stakeholders provide valuable insights to our business development. Hearing from various stakeholders helps us in developing sustainable and long-term strategies as well as ensuring our operation is aligned with stakeholders' expectations. Through collaborative and transparent communications with our key stakeholders, we are able to define the most important aspects for both our stakeholders and the Group.

Internal Stakeholders	► Board of Directors ► Executives ► Management ► New Recruits
External Stakeholders	► Shareholders ► Airlines ► Suppliers ► Media ► Investors ► Industry Associations ► Government ► NGOs
Method of Engagement	► Meeting ► E-mail ► Interview ► Workshop ► Site Visit ► Seminar ► Exhibition ► Announcements ► Briefing ► Events

Materiality Assessment

To understand the concerns of our stakeholders, we have invited an independent consultant to conduct a stakeholder engagement workshop. Through interactive sessions and discussions, stakeholders familiarised themselves with current environmental and social issues and the challenges in the aviation industry in terms of sustainable development. This workshop helps us in determining the environmental and social issues that are of most interest or concern to the stakeholders and the Company. The Materiality Matrix below shows the top five material topics.

Materiality Matrix



Order of Importance/ significance	Topics
1	Product Responsibility
2	Materials and Resources Usage
3	Greenhouse Gas Emission and Pollutants
4	Occupational Health and Safety
5	Community Investment

The prioritisation of material topics are summarised based on two parameters: perceived importance to the stakeholders and the impacts significant to CALC. When viewing the matrix, please consider both the horizontal position and the vertical position of the topic.

5. OPERATING PRACTICE

Our Business

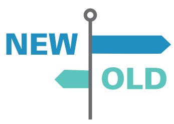
CALC provides customer-oriented fleet solutions covering the aircraft full life-cycle, which include, but not limited to aircraft leasing, aviation financing, mid-to-old aged aircraft solutions, aircraft recycling, etc. Our services include:

Aircraft Procurement

The Group sources new and used aircraft from aircraft manufacturers and international secondary aircraft market. Direct purchase with aircraft Original Equipment Manufacturers ("OEMs") enables us to well manage our aircraft portfolio in terms of aircraft model, aircraft age, and residual value.

Aircraft Leasing

CALC maintains close contacts with its existing airline customers and exploring leasing opportunities with prospective airline customers. Our aircraft leasing business is conducted by way of direct aircraft purchase and lease transactions or aircraft purchase and leaseback, both under long-term leases. During the Reporting Period, CALC has delivered 29 aircraft to airline customers, of which 25 were new aircraft and 4 were used aircraft. CALC has delivered its first ever A321neo aircraft to an airline customer in June 2018. This is also the Group's first Airbus neo aircraft we delivered.

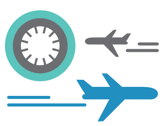


Fleet Upgrade

CALC offers fleet upgrade of trading in old aircraft while leasing new ones from our order book. Backed by our ability to re-market used aircraft to international secondary aircraft markets, CALC is one of the few lessors in China that offers fleet upgrade to meet increasing airlines' demand for flexible fleet planning.

Purchase and Leaseback

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



Aircraft Trading

CALC is also engaged in aircraft trading of either aircraft only or aircraft with lease attached when suitable opportunity arises.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aircraft Recycling

CALC, together with ARI, owns and operates two aircraft recycling bases. One located in Mississippi, US, held under UAM. It has completed over 300 aircraft disassembles that span the spectrum of the commercial aircraft aftermarket. The other base is located in Harbin, China, which is the first large-scale aircraft recycling facility in Asia.

Dismantling of retired aircraft and subsequent reuse of the high-value second-hand components after undergoing appropriate inspection and restoration procedures is already commonplace amongst major reputable airlines, which brings down their maintenance costs. Using the Aircraft Fleet Recycling Association accredited system for airframe disassembles, our technical team is capable of executing precise and efficient disassembles that remove components from nose to tail. In 2018, ARI has dismantled a total of 21 aircraft, of which estimated recycling rate of the aircraft was 85% to 90%.

Component Trading

Through creating logistics partnerships and a global MRO network, we continually position inventory in locations around the planet designed to fulfil any critical component requirements.

Aviation Financing

CALC explores aviation financing products with stable returns which enrich product varieties of capital market. The Group launched China's first asset-backed security ("ABS") which is denominated and settled in a foreign currency, and the first ABS in aircraft leasing in the public placement market. We believe that ABS will hold significance in attracting U.S. dollar investment in China and in reducing outflows of the currency. In addition, CALC partnered with mezzanine financiers to roll out CAG, to invest in aircraft portfolios on lease to a diversified set of global airlines. CALC is the exclusive servicer of CAG and will source all acquisition opportunities and provide aircraft and lease management service for CAG. This will diversify our financing pattern and facilitate the rapid growth of the enterprises. The Group keeps introducing different aviation financing structures to previously unexposed markets, which is beneficial to the aviation industry at large.

Aircraft Life Cycle Management

With increasing focus on environmental issues related to aircraft end-of-life and related practices, procedures, and safety and environmental concerns, CALC is committed to providing proper aircraft disassembly, recycling, and end-of-life solutions. CALC, together with ARI, are the first in Asia to provide one-stop solutions for mid-to-late life aircraft. Our four platforms, known as "aircraft disassembly & MRO platform", "aircraft engine and parts leasing platform", "global part-out & distribution platform", and "specialised investment platform" strive to extend the life cycle of aircraft.

Anti-corruption

Staff integrity is one of our critical factors to success. We strictly comply with "The Anti-corruption Law of the People's Republic of China" and Hong Kong's "Prevention of Bribery Ordinance". Employees are required to comply with the Code of Conduct of the Company, which covers our policy in preventing corruption, fraud, bribery, extortion, money laundering and any other malpractice or unethical activities. Employees of CALC should not accept any forms of advantages offered by business partners.

To ensure the Company is operating ethically in our daily business activities, any suspected corruption will be reported to the appropriate regulatory authorities. Penalties for relevant director or staff member who in breach of the Code of Conduct may include, but not limited to termination of appointment or employment. During the Reporting Period, there was no legal case regarding corrupt practices brought against the Group or its employees.

Supply Chain Management

CALC strives to maintain and develop a sustainable relationship with our suppliers. The Group has established a fair and transparent Suppliers Selection & Management Procedure for selecting and managing all suppliers to minimise risks relating to sustainability in the supply chain. In particular, the Group uses a vendor evaluation matrix to assess the proposals of various vendors, including environmental compliance and commitment to social responsibility. The Company has several professional teams to monitor, control and review the entire procurement process. We have set up initial acquisition plan, while budget and proposal are prepared internally and reviewed by senior management prior to submission for approval of Strategy Committee under the Board of Directors. All of our suppliers are managed under the Suppliers Selection & Management Procedure and we conduct regular assessment of the performance of suppliers to ensure the quality of products delivered by them.

Product Responsibility

CALC strictly complies with "The Measures for the Administration of Foreign-funded Lease Industry" and "The Contract Law of the People's Republic of China", and is committed to provide a reliable and responsible service to our customers. We identify key risks of our product annually and set up risk monitoring and mitigating measures for each risk. Regular meetings of professional teams are in place to monitor the delivery progress of aircraft, including the manufacturing progress, readiness of our customers to take delivery, availability of aviation financing, completion of delivery and financing related legal documents. A comprehensive checklist is used to ensure processes are handled properly and completed as scheduled.

As an aircraft leasing company, CALC recognises that safety of the aircraft is the priority to our customers. The Company has a team of experienced engineers with in-depth technical knowledge and a series of procedural control to prevent any risks related to engineering and configuration of aircraft. The team is also responsible for pre-delivery inspections to ensure the technical condition of the aircraft. Annual inspection is performed for leased aircraft to monitor its sellable or leasable condition upon the expiry of aircraft lease.

Protecting our customers' information is crucial for our business. Non-disclosure of business information and non-competitive clauses are also built in our employee's employment agreement to ensure our information confidentiality. During the Reporting Period, no accident related to customer privacy was found.

Case Studies

Redelivery of an A321 Aircraft

In April 2018, CALC and ARI successfully completed the redelivery, export and lease of China's first Airbus A321 which had been imported 20 years ago. The Group has received this end-of-lease aircraft from a Chinese carrier, and subsequently leased to a European carrier, showcasing the Group's distinctive capability in aircraft full value chain asset management. This is the first time the Group has received an end-of-lease aircraft.

In this transaction, CALC's asset management team closely worked with the Chinese carrier to complete each part of the deal in compliance with the requirements on aircraft redelivery and export. ARI assessed the maximised value and solutions of aging aircraft in second-hand market. Subsequently, we have successfully leased this 20-year-old A321 aircraft to a European carrier as an operator. This transaction will extend the operational time limit of the aircraft and increase its residual value, which means the Group has utilised and created value at different stages of the aircraft life-cycle.

Through this cooperation, CALC and ARI have successfully leveraged the comparative strength of their industry expertise. Not only is CALC able to mitigate the risks arising from the aircraft residual value incurred by airline clients, but it is also able to enhance its fleet's flexibility.

Commencement of Operation of Aircraft Recycling Base in Harbin (the "Harbin Base")

On 8 June 2018, the Harbin Base has formally commenced operation. Located in Heilongjiang, the Harbin Base is the first large-scale aircraft recycling facility in Asia equipped with modern facilities and devices that utilise advanced technology. The Harbin Base has various systems for aircraft maintenance, conversion, dissembling, installation of aircraft parts, as well as aircraft materials management and sales. It covers seven areas of business operation, including aircraft purchasing, selling, leasing, disassembling, replacing, conversion and maintenance, providing dynamic aircraft recycling solutions to airlines, MROs, lessors, as well as manufacturers and distributors of aircraft materials.

CALC's unique business model offers services covering an aircraft's full life cycle to meet airlines' fleet management requirements, including services for new aircraft, mid-aged and retiring aircraft. With the Harbin Base's comprehensive aircraft solutions, ARI will further strengthen CALC's aircraft full value chain.

6. SUSTAINABILITY

Greenhouse Gas Emissions

CALC monitors its GHG emissions to guide its green policy. During the Reporting Period, our total greenhouse gas emission was 406 tonnes and at 2.0 tonnes CO_2 equivalent per employee in our headquarters, a 20% decrease from 2017; and at 3.2 tonnes CO_2 equivalent per employee in our Mainland China offices.

13 CLIMATE ACTION

GHG Emissions in 2018[3] (tonnes CO_2 equivalent)

	Hong Kong Headquarters	Mainland China Offices
Scope 1 Direct Emissions	3.3	7.5
Scope 2 Indirect Emissions	83.5	94.0
Scope 3 Other Indirect Emissions	66.6	151.0
Total	153.4	252.5
Intensity (tonnes/employee)	2.0	3.2

[3] The calculation is referenced to the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings in Hong Kong (2010 Edition)". Emissions factors for electricity purchased is referenced to the information released by HEC in 2017 and "Regional Baseline Grid Emission Factor in China". GHG emissions from air travel is calculated by ICAO Carbon Emissions Calculator. Direct GHG emissions (scope 1) include fuel consumption; indirect GHG emissions (scope 2) include electricity consumption; other indirect GHG emissions (scope 3) include air travel, paper waste disposal and bottled water consumption.

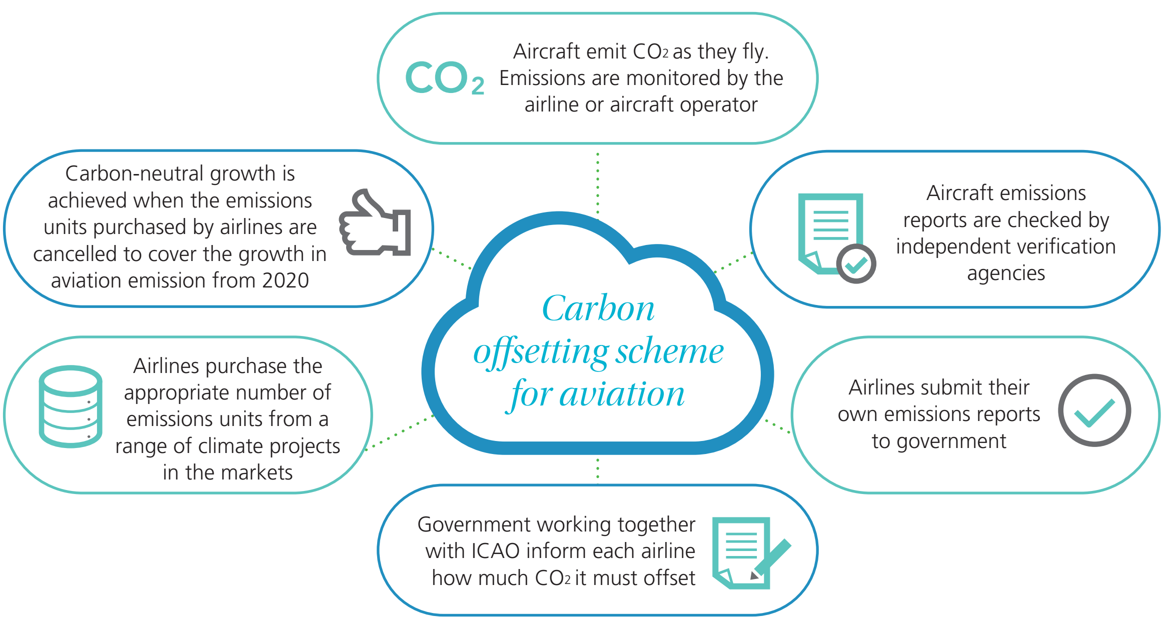
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have a Green Office Programme to promote green habits and working environment. To conserve energy, our office equipment is on energy-saving mode. Our lighting is designed to be sectionalised. To reduce our carbon footprint, we make use of virtual meetings to reduce the number of overseas travel required. Our electricity intensity in the headquarters has reduced by 17% compared to 2017.

According to International Air Transport Association ("IATA"), civil aviation represents 2% of global CO_2 emissions from human activity. The aviation sector has the most energy and carbon intensive forms of transport, and must limit its impact on climate change. The ICAO adopted a Carbon Offsetting and Reduction Scheme for International Aviation ("COSIA") to address CO_2 emissions from international aviation. It is a market-based scheme by which airlines compensate their international flights CO_2 emissions by purchasing carbon offsets. The goal is to achieve carbon-neutral growth from 2020.

There will be three phases of implementation. From 2021 until 2026, only flights between states that volunteer to participate in the pilot and/or the first phase will be subject to offsetting requirements. For the second phase from 2027, all international flights will be subject to offsetting requirements. However, flights to and from Least Developed Countries, Small Island Developing States, Landlocked Developing Countries and states which represent less than 0.5% of total activity will be exempt from offsetting requirements, unless these states participate on a voluntary basis.

CALC is aware of the carbon emission reduction target and it is reflected in its purchase strategy of energy efficient aircraft and phasing out of old aircraft models.



Natural Resources

Benefits of aircraft leasing on the environment

Recognising the pollution involved in using and discarding aircraft, CALC has been incorporating environmental considerations into its decisions in acquiring new aircraft and developing new businesses. During the Reporting Period, the Group delivered the first ever A321neo aircraft which is well-recognised by its improvement in per-seat fuel efficiency. Also, the Group marked a monumental milestone – becoming the first ever company to fully recycle carbon fibre from commercial aircraft. Looking forward, the Group will continue to incorporate environmental sustainability into the core of the enterprise and make business decisions that are responsible to the environment.

Case Studies

Delivery of CALC's First Ever A321neo Aircraft

In June 2018, CALC has delivered its first ever A321neo aircraft to an overseas airlines.

Incorporating Airbus' latest technology Sharklets and new engine choices, A320neo Family is delivering per seat fuel improvements of 20 per cent, along with additional range of up to 500 nautical miles/900 km. Also, the nitrous oxide emissions are 50 percent below regulatory requirements as outlined by the Committee on Aviation Environmental Protection ("CAEP"). Moreover, this aircraft significantly reduces its engine noise levels, generating only half the noise footprint compared to previous generation aircraft.

UAM First Ever to Fully Recycle Carbon Fibre from Commercial Aircraft

UAM, an aircraft recycling unit of the Group, has become the first in the world to completely recycle carbon fibre from commercial aircraft in early 2018. This monumental milestone in sustainability firmly entrenches UAM as the global leader in complete aircraft recycling. The resulting second-generation carbon fibre material is fit as raw resource for industrial use. As such, it becomes a feasible supply for advanced additive manufacturing supply chains, utilised by automotive and other manufacturing industries in need of cost-competitive carbon fibre. The innovative and bold process applies material science and advanced manufacturing techniques pioneered by UAM's Innovation Technology Team. CALC will continue develop new technology to further enhance aircraft recycling industry.

Material Consumption

We have a Green Office Programme to promote green habits and working environment. We endeavour to promote efficient use of resources such as water and office papers.

Water consumption

In our offices, sensor-activated faucet and water saving bowls are installed to conserve water usage.

In the Harbin Base, all wastewater produced by the facility are treated at a sewage treatment station in the facility. A wastewater purifying station was built to meet higher environmental protection standards and goes beyond what is legally required. The effluent, which has gone through 22 treatment procedures, meets the quality standard for drinking water.

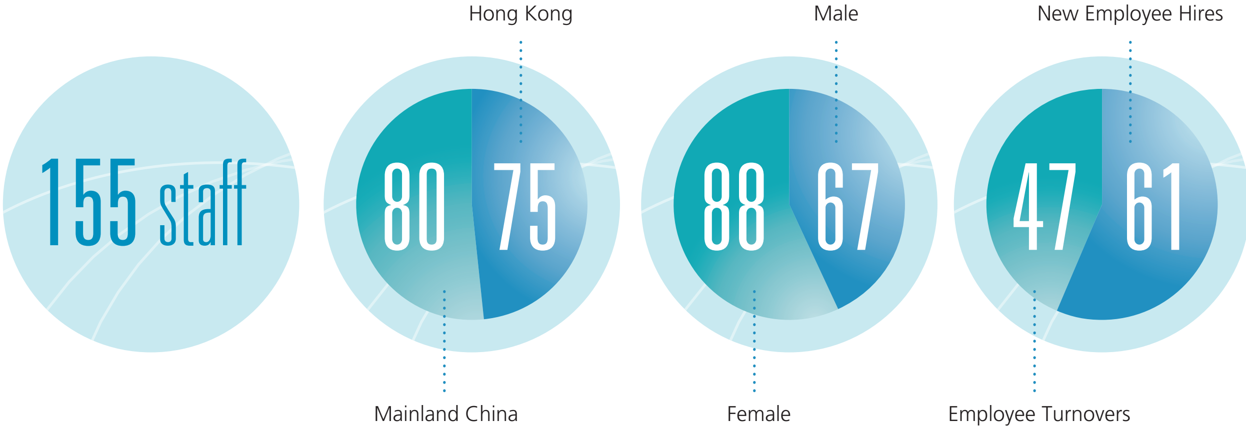
Paper consumption

The majority of our paper consumption comes from financial printing, which uses FSC[4] certified paper that is environmentally friendly sourced. In our offices, recycling bins are placed next to the printers to encourage paper recycling and reuse. We have recycled over 330 kg of paper in 2018.

7. WORKFORCE AND LABOUR PRACTICES

Employee Statistics

There are 155 staff in our Hong Kong and Mainland China offices. All of our staff are full-time employed. The male to female ratio is 0.76:1.



During the Reporting Period, we fully complied with the labour standards in Hong Kong and Mainland China.

Labour Practice

The Group's Staff Handbook and relevant policies have laid out key information on employee management, remuneration and dismissal, welfare, attendance appointment and grading, working hours, leaves, equal opportunities, diversity, anti-discrimination, code of conduct, child and forced labour prevention, and other benefits in accordance with relevant laws.

Development and Training

Gearing up employees is vital to sustainable growth of the Group. The Company is committed to help employees to fully develop their potentials through regular and comprehensive development training. In accordance with our Staff Handbook, we encourage employees at all levels to undertake studies which enable them to acquire the necessary skills, knowledge and qualification to support their career enhancement in line with our business needs.

In our Hong Kong headquarters, we provide training subsidy for employees who would like to take external programs and professional examinations. Courses, seminars and workshops are organised on an ongoing basis for the employees. During the Reporting Period, 100% of our Hong Kong staff received training provided by the Company.

[4] Forest Stewardship Council.

Employee Welfare

To build a sustainable and stable team, the Company places a strong emphasis on improving welfare and safeguards for our employees. Our employees are entitled to annual leave, bonus leave, marriage leave, and maternity leave/paternity leave. All employees are insured against any industrial accident arising out of and in the course of their employment. On completion of probation, employees can be admitted to the Company's group medical scheme which covers out-patient visits and hospitalisation.

8 DECENT WORK AND ECONOMIC GROWTH

To allow employees enjoy life apart from work, the Company organises various outings and charity activities. The Company also offers trip reimbursement every year for qualified employees. Employees who are on business trips will be covered by travel insurance.

Health and Safety

Ensuring a safe working environment for our employees is always important for the Group. In order to provide an accident-free working environment and prevent occupational diseases, our Staff Handbook includes a set of Office Safety Management Requirements, which includes ventilation, lighting, proper housekeeping, the safe use and maintenance of electrical equipment as well as fire prevention. There were no cases of non-compliance with laws and regulations related to health and safety during the Reporting Period.

3 GOOD HEALTH AND WELL-BEING

8. GIVING BACK

CALC is committed to corporate social responsibility by implementing the "ESG Policy" and encouraging to participate in local community service, charitable and educational activities. In 2018, we have participated in activities organised by Orbis, World Green Organisation ("WGO") and World Wide Fund Nature for Hong Kong ("WWF-Hong Kong"). Our monetary contributions amounted to HK$329,000.

Orbis Walk for Sight

CALC supported "Orbis Walk of Sight", a fund-raising event held in March 2018. Our colleagues helped out in a braille booth hosted by student representatives from Ebenezer School & Home for the Visually Impaired, joining hands with students to provide voluntary works.

Eco Tour – Tai Tong Nature Trail

We participated in WGO's "Eco Tour – Tai Tong Nature Trail" event in May 2018. Our colleagues walked along Tai Tong Nature Trail in Yuen Long and learned the importance of environmental conservation as well as green and low-carbon living style.

Upcycling Workshop and Voluntary Services

Our colleagues learned to upcycle discarded coffee grounds into mosquito repellent and scrub in WGO's "Upcycling Workshop and Voluntary Services" held in June 2018. After learning, we also shared the knowledge with 50 women and kids from low income family to promote sustainable lifestyle.

Green Hero Contest Day

In June 2018, CALC was named "Champion of Sportsmanship" for our strong team work and spirit in building an "aircraft" with recycled materials in WGO's Green Hero Contest Day. We were also awarded with "Green Enterprise" for our long-term commitment and contributions in building a greener community.

Gei Wai Harvesting

In August 2018, our colleagues joined WWF-Hong Kong's "Gei Wai Harvesting" to experience the most conventional way of shrimp harvesting, discovered the traditional management practices of tidal shrimp ponds, as well as explored the unique beauty of this wetland. Gei Wai at Mai Po is the last remaining in Hong Kong and a good example of sustainable use of wetland.

Orbis Moonwalkers

In November 2018, CALC took part in "Orbis Moonwalkers 2018", an annual overnight fundraising walkathon. Our colleagues, together with more than 4,000 sight-savers joined the activities to raise donation benefit the needlessly blind by sharing the skills with local medical professionals across the developing world.

HK-Heilongjiang Youth Exchange Delegation

CALC is dedicated in supporting educational activities. In 2018, we have invited 55 youths from Hong Kong to visit the Harbin Base through our "HK-Heilongjiang Youth Exchange Delegation". Throughout the visit in our facility, our guests gained a thorough understanding of aircraft recycling and the technology development in Harbin. Our guests discovered new insights in the aircraft recycling industry. We hope to bring inspirations to our next generation.

9. AWARDS, ACCOLADES AND MEMBERSHIP

Awards and Accolades

CALC has been awarded WGO's "United Nations Sustainable Development Goals – Green Office Awards Labelling Scheme (GOALS)" for fourth years, and has granted "Eco-Healthy Workplace Label" for the second consecutive year, recognising its achievement in establishing a green office. We are also a "Silver Member" of WWF-Hong Kong's Corporate Membership Program for the third consecutive year and a "Corporate Partner" of Orbis in 2018. CALC also obtained the "Sustainability Rating Seal" from Hong Kong Quality Assurance Agency (HKQAA) in 2018.

As a recognition to our good corporate citizenship, CALC has received the "Caring Company Logo" for the fourth consecutive year.

Hong Kong Aircraft Leasing and Aviation Finance Association

Rooted in Hong Kong, CALC is dedicated to the development of aircraft leasing and aviation financing industry of the city, leveraging our experience in the Chinese and global leasing markets. In June 2017, CALC, as a founding member, joined hands with various industry partners to establish Hong Kong Aircraft Leasing and Aviation Finance Association, through which we wish to facilitate industry innovation and infrastructure advancement. Our Chairman, Mr. CHEN Shuang, is the Founding Chairman and our CEO Mr. Mike POON is the Founding Chief Advisor, while our corporate communications team is acting as the secretariat to support operations of the Association. Since inauguration, the Association has been in regular contact with the Government and industry players, listening and exchanging views on various ideas to promote and develop aircraft leasing and financing using the Hong Kong tax platform.

In October 2018, the Association and Airfinance Journal hosted Hong Kong Aircraft Leasing Taxation Workshop, which CALC and InvestHK jointly sponsored.

10. ESG PERFORMANCE HIGHLIGHTS

Environmental Performance

	Hong Kong Headquarters	Mainland China Offices	Unit
Greenhouse Gas (GHG) Emissions			
Scope 1	3.3	7.5	tonnes CO_2 equivalent
Scope 2	83.5	94.0	
Scope 3	66.6	151.0	
GHG Emissions Intensity	2.0	3.2	tonnes CO_2 equivalent/ employee
Energy and Water Consumption			
Direct Electricity Consumption	105.7	106.2	MWh
Direct Electricity Consumption Intensity	1.4	1.3	MWh/employee
Water Consumption[3]	12.6	18.1	m^3
Water Consumption Intensity	0.17	0.23	m^3/employee
Direct Fuel Consumption (patrol)	1,236.58	2,767.77	L
Direct Fuel Consumption Intensity	16.5	34.6	L/employee
Materials Consumption and Recycling			
Paper	2,093.3	1,896	kg
Paper Recycling	301	33	kg
Waste Disposal			
Non-hazardous[5]	2.9	–	tonne
Non-hazardous Waste Intensity	0.04	–	tonne/employee

3 Includes bottled water consumption only.

5 Waste disposal are managed by the building management and collected by designated waste collectors. We will collect and report non-hazardous waste disposal data in Mainland China offices in next year's ESG Report.

Social Performance

	Hong Kong Headquarters	Mainland China Offices
Employee	Male: 31 Female: 44	Male: 36 Female: 44
Under 30	14	26
Between 30 and 40	35	45
Between 41 and 50	20	8
Above 50	6	1
Chief Level Executives	5	–
Senior Management	5	–
Middle Management	19	16
General Staff	46	64
Turnover Rate	Overall: 41% Under 30: 86% Between 30 and 40: 29% Between 41 and 50: 35% Above 50: 33%	Overall: 20% Under 30: 12% Between 30 and 40: 22% Between 41 and 50: 25% Above 50:100%
Percentage of employees trained	Male: 100% Female: 100%	Male: 100% Female: 100%
	Chief Level Executives: 100% Senior Management: 100% Middle Management: 100% General Staff: 100%	Middle Management: 100% General Staff: 100%
Average training hours	Male: 10.8 Female: 10.8	Male: 12.4 Female: 8.3
	Chief Level Executives: 9.8 Senior Management: 11.0 Middle Management: 10.9 General Staff: 10.8	Middle Management: 14.3 General Staff: 9.1
Number of work-related fatalities	0	0
Lost day due to work injury	0	0

11. ESG REPORTING GUIDE CONTENT INDEX

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
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.	Since the Group's business does not involve aviation operations, no significant air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste are involved. Therefore, we have no policies in the respective aspects. There are no laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.
A1.1	The types of emissions and respective emissions data.	There are no significant emissions generated from our daily office operations.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	SUSTAINABILITY ESG PERFORMANCE HIGHLIGHTS
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	During the Reporting Period, the Group did not produce any hazardous waste.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	ESG PERFORMANCE HIGHLIGHTS
A1.5	Description of measures to mitigate emissions and results achieved.	There are no significant emissions generated from our daily office operations. Therefore, no specific emissions mitigation measure is in place.

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	SUSTAINABILITY ESG PERFORMANCE HIGHLIGHTS Our daily office operations do not involve generation of hazardous waste. Therefore, no specific reduction initiative is in place.
A2. Use of Resources General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	SUSTAINABILITY
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	ESG PERFORMANCE HIGHLIGHTS
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	ESG PERFORMANCE HIGHLIGHTS
A2.3	Description of energy use efficiency in initiatives and results achieved.	SUSTAINABILITY
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	SUSTAINABILITY Water for our office use is obtained from municipal water supplies. There are no associated issues regarding water sourcing. Water efficiency initiatives are to be planned and executed by property management companies. Therefore, we do not have any water efficiency initiatives in our offices.

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Our operations do not involve the use of packaging material.
A3. The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Group's business activities mainly comprise office operations, which will not cause significant impact on the environment and natural resources. Therefore, no relevant policies are in place.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Group's business activities mainly comprise office operations, which will not cause significant impact on the environment and natural resources.
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.	WORKFORCE AND LABOUR PRACTICES There are no laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.
B1.1	Total work force by gender, employment type, age group and geographical region.	WORKFORCE AND LABOUR PRACTICES ESG PERFORMANCE HIGHLIGHTS
B1.2	Employee turnover rate by gender, age group and geographical region.	ESG PERFORMANCE HIGHLIGHTS

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
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.	WORKFORCE AND LABOUR PRACTICES There are no laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.
B2.1	Number and rate of work-related fatalities.	ESG PERFORMANCE HIGHLIGHTS
B2.2	Lost days due to work injury.	ESG PERFORMANCE HIGHLIGHTS
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	WORKFORCE AND LABOUR PRACTICES
B3. Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	WORKFORCE AND LABOUR PRACTICES
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	ESG PERFORMANCE HIGHLIGHTS
B3.2	The average training hours completed per employee by gender and employee category.	ESG PERFORMANCE HIGHLIGHTS
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.	WORKFORCE AND LABOUR PRACTICES There are no laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
B4.1	Description of measures to review employment practices to avoid child and forced labour.	The Group regularly reviews its employment practice to ensure that we are in compliance with the Employment Ordinance of Hong Kong, Labour Law of the PRC, and other laws and regulations related to child and forced labour.
B4.2	Description of steps taken to eliminate such practices when discovered.	WORKFORCE AND LABOUR PRACTICES The Group has zero tolerance towards such practice. Violations are subject to internal disciplinary actions or handled by relevant authorities.
B5. Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	OPERATING PRACTICE
B5.1	Number of suppliers by geographical region.	China: 46
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	OPERATING PRACTICE

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
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.	OPERATING PRACTICE The Group has not identified material concerns in its operations regarding health and safety, advertising, labelling and privacy matters in our operation, thus a dedicated policy is not in place. The Group places corporate advertisement in certain trade magazines, of which the content is monitored and approved by Corporate Communications Department to ensure accuracy. There are no laws and regulations that have a significant impact on the Group regarding health and safety, advertising, labelling and privacy matters relating to the products and services provided by the Group.
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	No cases during the Reporting Period.
B6.2	Number of products and service related complaints received and how they are dealt with.	There were no cases of products and services related complaints received during the Reporting Period.
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
B6.4	Description of quality assurance process and recall procedures.	OPERATING PRACTICE
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	OPERATING PRACTICE

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Topics, General Disclosures and KPIs	Description	Relevant Chapter(s) or other references/ Explanation
B7. Anti-corruption		
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.	OPERATING PRACTICE The Anti-corruption Law of the PRC and Hong Kong's Prevention of Bribery Ordinance aim at maintaining a fair and just society and inflicting punishments against unscrupulous and corruption behaviours. Ethical behaviour and compliance with applicable laws and regulations is of utmost importance to the Group as it affects the Group's reputation. Thus, in the Group's Code of Conduct, we articulate the standard of behaviour that we expect our employees to live up to. Beyond the Code of Conduct, we provide training to help employees understand the meaning of the Code of Conduct and what they're expected to do.
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.	OPERATING PRACTICE
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	OPERATING PRACTICE
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 in to consideration the communities' interests.	GIVING BACK
B8.1	Focus are as of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	GIVING BACK
B8.2	Resources contributed (e.g. money or time) to the focus area.	GIVING BACK

CORPORATE GOVERNANCE REPORT

The board of directors (the "Directors") of the Company (the "Board") is pleased to present this corporate governance report in the annual report for the year ended 31 December 2018 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 corporate 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") as its corporate governance practices.

The Company has complied with all Code Provisions as set out in the CG Code during the year ended 31 December 2018.

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 of the Board

(as at the date of this annual report)

CALC

Executive Directors	*Non-executive Director*	*Independent Non-executive Directors*
Mr. CHEN Shuang, *JP* *(Chairman)*	Mr. TANG Chi Chun	Mr. FAN Yan Hok, Philip
Mr. POON Ho Man *(CEO)*		Mr. NIEN Van Jin, Robert
Ms. LIU Wanting *(Deputy CEO)*		Mr. CHEOK Albert Saychuan
		Mr. CHOW Kwong Fai, Edward, *JP*

Changes in Composition of the Board and Board Committees

During the year ended 31 December 2018, the changes in composition of the Board and Board Committees with effect from 9 May 2018 are listed below:

Director	Change
GUO Zibin	– retired as a non-executive Director – resigned as a member of the Audit Committee
CHEN Chia-Ling	– retired as a non-executive Director
FAN Yan Hok, Philip	– appointed as a member of the Audit Committee

Save as disclosed above, there were no other changes to the composition of the Board and Board Committees during the year ended 31 December 2018.

Throughout the year, the Board has four independent non-executive Directors (the "INED(s)") and has complied with the Listing Rules to have at least three INEDs and 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.

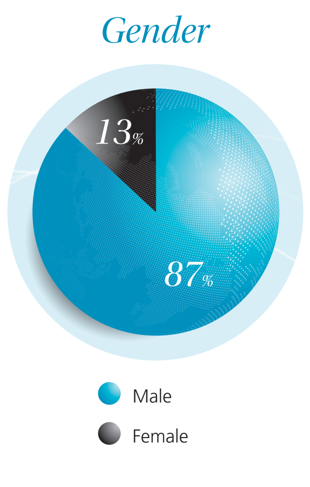
The Board received from each INED a written annual confirmation of their independence satisfied with guidelines set out in Rule 3.13 of the Listing Rules, and the Nomination Committee assessed the independence of each INED during the year. Each INED will inform the Company in writing as soon as practicable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

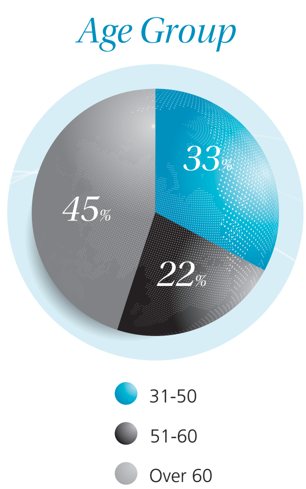
The Directors do not have financial, business, family or other material/relevant relationships with each other.

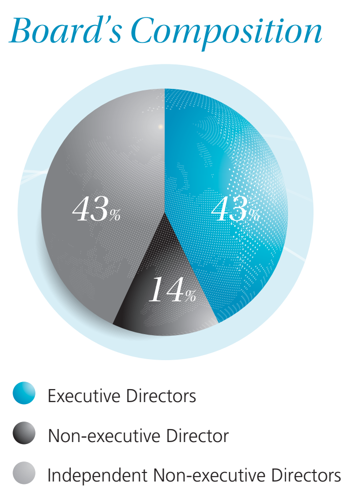
After annual assessment by the Nomination Committee during the year, the Board considers the current structure, size and composition of the Board is performing a balanced and independent monitoring function on management practices to complement the Company's corporate strategy. The profile of Directors is set out in the "Profile of the Directors and Senior Management" on pages 92 to 99 of this annual report.

Board Diversity Policy

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.







Nomination Policy

The Company has adopted a policy on nomination of the potential candidates for the Board members, the Chief Executive Officer (the "CEO") and the Chief Risk Officer. Under the policy, the Nomination Committee is delegated to set out the procedure for the selection, appointment and reappointment of Directors containing the selection criteria. This should include, but not limited to, considering the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity. In addition, the Nomination Committee will review the structure, size and composition of the Board.

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 Functions

The Board is responsible for performing the functions set out in provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code by the Directors and the employees of the Company, and the Company's compliance with Appendix 14 of the Listing Rules and disclosure in this 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 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 retiring 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.

Accordingly, three directors shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Details were set out in the section headed "Directors" in the Report of the Directors on page 75 of this annual report.

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 below under 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 responsibilities of Directors and committee members, if applicable.

NED (including INEDs) had attended a meeting 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.

Directors' Liability Insurance

The Company has arranged appropriate liabilities insurance to indemnify the Directors and officers 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 Director		
TANG Chi Chun	✓	✓
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.

Chairman and Chief Executive Officer

During the year, the roles of the Chairman of the Board and the CEO are separately performed by two individuals. Ms. LIU Wanting (executive Director and Chief Commercial Officer) 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 Company's 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 2018 is set out in Note 33(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 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.

Nomination Committee	*Audit Committee*	*Remuneration Committee*
Mr. CHEOK Albert Saychuan *(chairman)*	Mr. CHOW Kwong Fai, Edward, *(chairman)*	Mr. FAN Yan Hok, Philip *(chairman)*
Mr. FAN Yan Hok, Philip	Mr. FAN Yan Hok, Philip	Mr. NIEN Van Jin, Robert
Mr. NIEN Van Jin, Robert	Mr. NIEN Van Jin, Robert	Mr. CHEOK Albert Saychuan
Mr. CHOW Kwong Fai, Edward	Mr. CHEOK Albert Saychuan	Mr. CHOW Kwong Fai, Edward

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.21 of the Listing Rules and Code Provision C.3 of the CG Code, and have been posted on the websites of both Hong Kong Exchanges and Clearing Limited ("HKEX") and the Company. 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. Fan Yan Hok, Philip, Mr. NIEN Van Jin, Robert and Mr. CHEOK Albert Saychuan, all of them are INEDs. Two members of the Audit Committee including its chairman 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 below under 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 2018, 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 2017;

- 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 which aligned with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code, and have been posted on the websites of both HKEX and the Company. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration policy for 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, all of them are INEDs. A Remuneration Committee meeting was held during the year. The attendances of each Remuneration Committee member during the year are set out below under 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 which aligned with Code Provision A.5 of the CG Code and have been posted on the websites of both HKEX and the Company. 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, all of them are INEDs. A Nomination Committee meeting was held during the year. The attendances of each Nomination Committee member during the year are set out below under section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Nomination Committee has reviewed the Board diversity policy covering the structure, size and composition of the Board, assessed the independence of INEDs and made recommendation to the Board on the adoption of the Nomination Policy and the re-election of retiring 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 2018.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of HK$8,141,000. The relevant fee paid for audit services amounted to approximately HK$4,345,000 and the balancing of the remuneration related to the non-audit services of approximately HK$3,796,000.

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 2018 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 100 to 106.

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 2018 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 67 to 71 of the annual report.

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 direct reports to the Chairman of the Board. 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 HKEX, 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 2018.

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	Extraordinary General Meeting
Executive Directors						
CHEN Shuang	4/4	n/a	n/a	n/a	1/1	0/2
POON Ho Man	4/4	n/a	n/a	n/a	1/1	1/2
LIU Wanting	4/4	n/a	n/a	n/a	0/1	0/2
Non-executive Directors						
TANG Chi Chun	4/4	n/a	n/a	n/a	1/1	2/2
GUO Zibin (note 1)	0/1	1/2	n/a	n/a	0/1	1/1
CHEN Chia-Ling (note 2)	1/1	n/a	n/a	n/a	0/1	1/1
Independent Non-executive Directors						
FAN Yan Hok, Philip (note 3)	4/4	3/3	1/1	1/1	1/1	2/2
NIEN Van Jin, Robert	4/4	5/5	1/1	1/1	1/1	2/2
CHEOK Albert Saychuan	4/4	5/5	1/1	1/1	0/1	2/2
CHOW Kwong Fai, Edward	3/4	5/5	1/1	1/1	1/1	2/2
Total number of meetings	4	5	1	1	1	2
Dates of Meetings	23/3/2018 29/6/2018 24/8/2018 12/12/2018	21/3/2018 27/4/2018 22/8/2018 29/10/2018 5/12/2018	13/2/2018	28/11/2018	9/5/2018	18/1/2018 28/11/208

Notes:

(1) GUO Zibin retired as a non-executive Director with effect from the conclusion of the annual general meeting held on 9 May 2018 and resigned as a member of the Audit Committee accordingly.

(2) CHEN Chia-Ling retired as a non-executive Director with effect from the conclusion of the annual general meeting held on 9 May 2018.

(3) FAN Yan Hok, Philip was appointed as a member of the Audit Committee with effect from 9 May 2018.

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 achieve a high level and strong management of key types and overall risks in pursuit of the Company's business objectives.

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 Risk Management team 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 throughout the organization.

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.

Strategic dimension

Risk management initiatives are led by the Board (through its Audit Committee), and executed by CEO and his senior management team, 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. This line of defense monitors and facilitates implementation of effective risk management practices by risk owners and reports risk related information throughout the organization.

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, improvements were made.

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 quarterly to the Audit Committee members where they 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.

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 Risk Mitigating Measures and Key Changes

Risk management and internal controls are the day-to-day responsibility of every employee. The Company is exposed to various risks including but not limited to financial market risk, counterparty risk, compliance risk and business risk.

In order to cope with these risks, the Company monitors and implements mitigating measures.

During the year, the Company undertook 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 29 aircraft on time
- reduce geographical and portfolio concentration risk through appropriate disposal of 18 aircraft
- realized finance lease receivables of three aircraft
- diversified its financing channel through:
  - launching a USD500 million five-year syndicated revolving loan facility
  - renewing the unsecured working capital loan with China Everbright Bank, increasing the facility size from USD30 million to USD50 million
  - establishment of CAG, an aircraft investment vehicle which is 80% owned by Mezzanine Financiers, made up of independent third party investors who provides funding to the investment vehicle by way of shareholders' loan.

The diversity of funding channels helped maintained the Company's cost of funding in the rising interest rate environment. In addition, the cash received through various financing channels, for example: establishment of aircraft investment vehicle and disposal of finance lease receivable kept the cash position healthy. The overall liquidity risk and financial leverage risk were considered to be maintained at an acceptable level during the year.

The Company minimizes 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.

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. 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 (the "Directors") of the Company (the "Board") is pleased to present the Report of the Directors for the year 2018 together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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's Statement (on pages 10 to 12) and the CEO's Statement (on pages 13 to 16). Description of the principal risks and uncertainties facing the Group can be found in the Risk Management Report (on pages 67 to 71). 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 8 to 9) and the Management Discussion and Analysis (on pages 17 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 54) and the Corporate Governance Report (on pages 55 to 66). 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's Statement (on pages 13 to 16), the Environmental, Social and Governance Report (on pages 29 to 54) and the Corporate Governance Report (on pages 55 to 66).

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 2018 are set out in the consolidated statement of income on page 108 of this annual report.

The Directors have declared an interim dividend of HK$0.22 per share, totaling approximately HK$149 million which was paid on 26 September 2018.

The Company has a dividend policy matching its financial strategy. The Board has recommended the payment of a final dividend of HK$0.44 per share (2017: HK$0.42 per share) in respect of the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 22 May 2019. The proposed final dividend will be paid on or about 6 June 2019, following approval at the annual general meeting of the Company to be held on 10 May 2019 (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 6 May 2019
(b)	Closure of Register of Members	7 May 2019 to 10 May 2019 *(both dates inclusive)*

(ii) For determining entitlement to the final dividend:

(a)	Latest time to lodge transfer documents for registration	4:30 pm on 20 May 2019
(b)	Closure of Register of Members	21 May 2019 to 22 May 2019 *(both dates inclusive)*
(c)	Record date	22 May 2019

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 8 to 9 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 pre-IPO share option scheme of the Company, a total of 4,020 shares of the Company, fully paid, were issued. Further details are set out in the section of this Report of the Directors headed the Share Option Schemes and Note 12 to the consolidated financial statements.

Details of the movements in share capital of the Company during the year are set out in Note 12 to the consolidated financial statements.

BONDS PAYABLE

Particulars of the Group's bonds payable as at 31 December 2018 are set out in Note 19 to the consolidated financial statements.

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 18 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

For the year ended 31 December 2018, the Company repurchased a total of 914,000 ordinary shares of the Company at the highest price and the lowest price per share of HK$7.99 and HK$7.85 respectively on the Stock Exchange at an aggregate consideration of approximately HK$7,234,000 (before expense). All the repurchased shares were subsequently cancelled by the Company on 13 July 2018.

Save as disclosed above, during the year ended 31 December 2018, 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 110 to 111 of this annual report and Notes 13 and 36 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2018, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$2,433,170,000 are set out in Note 36 to the consolidated financial statements.

CHARITABLE DONATIONS

The Group's external charitable donations for the year amounted to HK$329,000.

DIRECTORS

The Directors 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)*
Ms. LIU Wanting *(Deputy Chief Executive Officer)*

Non-executive Directors

Mr. TANG Chi Chun
Mr. GUO Zibin (retired on 9 May 2018)
Ms. CHEN Chia-Ling (retired on 9 May 2018)

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, Mr. CHEN Shuang, Mr. TANG Chi Chun and Mr. CHOW Kwong Fai, Edward shall retire by rotation. All the retiring Directors, being eligible, will offer themselves for re-election at the AGM.

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.

CHANGE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors since the Company's last published interim report and up to the date of this annual report are set out below:

Mr. CHEN Shuang retired as a non-official member of the Financial Services Development Council of Hong Kong Special Administrative Region of the People's Republic of China with effect from 17 January 2019.

Mr. CHEOK Albert Saychuan was appointed as the independent non-executive chairman of Supermax Corporation Berhad, a company listed in Malaysia, on 19 October 2018.

The detailed biographies of Directors are disclosed in the section headed "Profile of the Directors and Senior Management" on pages 92 to 99 of this annual report and available on the Company's website.

Save as disclosed above, the Company is not aware of other information which is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

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 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 2018.

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 92 to 99 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 of Hong Kong Limited (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 2018 are set out in Note 33(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 2018, 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	Number of Shares/ underlying Shares held	Total interests	Approximate percentage of Shares in issue[(2)]
CHEN Shuang	Beneficial owner	400,000		
	Beneficial owner	10,000,000[(3)]	10,400,000	1.54%
POON Ho Man	Interest of controlled corporations	197,554,589[(4)]		
	Interest of spouse	3,800,000[(5)]	201,354,589	29.73%
LIU Wanting	Interest of controlled corporation	10,000,000[(6)]		
	Beneficial owner	3,000,000[(3)]	13,000,000	1.92%
TANG Chi Chun	Beneficial owner	200,000	200,000	0.03%
FAN Yan Hok, Philip	Beneficial owner	200,000	200,000	0.03%
NIEN Van Jin, Robert	Beneficial owner	234,000	234,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000		
	Beneficial owner	200,000[(3)]	205,000	0.03%
CHOW Kwong Fai, Edward	Beneficial owner	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 677,269,380 Shares in issue as at 31 December 2018.

(3) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Directors pursuant to the Post-IPO Share Option Scheme. Further details are set out on pages 81 to 82 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, a substantial shareholder of the Company, 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 82 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 2018, 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

Save 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 as at 31 December 2018 (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 2018, the entities and/or persons who had interests or short positions in the Shares or underlying Shares 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:

		Number of Shares held (L)[1]		
Name of shareholders	Capacity/nature of interest	Number of Shares/ underlying Shares held	Total interests	Approximate percentage of Shares in issue[2]
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	208,979,479[3]	208,979,479[3]	30.86%
China Everbright Limited ("CEL")	Interest of controlled corporation	230,595,479[3]	230,595,479[3]	34.05%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	230,595,479[4]	230,595,479[4]	34.05%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	230,595,479[5]	230,595,479[5]	34.05%
Central Huijin Investment Limited ("Huijin Limited")	Interest of controlled corporation	230,595,479[5]	230,595,479[5]	34.05%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	182,554,589[6]	182,554,589[6]	26.95%
Capella Capital Limited ("Capella")	Interest of controlled corporation	182,554,589[6]	182,554,589[6]	26.95%
POON Ho Man	Interest of controlled corporation Interest of spouse	197,554,589[7] 3,800,000[9]	201,354,589	29.73%
Christina NG	Interest of spouse Beneficial owner	197,554,589[8] 3,800,000[9]	201,354,589	29.73%

Notes:

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

(2) Based on 677,269,380 Shares in issue as at 31 December 2018.

(3) CEL was deemed to be interested in 208,979,479 and 21,616,000 Shares held by CE Aerospace and China Everbright Financial Investments Limited respectively, both of which are wholly-owned by CEL.

(4) 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 mentioned in note (3) above.

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

(6) 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.

(7) 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 (6) above. Mr. POON is also interested in 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

(8) 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 (7) above.

(9) 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 82 to this annual report.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any person who had an interest or short position in the Shares or underlying Shares 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") of the Company 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. Thus no outstanding Shares were available for issue thereunder. No option was granted under the Pre-IPO Share Option Scheme during the year.

During the year, the movement of share options granted under the Pre-IPO Share Option Scheme is as follows:

Name of grantees	Date of grant	Tranche	Number of Shares under options					Price of the Company's Shares		Exercise period
			At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018	Exercise price per Share US$	Immediately before the exercise date per Share (Note) HK$	
Senior management and other employees	10/10/2011	A	1,980	–	(1,980)	–	–	0.215	7.76	26/3/2016 to 26/3/2018
			2,040	–	(2,040)	–	–	0.215	7.76	26/3/2017 to 26/3/2018
Total			**4,020**	**–**	**(4,020)**	**–**	**–**			

Note: The price of the Shares disclosed is the weighted average closing price of the Shares immediately before the date on which the share options were exercised during the year.

Post-IPO Share Option Scheme

The post-IPO share option scheme (the "Post-IPO Share Option Scheme") of the Company 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 25,474,000 Shares (as at 23 March 2018, the date of the 2017 annual report: 25,875,000 Shares) which represented approximately 3.8% (as at 23 March 2018: 3.8%) of the issued share capital of the Company. No option was granted or exercised under the Post-IPO Share Option Scheme during the year.

REPORT OF THE DIRECTORS

During the year, the movement of share options granted under the Post-IPO Share Option Scheme is as follows:

		Number of Shares under options					Share price		
Name of grantees	Date of grant	At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018	Exercise price per Share HK$	Immediately before the exercise date per Share HK$	Exercise period
Directors									
CHEN Shuang	22/07/2016	3,300,000	–	–	–	3,300,000	8.80	–	22/1/2017-21/7/2020
		3,300,000	–	–	–	3,300,000	8.80	–	22/1/2018-21/7/2020
		3,400,000	–	–	–	3,400,000	8.80	–	22/1/2019-21/7/2020
LIU Wanting	22/07/2016	990,000	–	–	–	990,000	8.80	–	22/1/2017-21/7/2020
		990,000	–	–	–	990,000	8.80	–	22/1/2018-21/7/2020
		1,020,000	–	–	–	1,020,000	8.80	–	22/1/2019-21/7/2020
CHEOK Albert Saychuan	22/07/2016	66,000	–	–	–	66,000	8.80	–	22/1/2017-21/7/2020
		66,000	–	–	–	66,000	8.80	–	22/1/2018-21/7/2020
		68,000	–	–	–	68,000	8.80	–	22/1/2019-21/7/2020
CHOW Kwong Fai, Edward	22/07/2016	66,000	–	–	–	66,000	8.80	–	22/1/2017-21/7/2020
		66,000	–	–	–	66,000	8.80	–	22/1/2018-21/7/2020
		68,000	–	–	–	68,000	8.80	–	22/1/2019-21/7/2020
CHEN Chia-Ling (Note 1)	22/07/2016	66,000	–	–	(66,000)	–	8.80	–	22/1/2017-21/7/2020
		66,000	–	–	(66,000)	–	8.80	–	22/1/2018-21/7/2020
		68,000	–	–	(68,000)	–	8.80	–	22/1/2019-21/7/2020
Sub-total		**13,600,000**	**–**	**–**	**(200,000)**	**13,400,000**			
Connected Person									
Christina NG (Note 2)	22/07/2016	1,254,000	–	–	–	1,254,000	8.80	–	22/1/2017-21/7/2020
		1,254,000	–	–	–	1,254,000	8.80	–	22/1/2018-21/7/2020
		1,292,000	–	–	–	1,292,000	8.80	–	22/1/2019-21/7/2020
Sub-total		**3,800,000**	**–**	**–**	**–**	**3,800,000**			
Senior Management and other Employees	22/07/2016	2,686,200	–	–	–	2,686,200	8.80	–	22/1/2017-21/7/2020
		2,851,200	–	–	(99,000)	2,752,200	8.80	–	22/1/2018-21/7/2020
		2,937,600	–	–	(102,000)	2,835,600	8.80	–	22/1/2019-21/7/2020
Sub-total		**8,475,000**	**–**	**–**	**(201,000)**	**8,274,000**			
Total		**25,875,000**	**–**	**–**	**(401,000)**	**25,474,000**			

Notes:

(1) Ms. CHEN Chia-Ling retired from the position of a non-executive Director effective 9 May 2018.

(2) Ms. Christina NG is the spouse of Mr. POON Ho Man who is an executive Director and a substantial shareholder of the Company.

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.

(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.

REPORT OF THE DIRECTORS

(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 2018. 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 2018.

MAJOR CUSTOMERS

During the year, the income of the Group's lease accounted for 69.9% 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 2018 Percentage of the total revenue (before business taxes and surcharges) (%)
Top five customers	**37.9%**
The largest customer	**10.1%**

As far as the Directors are aware, none of the Directors, 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"); 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.

(together with all supplemental agreements to the above framework agreements, 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) CE Supplemental Deposit Services Framework Agreement;

(2) CE Supplemental Loan Services Framework Agreement; and

(3) CE 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.

On 15 October 2018, the Company and CE Group entered into three second supplemental agreements to the CE Agreements respectively, namely:

(1) Second CE Supplemental Deposit Services Framework Agreement;

(2) Second CE Supplemental Loan Services Framework Agreement; and

(3) Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement

(collectively known as the "Second CE Supplemental Agreements"), to extend the duration of each of the CE Agreements to 31 December 2021.

The transactions contemplated under the CE Supplemental Agreements and the Second 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 and 28 November 2018 respectively.

REPORT OF THE DIRECTORS

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

CE Agreements	Actual Maximum Daily Closing Balance/Total Consideration (HK$'Million) for the year ended 31 December 2018	Annual Caps (HK$'Million) for the year ended/ending 31 December 2018	2019	2020	2021
CE Supplemental Deposit Services Framework Agreement	2,926 *(Actual Maximum Daily Closing Balance of Deposits including interests accrued thereon)*	**3,843**	N/A	N/A	N/A
Second CE Supplemental Deposit Services Framework Agreement	N/A	**N/A**	3,843	3,843	3,843
CE Supplemental Loan Services Framework Agreement	4,594 *(Actual Maximum Daily Closing Balance of Loans including guarantees)*	**18,214**	N/A	N/A	N/A
Second CE Supplemental Loan Services Framework Agreement	N/A	**N/A**	18,214	18,214	18,214
CE Supplemental Assignment of Finance Lease Receivables Framework Agreement	Nil *(Total Consideration)*	**7,020**	N/A	N/A	N/A
Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement	N/A	**N/A**	7,020	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 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, 17 May 2016, 15 October 2018 and in the Company's circulars dated 15 June 2015, 29 April 2016 and 6 November 2018 respectively.

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

On 6 April 2016, a 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 expired 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, 2017 and 2018 are HK$480,000,000, HK$600,000,000 and HK$720,000,000 respectively (the "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, 2017 and 2018.

On 15 October 2018, a second supplemental agreement to the ARI Supplemental Agreement (the "Second ARI Supplemental Agreement") was entered into amongst the ARI Shareholders to revise (a) the interest rate of the shareholders' loan from 4% to 3% per annum above the Hong Kong dollar prime lending rate quoted by The Bank of China (Hong Kong) Limited from time to time; and (b) the guarantee fee from 4% to 3% per annum of the principal amount of the bank loan guaranteed by the guarantor; and (c) the annual caps for each of the years ending 31 December 2019, 2020 and 2021 to be HK$1,300 million respectively.

The transactions contemplated under the Shareholders' Loan and Guarantee Agreement, the ARI Supplemental Agreement and the Second ARI Supplemental Agreement (collectively known as the "ARI 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, 15 December 2016 and 28 November 2018 respectively.

REPORT OF THE DIRECTORS

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

ARI Agreement	Actual Maximum Daily Closing Balance of Loans (including interests accrued thereon) (HK$'Million) for the year ended 31 December 2018	Annual Caps (HK$'Million) for the year ended/ending 31 December 2018	2019	2020	2021
ARI Supplemental Agreement	1,149	**1,300**	N/A	N/A	N/A
Second ARI Supplemental Agreement	N/A	N/A	1,300	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 transactions contemplated under the ARI 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, 15 December 2016 and 15 October 2018 and in the Company's circulars dated 8 June 2016, 30 November 2016 and 6 November 2018 respectively.

Save for 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 2018 is contained in Note 34 to the consolidated financial statements. The transactions reported in (a), (b) and (c)(iii) and d(i) of Note 34 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), (c)(ii), (d)(ii) and (f) of Note 34 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 2018.

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, PricewaterhouseCoopers, 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 86 to 90 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

As at the date of this report, the Company's Audit Committee consisted of Mr. CHOW Kwong Fai, Edward (chairman of the Audit Committee), Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert and Mr. CHEOK Albert Saychuan, all of them are INED(s). During the year, the Audit Committee has reviewed with the management team and PwC the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control, risk management and financial reporting, including review of the financial results of the Group for the year ended 31 December 2018.

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by PwC in accordance with Hong Kong Financial Reporting Standards.

AUDITOR

The proposal of re-appointing PwC 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, 21 March 2019

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. CHEN Shuang, *JP*

Chairman and Executive Director

Mr. CHEN Shuang, *JP*, aged 51, is the Chairman and an Executive Director and is also the chairman of the 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 the strategy committee of the board, as well as the chairman of the 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, the chairman of Everbright Jiabao Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: SH 600622), and the chairman and a non-executive director of Kinergy Corporation Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 3302). Mr. CHEN is currently the permanent honorary chairman of Chinese Financial Association of Hong Kong, the chairman of Hong Kong Aircraft Leasing and Aviation Finance Association, a 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, a member of the strategic committee of France China Foundation, a council member of Chinese Foundation for Lifeline Express, a counsellor of Our Hong Kong Foundation and a member of the Hong Kong Institute of Directors (the "HKIoD"). Previously, Mr. CHEN was a non-official member of the Financial Services Development Council of Hong Kong Special Administrative Region of the People's Republic of China.

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. Prior to joining China Everbright Group, Mr. CHEN was the chief of the Legal Department of Bank of Communications and has over 26 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 46, 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 23 years of experience in direct investment, structured financing and aviation financing, of which over 12 years has been spent focusing on aircraft leasing.

Mr. POON founded China Aircraft Leasing Group ("CALC Group"), which has been developed into an aircraft full life-cycle solutions provider under his leadership. As at the date of this report, Mr. POON indirectly holds approximately 29.2% interest in the Company. Mr. POON 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 been 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 fourth 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 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委員會成員), 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 Vice President of Association for the Promotion of Hong Kong Heilongjiang Economy and a member of its Youth Committee(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), 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)and a member of the HKIoD. 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 37, 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 a senior adviser to the Foreign Investment Office of Tianjian Municipal People's Government, a founding member of Chinese Financial Association of Hong Kong (香港中國金融協會) and a member of the HKIoD. 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 (中華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.

As the date of this report, Ms. LIU had corporate interest in 10,000,000 shares of the Company (representing approximately 1.47% of the issued share capital of the Company) and was personally interest in share option with the rights to subscribe for 3,000,000 shares of the Company pursuant to the Post-IPO share option scheme of the Company.

Mr. TANG Chi Chun

Non-executive Director

Mr. TANG Chi Chun, aged 57, is a Non-executive Director appointed on 12 August 2013 and is also a member of the 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), 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, the Hong Kong Institute of Certified Public Accountants and a member of the HKIoD. 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. FAN Yan Hok, Philip

Independent Non-executive Director

Mr. FAN Yan Hok, Philip, aged 69, is an Independent Non-executive Director appointed on 11 September 2013. Mr. FAN is also the chairman of Remuneration Committee and a member of each of Audit Committee and 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 71, 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 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. CHEOK Albert Saychuan

Independent Non-executive Director

Mr. CHEOK Albert Saychuan, aged 69, 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 40 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) Adavale Resources Limited, listed in Australia from 20 December 2012 to 27 April 2017; and (ii) 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, listed on the Hong Kong Stock Exchange (stock code: 91); (iii) 5G Networks Limited, listed in Australia; and (iv) Supermax Corporation Berhad, listed in Malaysia.

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

Mr. CHOW Kwong Fai, Edward, *JP*

Independent Non-executive Director

Mr. Chow Kwong Fai, Edward, *JP*, aged 66, 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 and council member of The Institute of Chartered Accountants in England and Wales ("ICAEW") and chairman of its Hong Kong Chapter. He also chaired its Commercial Board. He is a past president of the Hong Kong Institute of Certified Public Accountant ("HKICPA") and chaired its Corporate Governance Committee and Professional Accountants in Business Committee. He also served as a Deputy Chairman of the 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 and a member of Council and Court of The University of Hong Kong.

Mr. CHOW is an independent non-executive director of CMB Wing Lung Bank Limited and two companies listed on the Hong Kong Stock Exchange, namely Redco Properties Group Limited (stock code: 1622) and Melco International Development Limited (stock code: 200).

Mr. CHOW was an independent non-executive director of COSCO SHIPPING Ports 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 60, 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 is a member of the HKIoD. 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 49, is the Chief Operating Officer, oversees all aspects of transaction-related functions and is responsible for transaction planning and closing, business analysis and pricing, deal structure and tax planning, structured finance as well as special corporate projects. Mr. TANG joined the Group on 7 November 2011 as financial controller who was responsible for financial management and accounting as well as listing preparation and pre-IPO investment management. 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, manufacturing, corporate finance advisory and e-media. 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.

Ms. CHEUNG Kit Yan, Hatty

Chief Risk Officer

Ms. CHEUNG Kit Yan, Hatty, aged 44, 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 of the Institute of Internal Auditors IIA and a Certified Management Accountant of the Institute of Management Accountants in the United States.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

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 107 to 195, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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
- Assessment of investment in CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively as "CAG Group")

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 2018, the Group's current liabilities exceeded its current assets by HK$4,109.7 million (Note 3.1.3). The Group had capital commitments amounting to HK$96,690.0 million mainly relating to aircraft purchase, of which HK$8,592.6 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 2018 and therefore continue as a going concern. The directors' forecasts are based on a number of assumptions including the aircraft delivery and leasing schedule, 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 requires the directors to make significant judgement on the assessment of the assumptions.	We obtained the Group's cash flow forecasts, which covered a period of not less than twelve months from 31 December 2018. We evaluated 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 2018 to evaluate management's prior year's experience. We performed sensitivity analysis over key assumptions to ascertain the extent of adverse 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 29 to the consolidated financial statements As at 31 December 2018, current income tax liabilities were HK$29.3 million and deferred income tax liabilities were HK$670.4 million. We focused on this area because the Group is subject to taxation in multiple jurisdictions and, in many cases, the ultimate tax treatment cannot be determined until being concluded with the relevant tax authority. In addition, the directors are required to exercise significant judgement in determining the appropriate amount of deferred tax 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 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 evaluate the available evidence for assessing the provision made by the directors. 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 tested mathematical accuracy of the directors' valuations of current and deferred tax provisions and evaluated whether the calculations were in line with the Group's tax policies and the tax rules and regulations in the respective jurisdictions, and had been applied consistently. 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
Assessment of investment in CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively as "CAG Group")	
Refer to Note 4.2(c) to the consolidated financial statements. In June 2018, the Group and some mezzanine financiers jointly established CAG Group with a shareholding ratio of 20% and 80% respectively; CAG Group, which is principally engaged in lease-attached aircraft portfolio investment. The Group provides aircraft and lease management service to CAG Group. The management has assessed its investment in CAG Group on the basis of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from CAG Group. The Group has concluded that it does not control CAG Group. We focused on this matter because the assessment of the investment in CAG Group requires the directors to make significant judgement.	We discussed with management and examined all the relevant documents entered into by the Group relating to the investment in CAG to understand the background and contractual rights and obligations of the transactions. We assessed the extent of the Group's power over CAG Group based on the consideration and assessment of the relevant factors including CAG's purpose and design, CAG's relevant activities, the decision-making authority about the relevant activities and whether the rights of the Group give it ability to direct the relevant activities based on the documents available and our understanding and knowledge of the industry. We evaluated the key assumptions used in the calculation of the variable returns from CAG Group, including the distribution and the interest from CAG Group pursuant to the shareholders' agreement and shareholder loan agreement and servicer fees income earned. We tested the mathematical accuracy of the model used in calculating the variable returns from CAG Group. In light of the above, we evaluated the ability of the Group to use its power over CAG Group to affect the amount of the Group's returns. Based on the work performed, we found 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's Profile, 2018 Highlights, Financial Highlights and Five-Year Financial Summary, 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's Profile, 2018 Highlights, Financial Highlights and Five-Year Financial Summary, Environmental, Social and Governance Report, Risk Management Report, Report of the Directors, Directors' and Senior Management's Profile 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.

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

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.

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, 21 March 2019

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Property, plant and equipment	5	**18,886,288**	13,059,424
Interests in and loans to associates	6	**959,111**	870,188
Finance lease receivables – net	7	**10,020,816**	12,556,201
Financial asset at fair value through profit or loss	8	**499,323**	–
Derivative financial assets	20	**123,174**	90,835
Prepayments and other assets	9	**6,771,875**	4,021,516
Restricted cash	10	**176,451**	372,826
Cash and cash equivalents	11	**3,990,107**	7,023,359
Total assets		**41,427,145**	37,994,349
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	12	**67,727**	67,818
Reserves	13	**1,830,609**	1,861,658
Retained earnings		**1,881,523**	1,497,677
Total equity		**3,779,859**	3,427,153
LIABILITIES			
Deferred income tax liabilities	14	**670,401**	544,549
Bank borrowings	15	**19,166,752**	16,458,411
Long-term borrowings	16	**5,436,443**	5,329,396
Medium-term notes	17	**758,831**	798,094
Convertible bonds	18	**–**	153,190
Bonds	19	**8,580,407**	8,538,932
Derivative financial liabilities	20	**–**	207
Income tax payables		**29,257**	17,254
Interest payables		**269,775**	226,761
Other liabilities and accruals	21	**2,735,420**	2,500,402
Total liabilities		**37,647,286**	34,567,196
Total equity and liabilities		**41,427,145**	37,994,349

The notes on pages 114 to 195 are an integral part of these consolidated financial statements.

The financial statements on pages 107 to 195 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf.

CHEN Shuang *Director*	**POON Ho Man** *Director*

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Revenue			
Finance lease income	22	**792,470**	1,017,462
Operating lease income	22	**1,541,677**	828,756
		2,334,147	1,846,218
Net gain from aircraft transactions	23	**625,705**	711,167
Other income	24	**381,681**	334,210
		3,341,533	2,891,595
Expenses			
Interest expenses	25	**(1,422,914)**	(1,240,964)
Depreciation	5	**(585,549)**	(327,064)
Other operating expenses	26	**(417,217)**	(351,191)
		(2,425,680)	(1,919,219)
Operating profit		**915,853**	972,376
Share of loss of an associate	6	**–**	(2,203)
Other gains	28	**71,222**	42,067
Profit before income tax		**987,075**	1,012,240
Income tax expenses	29	**(178,162)**	(277,577)
Profit for the year		**808,913**	734,663
Profit attributable to shareholders of the Company		**808,913**	734,663
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	30(a)	**1.194**	1.088
– Diluted earnings per share	30(b)	**1.194**	1.084

The notes on pages 114 to 195 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2018	2017
	Note	**HK$'000**	HK$'000
Profit for the year		**808,913**	734,663
Other comprehensive (loss)/income for the year:			
Items that may be reclassified subsequently to profit or loss			
Share of reserves of an associate		**–**	(181)
Cash flow hedges	20	**(4,610)**	(2,438)
Currency translation differences		**(6,253)**	7,252
Total other comprehensive (loss)/income for the year, net of tax		**(10,863)**	4,633
Total comprehensive income for the year		**798,050**	739,296
Total comprehensive income for the year attributable to shareholders of the Company		**798,050**	739,296

The notes on pages 114 to 195 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 (loss)/income				
Share of reserves of an associate	–	(181)	–	(181)
Cash flow hedges (Note 20)	–	(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 13(a))	–	15,185	–	15,185
– Issue of new shares from exercise of share options (Note 12(a))	828	20,728	–	21,556
Repurchase of convertible bonds (Note 18)	–	(18,582)	12,541	(6,041)
Dividends	–	–	(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 114 to 195 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 31 December 2017 as originally presented	**67,818**	**1,861,658**	**1,497,677**	**3,427,153**
Changes in accounting policy (Note 2.2)	–	–	(9,785)	(9,785)
Restated balance as at 1 January 2018	**67,818**	**1,861,658**	**1,487,892**	**3,417,368**
Comprehensive income				
Profit for the year	–	–	808,913	808,913
Other comprehensive (loss)/income				
Cash flow hedges (Note 20)	–	(4,610)	–	(4,610)
Currency translation differences	–	(6,253)	–	(6,253)
Total comprehensive (loss)/income	–	(10,863)	808,913	798,050
Transactions with shareholders				
Share option scheme:				
– Value of services (Note 13(a))	–	5,531	–	5,531
– Issue of new shares from exercise of share options (Note 12(a))	–	7	–	7
Buy-back of shares (Note 12(b))	(91)	(7,143)	(27)	(7,261)
Dividends	–	–	(433,836)	(433,836)
Transfer of reserves upon maturity of convertible bonds (Note 18)	–	(18,581)	18,581	–
Total transactions with shareholders	(91)	(20,186)	(415,282)	(435,559)
Balance as at 31 December 2018	**67,727**	**1,830,609**	**1,881,523**	**3,779,859**

The notes on pages 114 to 195 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Profit after income tax		**808,913**	734,663
Adjustments for:			
– Depreciation		**585,549**	327,064
– Net gain from aircraft transactions		**(625,705)**	(711,167)
– Impairment loss of finance lease receivables		**4,167**	–
– Interest expenses		**1,422,914**	1,240,964
– Share-based payments		**5,531**	15,185
– Unrealised currency exchange gains		**(16,566)**	(1,488)
– Fair value gains on interest rate and currency swaps	20	**(44,035)**	(49,354)
– Gain on disposal of property, plant and equipment	28	**–**	(50)
– Loss on repurchase of convertible bonds	18	**–**	3,055
– Share of loss of an associate		**–**	2,203
– Interest income		**(113,792)**	(99,901)
		2,026,976	1,461,174
Changes in working capital:			
– Finance lease receivables – net		**7,638**	3,080,270
– Prepayments and other assets		**187,458**	(334,103)
– Other liabilities and accruals		**631,323**	1,063,060
– Income tax payables		**12,003**	(26,020)
– Deferred income tax liabilities		**130,676**	205,327
Net cash flows generated from operating activities		**2,996,074**	5,449,708
Cash flows from investing activities			
Purchase of property, plant and equipment		**(10,205,973)**	(6,809,429)
Proceeds from disposal of aircraft and other property, plant and equipment		**6,706,713**	50
Deposit paid for acquisition of aircraft		**(3,931,321)**	(2,766,856)
Deposits refunded for acquisition of aircraft		**1,133,653**	2,220,094
Interest received		**18,897**	28,453
Net payments relating to financial asset at fair value through profit or loss		**(490,304)**	–
Net payments relating to loans to an associate		**(3,047)**	(356,755)
Net cash flows used in investing activities		**(6,771,382)**	(7,684,443)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Cash flows from financing activities		
Proceeds from issue of new shares from exercise of share options	**7**	21,556
Proceeds from bank borrowings and long-term borrowings	**12,893,611**	13,070,923
Issue of bonds, net of transaction costs	**–**	3,861,548
Refinancing and repayments of bank borrowings and long-term borrowings	**(10,181,063)**	(11,700,659)
Repurchase or repayment of convertible bonds, including transaction costs	**(155,160)**	(156,899)
Interest received/(paid) in respect of derivative financial instruments	**17,673**	(27,544)
Interest paid in respect of borrowings, notes and bonds	**(1,552,077)**	(1,251,280)
Proceeds from disposal of derivative financial instruments	**6,865**	76,091
Decrease/(Increase) in deposits pledged in respect of borrowings	**174,423**	(256,785)
Decrease in deposits pledged in respect of derivative financial instruments	**14,832**	71,382
Buy-back of shares, including transaction costs	**(7,261)**	–
Dividends paid to shareholders	**(433,836)**	(386,189)
Net cash flows generated from financing activities	**778,014**	3,322,144
Net (decrease)/increase in cash and cash equivalents	**(2,997,294)**	1,087,409
Cash and cash equivalents at beginning of the year	**7,023,359**	5,840,746
Currency exchange difference on cash and cash equivalents	**(35,958)**	95,204
Cash and cash equivalents at end of the year	**3,990,107**	7,023,359

The notes on pages 114 to 195 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 2018 are presented in Hong Kong dollar ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial asset at fair value through profit or loss, 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 2018, the Group's current liabilities exceeded its current assets by HK$4,109.7 million. The Group had total capital commitments of HK$96,690.0 million (Note 35(b)) mainly relating to acquisition of aircraft, of which HK$8,592.6 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 loans and aircraft bank loans, bonds, other debt and capital financing, and the asset-light strategy including disposal of aircraft. 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 2018 amounted to HK$5,193.5 million. Up to the approval date of the consolidated financial statements, the Group had signed PDP financing agreements and commitment letters with various commercial banks which have agreed to provide financing of HK$4,243.5 million to the Group in the next twelve months from 31 December 2018. The remaining balance of PDP amounting to HK$950.0 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 deliveries in the next twelve months from 31 December 2018. 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 remaining payments of the aircraft acquisition costs due in the next twelve months from 31 December 2018.

– 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.

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 2018. The forecasts are based on a number of assumptions including aircraft delivery and leasing schedules, 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 2018. 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) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'
- Amendment to HKAS 28, 'Investments in associates and joint ventures'
- HK (IFRIC) 22, 'Foreign currency transactions and advance consideration'

The impact of adoption of HKFRS 9 is disclosed in Note 2.2 below. Other new and revised HKFRSs did not have a material impact on the Group's accounting policies and did not require retrospective adjustments.

(c) 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 2019 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2018.

	Effective Date
HKFRS 16, 'Leases'	1 January 2019
HK (IFRIC) 23, 'Uncertainty over income tax treatments'	1 January 2019
Amendments to HKFRS 9, 'Prepayment features with negative compensation'	1 January 2019
Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'	1 January 2019
Amendment to HKAS 28, 'Long-term interests in associates and joint ventures'	1 January 2019
Annual improvements to HKFRS standards 2015 – 2017 cycle	1 January 2019
Amendments to HKFRS 10 and HKAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	1 January 2022

Management's preliminary assessment is that except HKFRS16 disclosed below, the application of the above standards, amendments and interpretations will not have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) New standards and interpretations not yet adopted *(continued)*

HKFRS 16, 'Leases'

HKFRS 16 was issued in January 2016. 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 2018, the Group has non-cancellable operating lease commitments of HK$40.7 million (Note 35(c)) and commitments of HK$36.3 million will result in the recognition of an asset and a liability for future payments and 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.

2.2 Changes in accounting policy

This note explains the impact of the adoption of HKFRS 9, 'Financial Instruments' on the Group's consolidated financial statements.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9, 'Financial Instruments' from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policy is set out in Note 2.9. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. There was no significant impact on the hedge accounting and the classification and measurements of the Group's financial assets and financial liabilities at the date of initial application of HKFRS 9. The adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018.

Consolidated financial statement items	As at 31 December 2017 As originally presented HK$'000	Increase in provision for finance lease receivables HK$'000	As at 1 January 2018 Restated HK$'000
ASSETS			
Finance lease receivables – net	12,556,201	(9,909)	12,546,292
LIABILITIES			
Deferred income tax liabilities	544,549	(124)	544,425
EQUITY			
Retained earnings	1,497,677	(9,785)	1,487,892

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 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 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)*

2.3 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 statements***

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)*

2.4 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 income, 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 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.

2.6 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)*

2.7 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 and engine	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%
Office building	50 years	0%
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 2.8).

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.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or are 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)*

2.9 Investments and other financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. 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 the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(c) ***Measurement*** *(continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and impairment expenses are presented as separate line item in the consolidated statement of income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(c) ***Measurement*** *(continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial asset at fair value through profit or loss are recognised in other gains in the statement of income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) ***Impairment***

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For finance lease receivables except for unguaranteed residual values for which impairment is subject to the requirements under HKAS 36, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the finance lease receivables.

(e) ***Accounting policies applied until 31 December 2017***

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(e) Accounting policies applied until 31 December 2017 *(continued)*

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

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(e) Accounting policies applied until 31 December 2017 *(continued)*

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a receivable is uncollectible, it is written off against the related allowances for its impairment. Such receivable is written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

For finance lease receivables, the amount of loss impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, discounted at the implicit effective interest rate used on initial recognition.

2.10 Offsetting financial instruments

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

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

As at 31 December 2018, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements were not material to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 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 to their fair value at the end of each reporting period. 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.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships 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 that qualify for hedge accounting

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 includes cash on 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 prepayment 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

(c) Offsetting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 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:

- 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Share-based payments *(continued)*

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

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

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

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the 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 consolidated 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 Note 2.9 for accounting policies for derecognition and impairment of finance lease receivables.

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts received from lessees under operating leases (net of any incentives 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 from financial asset at fair value through profit or loss is included in "Other gains", see Note 28 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – loans and receivables) calculated using the effective interest method is recognised in the consolidated statement of income as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(d) Service income

Service income is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

2.23 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.

3.1.1Market 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 assets, financial liabilities including borrowings, other liabilities 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$. Currency exchange risk may arise when the finance lease receivables and corresponding borrowings are denominated in different currencies. The management minimises the currency exchange risk by matching the finance lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

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

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, long-term 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 2018, the Group had 15 outstanding floating-to-fixed interest rate swaps (2017: 22 swaps) to manage its unmatched interest rates 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 exposure closely trend and will may consider hedging the 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 (continued)

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	Year ended 31 December 2018	2017
Interest rate swaps		
Carrying amount (asset) (HK$'000)	**80,414**	75,661
Notional amount (US$'000)	**445,068**	715,785
Maturity date	**2019 – 2024**	2018 – 2024
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January (HK$'000)	**28,695**	45,354
Change in value of hedged item used to determine hedge effectiveness (HK$'000)	**(28,695)**	(45,354)
Weighted average hedged rate for the year	**1.7%**	1.7%

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2017 and 2018. 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$30,814,000 (2017: HK$34,392,000); and would also have increased/decreased the Group's reserves by approximately HK$47,416,000 (2017: HK$88,832,000), 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 21). 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.

(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. In addition, the Group may request for a security deposit or security deposit letter of credit 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 applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for finance lease receivables. To measure the expected credit losses, the relevant receivables are grouped based on shared credit risk characteristics such as financial performance and stability, future growth, default history and other relevant factors. The loss allowances are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

In the prior year, the Group assessed at the end of each reporting period whether there was objective evidence that finance lease receivables were impaired. The Group's policy required 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 were carried out on overdue amounts to minimise credit risk exposures. When there was overdue amounts, provision for loss allowances was 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.

The loss allowance for lease receivables as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018. Please refer to Note 2.2 for the analysis of changes in accounting policy in greater detail.

(d) *Concentration of credit risk*

During the year ended 31 December 2018, the lessees of the Group are airline companies located in the United States, Mainland China and other countries or regions in Europe, Asia, South America and Middle East. Please see Note 7 and Note 22 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 35(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	
	2018	2017
	HK$'000	HK$'000
Current assets		
Finance lease receivables – net	**791,028**	25,453
Financial asset at fair value through profit or loss	**76,830**	–
Derivative financial assets	**44,023**	5,587
Prepayments and other assets	**128,316**	347,297
Loans to an associate	**959,111**	870,188
Cash and cash equivalents	**3,990,107**	7,023,359
	5,989,415	8,271,884
Current liabilities		
Deferred income tax liabilities	**102,518**	79,126
Bank borrowings	**5,082,167**	5,306,682
Long-term borrowings	**98,937**	89,190
Convertible bonds	**–**	153,190
Bonds	**2,349,360**	–
Derivative financial liabilities	**–**	414
Income tax payables	**29,257**	17,254
Interest payables	**269,775**	226,761
Other liabilities and accruals	**2,167,051**	1,708,174
	10,099,065	7,580,791
Net current (liabilities)/assets	**(4,109,650)**	691,093

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.

Bank borrowings of HK$5.08 billion under current liabilities mainly comprised of bank borrowings for aircraft acquisition financing ("aircraft loans") of HK$3.51 billion and PDP financing of HK$1.49 billion. The above aircraft loans will be partially funded by the collection of finance lease receivables under current assets and operating lease receivables of which HK$1.73 billion (which has not been included under current assets above) is expected to be received in the next twelve months from 31 December 2018. PDP financing is expected to be fully funded by new aircraft loans when aircraft is delivered based on industry practice and prior experience.

Three-year US$300 million (equivalent to HK$2.35 billion) senior unsecured bonds will be due in 2019 and the Group will satisfy the repayment by the Group's internal resources and may need to raise additional funding, including other new bonds issue if the Group considers appropriate.

Besides, the Group will consider to raise funds through PDP financing, new commercial loans and aircraft bank loans, other debt and capital financing, and the asset-light strategy for disposal of aircraft (including further injection of the Group's aircraft into CAG Group). In light of the above and other relevant factors as stated in Note 2.1(a), the Group expects to have sufficient working capital to finance its operations, to meet its financial obligations, including the net current liabilities of HK$4.11 billion as of 31 December 2018 and those capital commitments in the next twelve months from 31 December 2018.

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 2018					
Financial assets					
Loans to an associate	959,111	–	–	–	959,111
Finance lease receivables (i)	699,479	434,598	1,204,082	7,302,013	9,640,172
Financial asset at fair value through profit or loss	124,057	119,632	295,209	223,652	762,550
Other receivables excluding prepayments	126,399	5,896	82	26,959	159,336
Restricted cash	–	–	–	176,451	176,451
Cash and cash equivalents	3,990,107	–	–	–	3,990,107
Off-balance sheet – operating lease receivables (ii)	1,732,634	1,722,058	5,065,982	6,627,279	15,147,953
Derivative financial instruments	44,673	34,613	29,954	18,547	127,787
	7,676,460	2,316,797	6,595,309	14,374,901	30,963,467
Financial liabilities					
Bank borrowings	5,933,607	3,319,489	4,894,792	9,150,856	23,298,744
Long-term borrowings	444,206	446,465	1,525,366	5,482,137	7,898,174
Medium-term notes	40,921	428,181	391,619	–	860,721
Bonds	2,730,348	311,682	5,237,898	1,996,956	10,276,884
Other liabilities and accruals (iii)	1,326,132	12,615	12,159	179,559	1,530,465
Off-balance sheet – operating lease commitments (iv)	25,565	12,141	2,404	619	40,729
	10,500,779	4,530,573	12,064,238	16,810,127	43,905,717
Net	(2,824,319)	(2,213,776)	(5,468,929)	(2,435,226)	(12,942,250)

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 2017					
Financial assets					
Loans to an associate	870,188	–	–	–	870,188
Finance lease receivables (i)	851,211	973,015	2,086,233	9,748,716	13,659,175
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 liabilities 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)*

(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 2018, the Group has made PDP amounting to HK$6,236,290,000 (2017: HK$3,433,531,000) (Note 9). 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$3,455,263,000 as at 31 December 2018 (2017: HK$1,709,129,000) (Note 15). 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 lease receivables at the date of the transfer ("discounted amount") and the consideration for the transfer ("consideration") for the year ended 31 December 2018 are set out below.

	Undiscounted amount HK$'000	Discounted amount HK$'000	Consideration HK$'000
For the year ended 31 December 2018	**952,196**	**703,518**	**799,529**
For the year ended 31 December 2017	6,285,445	4,615,694	5,603,627

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

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

The trust plans 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 2018, service fee income of HK$1,096,000 (2017: HK$706,000) 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	Funding provided by the Group (Note (i))	Group's maximum exposure (Note (ii))	Interest held by Group
	HK$'000	HK$'000	HK$'000	
As at 31 December 2018	**10,871,867**	**3,477**	**122,825**	**Service fee**
As at 31 December 2017	10,147,703	3,633	122,569	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$3,477,000 (2017: HK$3,633,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2018 (Note 10).

(ii) The Group will convert 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 (equivalent to HK$122,825,000). As at 31 December 2018, the fair value of this currency swap contract amounted to HK$16,121,000 (2017: HK$14,966,000) and the fair value gain of HK$1,124,000 was recognised in "Other gains" for the year ended 31 December 2018 (2017: loss of HK$9,381,000) (Note 20(a)).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

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

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 2018. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' 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 2018.

The Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, and asset-liability ratio, which is calculated as total liabilities divided by total assets. The ratios are as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Interest-bearing debts included in total liabilities	**33,942,433**	31,278,023
Total liabilities	**37,647,286**	34,567,196
Total assets	**41,427,145**	37,994,349
Gearing ratio	**81.9%**	82.3%
Asset-liability ratio	**90.9%**	91.0%

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 2018				
Assets				
Currency swap	–	16,121	–	16,121
Interest rate swaps	–	107,053	–	107,053
Financial asset at fair value through profit or loss	–	–	499,323	499,323
	–	123,174	499,323	622,497
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

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.

The fair value of the financial asset at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The Group uses the significant unobservable inputs to the valuation model including the earnings growth factor, risk-adjusted discount rate and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy.

The following table presents the change in level 3 instrument for the year ended 31 December 2018.

	Financial asset at fair value through profit or loss HK$'000
As at 31 December 2017 and 1 January 2018	–
Investment to financial asset at fair value through profit or loss	513,791
Proceeds from financial asset at fair value through profit or loss and interest accrued	(14,099)
Currency translation difference	(369)
As at 31 December 2018	499,323

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and bank balances, other receivables, loans to an associate, interest payables 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities carried at amortised cost *(continued)*

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

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables – net	**10,020,816**	**10,403,135**	12,556,201	13,270,358
Bank borrowings	**19,166,752**	**19,483,479**	16,458,411	16,490,975
Long-term borrowings	**5,436,443**	**5,789,183**	5,329,396	5,528,775
Medium-term notes	**758,831**	**775,926**	798,094	808,874
Convertible bonds	**–**	**–**	153,190	158,050
Bonds	**8,580,407**	**8,178,044**	8,538,932	8,819,974

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 multiple 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$1,675,316,000 as at 31 December 2018 (2017: HK$1,356,137,000), 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 2018.

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 62 (2017: 69) finance leases as at 31 December 2018 were approximately HK$6,548,174,000 (2017: HK$7,284,728,000). 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 2018 by approximately HK$19,350,000 (2017: HK$20,226,000).

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

4.1 Critical accounting estimates and assumptions *(continued)*

(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.

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 13(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.

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

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.

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.

(c) Assessment of investment in CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively as "CAG Group")

In June 2018, the Group and some mezzanine financiers jointly established CAG Group at a shareholding ratio of 20% and 80% respectively, which is principally engaged in lease-attached aircraft portfolio investment. The Group provides aircraft and lease management service to CAG Group.

The directors have assessed and concluded that the Group does not control CAG Group. The assessment of whether there are controls over CAG Group is mainly based on the consideration of the relevant factors including CAG's purpose and design, CAG's relevant activities, the decision-making authority about the relevant activities, whether the rights of the Group give it current ability to direct the relevant activities, the Group's exposure or rights to variable returns from its involvement with CAG and the ability to use its power over CAG to affect the amount of the Group's returns. This assessment has involved critical judgement by management.

5 PROPERTY, PLANT AND EQUIPMENT

	Aircraft and engine HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Office building HK$'000	Others HK$'000	Total HK$'000
As at 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 and 1 January 2018						
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
Year ended 31 December 2018						
Opening net book amount	13,041,381	1,295	3,584	–	13,164	13,059,424
Additions	10,199,251	641	2,018	45,650	1,162	10,248,722
Transfer from finance lease receivables	2,263,583	–	–	–	–	2,263,583
Disposals	(6,124,173)	–	(5)	–	–	(6,124,178)
Depreciation	(580,091)	(960)	(1,890)	(821)	(1,787)	(585,549)
Currency translation difference	24,339	(12)	(7)	(33)	(1)	24,286
Closing net book amount	18,824,290	964	3,700	44,796	12,538	18,886,288
As at 31 December 2018						
Cost	19,774,488	4,902	10,462	45,616	15,045	19,850,513
Accumulated depreciation	(950,198)	(3,938)	(6,762)	(820)	(2,507)	(964,225)
Net book amount	18,824,290	964	3,700	44,796	12,538	18,886,288

Lease rentals amounting to HK$1,541,677,000 relating to the lease of aircraft and engine for the year ended 31 December 2018 are included in "operating lease income" in the consolidated statement of income (2017: HK$828,756,000).

As at 31 December 2018, the net book value of aircraft under operating leases amounting to HK$12,965,632,000 (2017: HK$8,679,902,000) were pledged as collateral for bank borrowings for aircraft acquisition financing (Note 15) and borrowings from trust plans (Note 16).

6 INTERESTS IN AND LOANS TO ASSOCIATES

	As at 31 December 2018 HK$'000	2017 HK$'000
Interests in and loans to associates	**959,111**	870,188

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Share of loss of an associate	**–**	(2,203)

As at 31 December 2018, the Group had direct interests in the following principal associate:

Name of entity	Country of incorporation	% of ownership interest	Measurement method
Aircraft Recycling International Limited ("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 and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 31 December 2018, the Group's outstanding loans balance receivable from ARI amounted to HK$959,111,000 (2017: 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. On 15 October 2018, a supplemental agreement was entered into to revise the loan interest rate to 3% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited with effect from 28 November 2018. The loan is repayable on demand.

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

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Finance lease receivables	**3,790,263**	7,139,331
Guaranteed residual values	**5,849,909**	6,519,844
Unguaranteed residual values	**6,548,174**	7,284,728
Gross investment in leases	**16,188,346**	20,943,903
Less: Unearned finance income	**(6,153,437)**	(8,387,702)
Net investment in leases	**10,034,909**	12,556,201
Less: Accumulated allowance for impairment	**(14,093)**	–
Finance lease receivables – net	**10,020,816**	12,556,201

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	
	2018	2017
	HK$'000	HK$'000
Gross investment in finance leases	**16,188,346**	20,943,903
Less: Unguaranteed residual values	**(6,548,174)**	(7,284,728)
Minimum lease payments receivable	**9,640,172**	13,659,175
Less: Unearned finance income related to minimum lease payments receivable	**(3,406,188)**	(4,996,644)
Present value of minimum lease payments receivable	**6,233,984**	8,662,531

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	
	2018	2017
	HK$'000	HK$'000
Gross investment in finance leases		
– Not later than 1 year	**952,009**	851,211
– Later than 1 year and not later than 5 years	**1,955,373**	3,557,303
– Later than 5 years	**13,280,964**	16,535,389
	16,188,346	20,943,903

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	
	2018	2017
	HK$'000	HK$'000
Present value of minimum lease payments receivable		
– Not later than 1 year	**542,839**	298,044
– Later than 1 year and not later than 5 years	**1,112,478**	863,357
– Later than 5 years	**4,578,667**	7,501,130
	6,233,984	8,662,531

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

	As at 31 December			
	2018		2017	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**8,060,406**	**80%**	9,314,147	74%
Other airline companies	**1,960,410**	**20%**	3,242,054	26%
Finance lease receivables – net	**10,020,816**	**100%**	12,556,201	100%

8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Long-term debt investments	**499,323**	–

CAG uses the fund injected through a performance-linked shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 20% to 80%, together with a shareholding between the Group and other investors at the same ratio. Pursuant to shareholders' agreement and shareholder loan agreement, all investors of CAG committed to invest in CAG through shareholder loans according to the shareholding proportion. The Group's committed shareholder loan is approximately US$94.7 million (equivalent to approximately HK$741.8 million).

9 PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
PDP (a)	**6,236,290**	3,433,531
Interest capitalised	**305,594**	154,903
Prepayments and receivables relating to aircraft acquisition	**99,056**	366,396
Deposits paid	**60,906**	42,112
Amounts due from related parties (Note 34(g))	**4,467**	588
Others (b)	**65,562**	23,986
	6,771,875	4,021,516

(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 and January 2018, 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 agreement (the "2017 Aircraft Purchase Agreement") with The Boeing Company ("Boeing") for the purchase of 50 aircraft.

In December 2018, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement to purchase additional 50 aircraft from Boeing.

Prepayments were 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.

9 PREPAYMENTS AND OTHER ASSETS *(continued)*

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
US$	**6,679,480**	3,977,981
RMB	**80,270**	32,853
HK$	**6,647**	5,372
Other currencies	**5,478**	5,310
	6,771,875	4,021,516

10 RESTRICTED CASH

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Pledged for secured bank borrowings for aircraft acquisition financing (Note 15)	**128,678**	312,434
Pledged for long-term borrowings (Note 16)	**44,296**	41,969
Pledged for interest rate swap contracts	**–**	14,790
Pledged for a currency swap contract (Note 20(a))	**3,477**	3,633
	176,451	372,826

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
US$	**50,141**	187,080
RMB	**126,310**	185,746
	176,451	372,826

The average effective interest rate as at 31 December 2018 was 0.78% (2017: 0.67%).

11 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Cash at bank and on hand	**3,990,107**	7,023,359

11 CASH AND CASH EQUIVALENTS *(continued)*

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
US$	**2,992,481**	6,125,590
RMB	**967,512**	854,459
HK$	**16,596**	36,034
Other currencies	**13,518**	7,276
	3,990,107	7,023,359

The average effective interest rate as at 31 December 2018 was 1.49% (2017: 0.91%).

12 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 2017	HK$0.1	669,900,640	66,990,064
Issue of new shares from exercise of share options (a)	HK$0.1	8,278,720	827,872
As at 31 December 2017 and 1 January 2018	**HK$0.1**	**678,179,360**	**67,817,936**
Issue of new shares from exercise of share options (a)	**HK$0.1**	**4,020**	**402**
Buy-back of shares (b)	**HK$0.1**	**(914,000)**	**(91,400)**
As at 31 December 2018		**677,269,380**	**67,726,938**

(a) During the year ended 31 December 2018, certain grantees exercised share options granted under share option schemes, resulting in 4,020 (2017: 8,278,720) new shares being issued, with total proceeds of HK$7,000 (2017: HK$21,556,000). The related weighted average share price at the time of exercise was HK$7.77 (2017: HK$9.65) per share. As at 31 December 2018, 16,790,400 (2017: 8,432,220) share options were exercisable.

(b) The Company acquired 914,000 of its own shares through purchases on the Stock Exchange and those purchased shares were subsequently cancelled during the year ended 31 December 2018. The total amount paid to acquire the shares was HK$7,261,000, including transaction costs. 914,000 of its own shares have been deducted from the share capital and share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 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 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 20)	–	–	–	–	(2,438)	–	–	(2,438)
Currency translation differences	–	–	–	–	–	–	7,252	7,252
Share option scheme:								
– Value of services (Note 13(a))	–	–	–	15,185	–	–	–	15,185
– Issue of new shares from exercise of share options (Note 12(a))	23,270	–	–	(2,542)	–	–	–	20,728
Repurchase of convertible bonds (Note 18)	–	–	–	–	–	(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
Balance as at 1 January 2018	**1,099,227**	**623,720**	**(39)**	**36,632**	**85,024**	**18,581**	**(1,487)**	**1,861,658**
Cash flow hedges (Note 20)	**–**	**–**	**–**	**–**	**(4,610)**	**–**	**–**	**(4,610)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**(6,253)**	**(6,253)**
Share option scheme:								
– Value of services (Note 13(a))	**–**	**–**	**–**	**5,531**	**–**	**–**	**–**	**5,531**
– Issue of new shares from exercise of share options (Note 12(a))	**7**	**–**	**–**	**–**	**–**	**–**	**–**	**7**
Buy-back of shares (Note 12(b))	**(7,143)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,143)**
Transfer of reserves upon maturity of convertible bonds (Note 18)	**–**	**–**	**–**	**–**	**–**	**(18,581)**	**–**	**(18,581)**
Balance as at 31 December 2018	**1,092,091**	**623,720**	**(39)**	**42,163**	**80,414**	**–**	**(7,740)**	**1,830,609**

13 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.

13 RESERVES *(continued)*

(a) Share-based payments *(continued)*

(ii) Post-IPO Share Option Scheme (continued)

Second Post-IPO Share Option (continued)

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.

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

13 RESERVES *(continued)*

(a) Share-based payments *(continued)*

Movement of outstanding share options granted by the Group is as follows:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Pre-IPO	Post-IPO	Total	Pre-IPO	Post-IPO	Total
Beginning of year	4,020	25,875,000	25,879,020	6,606,140	27,955,600	34,561,740
Exercised during the year	(4,020)	–	(4,020)	(6,510,320)	(1,768,400)	(8,278,720)
Lapsed during the year	–	(401,000)	(401,000)	(91,800)	(312,200)	(404,000)
End of year	–	25,474,000	25,474,000	4,020	25,875,000	25,879,020

For share options outstanding as at 31 December 2018, the exercise price per share of Second Post-IPO Share Option Scheme was HK$8.80. Their weighted average remaining contractual life of options outstanding as at 31 December 2018 was approximately 1.6 years (2017: 2.6 years).

During the year ended 31 December 2018, the amount of share-based compensation was adjusted by approximately HK$909,000 (2017: HK$2,097,000) 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	
	2018	2017
	HK$'000	HK$'000
Directors and employees	5,531	15,185

14 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Deferred tax liabilities:		
– To be settled within 12 months	102,518	79,126
– To be settled after 12 months	567,883	465,423
	670,401	544,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 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 2017	332,824
Charged to profit or loss (Note 29)	205,327
Currency translation difference	6,398
As at 31 December 2017	544,549
As at 1 January 2018	**544,549**
Charged to profit or loss (Note 29)	**128,160**
Currency translation difference	**(2,308)**
As at 31 December 2018	**670,401**

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 2018, certain subsidiaries of the Group had unused tax losses of approximately HK$729,568,000 (2017: HK$624,690,000) available to offset against future profits, for which deferred tax asset of HK$100,401,000 (2017: HK$90,829,000) 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	
	2018	2017
	HK$'000	HK$'000
Year		
2018	**–**	12,306
2019	**12,750**	12,750
2020	**14,953**	14,953
2021	**49,672**	49,672
2022	**52,381**	52,381
2023	**62,165**	–
No expiry date	**537,647**	482,628
	729,568	624,690

15 BANK BORROWINGS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Bank borrowings for aircraft acquisition financing (a)	**15,634,391**	13,981,599
PDP financing (b)	**3,455,263**	1,709,129
Working capital borrowings (c)	**77,098**	767,683
	19,166,752	16,458,411

(a) Bank borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 31 December 2018, certain 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$128,678,000 (2017: HK$312,434,000).

(b) As at 31 December 2018, PDP financing of HK$2,184,082,000 (2017: HK$478,817,000) was unsecured and guaranteed by the Company. 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 2018, the Group had aggregate unsecured working capital borrowings of HK$77,098,000 (2017: HK$767,683,000) which were guaranteed by certain companies of the Group.

The borrowings are repayable as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Within 1 year	**5,082,167**	5,306,682
Between 1 and 2 years	**2,625,649**	1,529,991
Between 2 and 5 years	**3,506,434**	3,250,802
Over 5 years	**7,952,502**	6,370,936
	19,166,752	16,458,411

15 BANK BORROWINGS *(continued)*

The exposure of bank borrowings to interest rate changes at the end of balance sheet date are as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Fixed-interest rate	**3,683,553**	2,359,952
Floating-interest rate	**15,483,199**	14,098,459
	19,166,752	16,458,411

The average effective interest rate as at 31 December 2018 of bank borrowings was 4.50% (2017: 4.10%). The carrying amounts of borrowings are principally denominated in US$.

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Floating rate:		
– Expiring within one year	**273,309**	78,149
– Expiring beyond one year	**6,133,418**	4,162,946
	6,406,727	4,241,095

16 LONG-TERM BORROWINGS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Borrowings from trust plans (a)	**5,114,323**	5,018,672
Other borrowings (b)	**322,120**	310,724
	5,436,443	5,329,396

16 LONG-TERM BORROWINGS *(continued)*

(a) As at 31 December 2018, 46 borrowings (2017: 43 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% (2017: 3.5% to 7.8%) per annum for remaining terms of five to 11 years (2017: six 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$44,296,000 (2017: HK$41,969,000).

(b) As at 31 December 2018, four borrowings (2017: four borrowings) were obtained through a structured financing arrangement for four aircraft (2017: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2017: 3.9% to 5.7%) per annum for their remaining terms of six to seven years (2017: seven to eight years) and are guaranteed by the Company.

17 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 2018, after deducting the issuing cost, the total carrying amount of these notes was HK$758,831,000 (2017: HK$798,094,000).

18 CONVERTIBLE BONDS

	Liability HK$'000	Equity HK$'000	Total HK$'000
Carrying value as at 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 and 1 January 2018	**153,190**	**18,581**	**171,771**
Interest accrued at effective interest rate (inclusive of arrangement fees) during 2018	**7,012**	**–**	**7,012**
Interest paid (inclusive of arrangement fees) during 2018	**(5,042)**	**–**	**(5,042)**
Redemption during 2018	**(155,160)**	**(18,581)**	**(173,741)**
Carrying value as at 31 December 2018	**–**	**–**	**–**

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") 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.

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.

18 CONVERTIBLE BONDS *(continued)*

Interest expenses (Note 25) on the carrying amount of the liability component were paid or accrued at the effective interest rate (inclusive of arrangement fees) of 11.8% (2017: 11.8%) 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.

In May 2018, the convertible bonds with aggregate principal amount of HK$155,160,000 were fully redeemed upon maturity.

19 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 2018 was HK$8,580,407,000 (2017: HK$8,538,932,000).

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Derivative financial assets		
– Currency swap (a) (Note 3.1.4)	**16,121**	14,966
– Interest rate swaps (b)	**107,053**	75,869
	123,174	90,835
Derivative financial liabilities		
– Interest rate swaps (b)	**–**	207

(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 2018, the fair value of this currency swap contract amounted to HK$16,121,000 (2017: HK$14,966,000) and the fair value gain of HK$1,124,000 was recognised in "Other gains" for the year ended 31 December 2018 (2017: loss of HK$9,381,000). As at 31 December 2018, this arrangement was secured by a pledge deposit of HK$3,477,000 (2017: HK$3,633,000).

(b) As at 31 December 2018, the Group had 19 outstanding interest rate swap contracts (2017: 22 contracts) which will expire at various dates from 19 September 2019 to 21 December 2024 (2017: 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% (2017: 1.3% to 2.0%).

(i) Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount, therefore the Group performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Only 15 outstanding interest rate swap contracts were accounted for as cash flow hedges and the other four interest rate swap contracts did not meet the criteria for hedge accounting and total fair value losses of HK$9,412,000 was recognised to "Other gains" for the year ended 31 December 2018. During the year ended 31 December 2017, all 22 outstanding interest rate swap contracts were accounted for as effective cash flow hedges which were virtually fully effective.

20 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

(b) *(continued)*

During the year ended 31 December 2017, the Group terminated total 15 interest rate swap contracts listed out as follows:

(ii) 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.

(iii) 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 met 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.

(iv) 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 expenses and "Other gains". The hedged bank borrowing of the remaining one swap contract was repaid in January 2018 and the balance of realised gain of US$1,198,000 (equivalent to HK$9,389,000) was reclassified from cash flow hedges reserve to "Other gains" for the year ended 31 December 2018.

During the year ended 31 December 2018, the Group terminated two interest rate swap contracts and repaid four bank borrowings which were hedged with interest rate swaps listed out as follows:

(v) Two interest rate swap contracts were terminated with repayment of their hedged bank borrowings on the same day, the balance of realised gains of US$876,000 (equivalent to HK$6,863,000) were reclassified from cash flow hedges reserve to "Other gains" for the year ended 31 December 2018.

(vi) The Group repaid four bank borrowings which was hedged by interest rate swaps and the cumulative fair value gains of HK$36,071,000 was reclassified from cash flow hedges reserve to "Other gains" for the year ended 31 December 2018 upon repayment of bank borrowings as the hedges no long met the criteria for hedge accounting.

20 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

(b) *(continued)*

The fair value changes of derivative financial instruments recognised in other comprehensive income and profit or loss are as follows:

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Recognised in other comprehensive income		
– Change in fair value of interest rate swaps (b)(i)	**47,713**	46,029
– Reclassified from other comprehensive income to profit or loss (b)(iii), (iv), (v) and (vi)	**(52,323)**	(48,467)
	(4,610)	(2,438)
Recognised in other gains of profit or loss		
– Fair value gains on interest rate swaps (b)(i) and (vi)	**26,659**	–
– Unrealised gain/(loss) on currency swap (a)	**1,124**	(9,381)
– Realised gains on interest rate swaps (b)(ii), (iii), (iv) and (v)	**16,252**	58,735
	44,035	49,354

21 OTHER LIABILITIES AND ACCRUALS

	As at 31 December 2018 HK$'000	2017 HK$'000
Deposits and fund received for lease and aircraft projects	**1,627,449**	1,520,619
Consultant and insurance premium payable	**113,052**	152,071
Value-added tax and withholding tax payables	**593,400**	477,613
Operating lease rentals received in advance	**128,014**	118,176
Amounts due to related parties (Note 34(g))	**2,973**	–
Others (including salary and bonus payable)	**270,532**	231,923
	2,735,420	2,500,402

22 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2018, 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, Asia, South America and Middle East. 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			
	2018		2017	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	**235,802**	**10%**	195,807	11%
Airline Company – B	**196,249**	**8%**	180,621	10%
Airline Company – C	**154,336**	**7%**	184,255	10%
Airline Company – D	**152,403**	**7%**	177,541	10%
Airline Company – E	**145,189**	**6%**	122,748	7%
Other airline companies	**1,450,168**	**62%**	985,246	52%
Total finance and operating lease income	**2,334,147**	**100%**	1,846,218	100%

23 NET GAIN FROM AIRCRAFT TRANSACTIONS

The net gain from aircraft transactions for the year ended 31 December 2017 represented the gain from disposal of the finance lease receivables of 21 aircraft. 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, it derecognised the corresponding finance lease receivables and recorded the gain from disposal of finance lease receivables in the consolidated financial statements.

The net gain from aircraft transactions for the year ended 31 December 2018 included the gain from disposal of the finance lease receivables of three aircraft, the gain from disposal of two aircraft to a wholly-owned subsidiary of ARI, and the gain from one lease-attached aircraft disposed to a wholly-owned subsidiary of ARI and the net gain from 18 lease-attached aircraft disposed to CAG Group by way of transferring the share interests of those wholly-owned subsidiaries which own direct interests in the lease-attached aircraft and leases, determined by comparing the net proceeds with the relevant carrying amount of net assets less transaction costs and other expenses.

24 OTHER INCOME

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Government grants (a)	**222,135**	204,207
Interest income from loans to an associate (Note 34(d))	**85,876**	71,448
Bank interest income	**18,897**	28,453
Servicer fees income from CAG Group (Note 34(e))	**5,536**	–
Operating lease income on office premises from related parties (Note 34(a))	**1,402**	1,275
Operating lease income on other assets from a related party (Note 34(c))	**2,640**	1,320
Operating lease income on office premises from an associate (Note 34(d))	**3,106**	3,790
Others	**42,089**	23,717
	381,681	334,210

(a) Government grants represent the grants received from the Mainland China government to support the development of aircraft leasing industry.

25 INTEREST EXPENSES

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Interest expense on bank borrowings and long-term borrowings	**1,162,253**	896,119
Fair value (gain)/loss on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	**(17,673)**	14,420
Interest expense on convertible bonds (a)	**7,012**	23,107
Interest expense on medium-term notes	**44,717**	43,524
Interest expense on bonds	**473,971**	430,069
	1,670,280	1,407,239
Less: Interest capitalised on qualifying assets (b)	**(247,366)**	(166,275)
	1,422,914	1,240,964

25 INTEREST EXPENSES *(continued)*

(a) Interest expense on convertible bonds consists of interest paid or payable of HK$1,862,000 (2017: HK$6,374,000) which is calculated based on interest rate of 3.0% per annum. The remaining amount represents arrangement fee based on a rate of 3.5% per annum and the notional adjustment to accrete the carrying amount of liability component of convertible bonds to the present value of estimated future cash flows expected to be required for settlement up to maturity date.

(b) Interest capitalised on qualifying assets 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.

26 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Employee benefit expenses (Note 27)	**167,369**	142,076
Value-added tax and other taxes	**83,780**	64,766
Professional service expenses	**60,493**	49,479
Rental and utilities expenses	**29,137**	26,989
Office and meeting expenses	**16,508**	15,713
Travelling and training expenses	**15,365**	15,140
Auditor's remuneration		
– Audit service	**4,345**	4,010
– Non-audit service	**3,796**	2,546
Impairment loss of finance lease receivables	**4,167**	–
Others	**32,257**	30,472
	417,217	351,191

27 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Wages, salaries and bonuses	**147,564**	116,037
Share-based compensation (Note 13(a))	**5,531**	15,185
Welfare, medical and other expenses	**14,274**	10,854
	167,369	142,076

28 OTHER GAINS

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Unrealised gain/(loss) on currency swap (Note 20)	**1,124**	(9,381)
Realised gains on interest rate swaps (Note 20)	**16,252**	58,735
Fair value gains on interest rate swaps (Note 20)	**26,659**	–
Currency exchange gains/(losses)	**18,168**	(4,282)
Interest income from CAG Group (Note 34(e))	**9,019**	–
Loss on repurchase of convertible bonds (Note 18)	**–**	(3,055)
Gain on disposal of property, plant and equipment	**–**	50
	71,222	42,067

29 INCOME TAX EXPENSES

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	**50,002**	72,250
Deferred income tax (Note 14)	**128,160**	205,327
	178,162	277,577

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at 25% (2017: 25%). The leasing income of the subsidiaries in Mainland China is subject to VAT at 16% from 1 May 2018.

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.

29 INCOME TAX EXPENSES *(continued)*

Others *(continued)*

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 2018, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Profit before income tax	**987,075**	1,012,240
Tax calculated at a tax rate of 25%	**246,769**	253,060
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	**(28,827)**	(5,230)
– Income not subject to tax	**(133,131)**	(92,036)
– Non-deductible expenses	**100,345**	118,332
– Utilisation of previously unrecognised tax losses	**(19,643)**	(4,835)
– Tax losses for which no deferred income tax assets were recognised	**12,649**	8,286
Tax charge	**178,162**	277,577

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2017 and 2018.

	Year ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company (HK$'000)	**808,913**	734,663
Weighted average number of ordinary shares in issue (number of shares in thousands)	**677,721**	675,464
Basic earnings per share (HK$ per share)	**1.194**	1.088

30 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 one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the financial period. 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	
	2018	2017
Earnings		
Profit attributable to shareholders of the Company (HK$'000)	**808,913**	734,663
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	**677,721**	675,464
Adjustment for:		
– Share options (number of shares in thousands)	**–**	2,574
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	**677,721**	678,038
Diluted earnings per share (HK$ per share)	**1.194**	1.084

31 DIVIDENDS

A final dividend of HK$0.42 per ordinary share totalling HK$284.8 million for the year ended 31 December 2017 was paid in June 2018.

An interim dividend of HK$0.22 per ordinary share totalling HK$149.0 million was paid in September 2018.

31 DIVIDENDS *(continued)*

On 21 March 2019, the Board recommended a final dividend of HK$0.44 per ordinary share totalling HK$298.0 million which is calculated based on 677,269,380 issued shares as at 21 March 2019. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2018, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Interim dividend paid of HK$0.22 (2017: HK$0.18) per ordinary share	**148,999**	122,072
Proposed final dividend of HK$0.44 (2017: HK$0.42) per ordinary share	**297,999**	284,837
Total	**446,998**	406,909

32 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	
	2018	2017
	HK$'000	HK$'000
Cash and cash equivalents	**3,990,107**	7,023,359
Bank borrowings	**(19,166,752)**	(16,458,411)
Long-term borrowings	**(5,436,443)**	(5,329,396)
Medium-term notes	**(758,831)**	(798,094)
Convertible bonds	**–**	(153,190)
Bonds	**(8,580,407)**	(8,538,932)
Net debt	**(29,952,326)**	(24,254,664)
Cash and cash equivalents	**3,990,107**	7,023,359
Gross debt – fixed interest rates	**(18,459,234)**	(17,179,564)
Gross debt – variable interest rates	**(15,483,199)**	(14,098,459)
Net debt	**(29,952,326)**	(24,254,664)

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32 NET DEBT RECONCILIATION *(continued)*

		Liabilities from financing activities					
	Cash and cash equivalents 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 and 1 January 2018	**7,023,359**	**(16,458,411)**	**(5,329,396)**	**(798,094)**	**(153,190)**	**(8,538,932)**	**(24,254,664)**
Cash flows	**(2,997,294)**	**(2,629,595)**	**(82,953)**	**–**	**160,202**	**–**	**(5,549,640)**
Currency exchange adjustments	**(35,958)**	**(29,992)**	**(7,922)**	**41,410**	**–**	**(18,118)**	**(50,580)**
Interest expense	**–**	**–**	**–**	**–**	**(7,012)**	**–**	**(7,012)**
Other non-cash movements (a)	**–**	**(48,754)**	**(16,172)**	**(2,147)**	**–**	**(23,357)**	**(90,430)**
Net debt as at 31 December 2018	**3,990,107**	**(19,166,752)**	**(5,436,443)**	**(758,831)**	**–**	**(8,580,407)**	**(29,952,326)**

(a) Other non-cash movements represent amortisation of upfront fees and issuing cost of borrowings.

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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 (ii)	–	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 (iii)	200	110	–	–	5	–	315
Ms. Chen Chia-Ling (iii)	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	200	242	–	–	119	–	561
	1,400	5,090	31,112	–	9,232	35	46,869

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' emoluments *(continued)*

Year ended 31 December 2018

	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)	–	–	5,000	–	2,654	–	7,654
Executive directors							
Mr. Poon Ho Man (ii)	–	2,261	17,341	–	–	18	19,620
Ms. Liu Wanting	–	3,452	13,541	–	670	18	17,681
Non-executive directors							
Mr. Tang Chichun	200	35	–	–	–	–	235
Mr. Guo Zibin (iii)	72	34	–	–	–	–	106
Ms. Chen Chia-Ling (iii)	72	5	–	–	44	–	121
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	200	217	–	–	–	–	417
Mr. Nien Van Jin, Robert	200	240	–	–	–	–	440
Mr. Cheok Albert Saychuan	200	245	–	–	44	–	489
Mr. Chow Kwong Fai, Edward	200	255	–	–	44	–	499
	1,144	6,744	35,882	–	3,456	36	47,262

Note:

(i) Resigned as chief executive officer on 19 January 2017

(ii) Appointed on 19 January 2017

(iii) Retired on 9 May 2018

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2018 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 2018 (2017: Nil).

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

During the year ended 31 December 2018, the five individuals whose emoluments were the highest in the Group include three directors and two individuals (2017: three directors and two individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2018, the emoluments paid to two (2017: two) remaining individuals are as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Basic salaries and allowances	**5,293**	5,795
Discretionary bonuses	**5,575**	3,264
Share-based payments	**1,317**	3,803
Other benefits	**254**	18
	12,439	12,880

The emoluments of the above two (2017: two) individuals fell within the following bands:

	Year ended 31 December	
	2018	2017
HK$4,000,001 to HK$5,000,000	**1**	1
HK$7,000,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$9,000,000	**–**	1

During the years ended 31 December 2018 and 2017, 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.

34 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 13(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

34 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with FPAM and its subsidiaries (collectively as "FPAM Group")

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Operating lease income on office premises earned from:		
Friedmann Pacific Financial Service Limited	**741**	1,275
China Airport Synergy Management Limited	**661**	–

(b) Transactions with CEL and its subsidiaries

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Operating lease expenses on office premises charged by:		
CEL Venture Capital (Shenzhen) Limited	**–**	254

(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 34.05% equity interest in the Company as at 31 December 2018. 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 Company Limited ("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.

34 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	
	2018	2017
	HK$'000	HK$'000
Interest income from CE Group	**3,697**	3,138
Interest expenses to CE Group	**280,013**	224,802
Loans upfront and arrangement fee to CE Group	**10,038**	22,378
Transactions handling charges to CE Group	**21,727**	6,966
Guarantee issuing fee to CE Group	**–**	149
Cash consideration from CE Group for disposal of finance lease receivables	**–**	2,528,720

	As at 31 December	
	2018	2017
	HK$'million	HK$'million
Bank deposits placed in CE Group	**1,724.1**	2,586.2
Borrowings due to CE Group	**4,547.6**	4,798.5
Undrawn facilities provided by CE Group	**1,335.0**	646.2

(ii) ***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 18). After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155,160,000. In May 2018, the principal amount was fully redeemed upon maturity. The interest expenses incurred at an effective interest of 11.8% amounted to HK$7,012,000 for the year ended 31 December 2018 (2017: HK$23,107,000).

(iii) ***Lease of other assets to CEL Management Services Limited ("CEL Management")***

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Operating lease income on other assets earned from:		
CEL Management	**2,640**	1,320

34 RELATED PARTY TRANSACTIONS *(continued)*

(d) Transactions with ARI and its subsidiaries (collectively as "ARI Group")

(i) Lease of office premises to ARI and service provided by Universal Asset Management, Inc.

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Operating lease income on office premises earned from:		
ARI	**3,106**	3,790
Service fee charged by:		
Universal Asset Management, Inc.	**1,607**	–

(ii) Loans to ARI

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. On 15 October 2018, a supplemental agreement was entered into to revise the interest rate to 3% per annum above the prime lending rate quoted by The Bank of China (Hong Kong) with effect from 28 November 2018.

As at 31 December 2018, the outstanding balance receivable from ARI was amounted to HK$959,111,000 (2017: HK$870,188,000) (Note 6) and interest income for the year ended 31 December 2018 was HK$85,876,000 (2017: HK$71,448,000) (Note 24).

34 RELATED PARTY TRANSACTIONS *(continued)*

(e) Transactions with CAG Group

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Interest income from CAG Group	**9,019**	–
Servicer fees income from CAG Group	**5,536**	–

(f) Disposal of aircraft to CAG Group and subsidiary of ARI

The Group has significant influence over CAG Group and ARI. During the year ended 31 December 2018, the Group disposed two aircraft to the wholly-owned subsidiary of ARI. In addition, the Group disposed one lease-attached aircraft to the wholly-owned subsidiary of ARI and 18 lease-attached aircraft to CAG Group by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in lease-attached aircraft. During the year ended 31 December 2018, the total consideration from aforementioned disposal of aircraft to wholly-owned subsidiary of ARI and CAG Group is HK$7,060.5 million (2017: Nil) and the Group recorded a net gain from aircraft transactions (Note 23) in the consolidated financial statements.

(g) Amounts due from related parties

	As at 31 December 2018 HK$'000	2017 HK$'000
ARI Group	**1,082**	588
CEL Management	**406**	–
FPAM Group	**6**	–

The above amounts due from related parties were unsecured, interest-free and repayable on demand.

(h) 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 2018 HK$'000	2017 HK$'000
Director fee, salaries, bonus and other short-term employee benefits	**54,928**	46,714
Share-based payments	**4,773**	13,035
	59,701	59,749

35 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 2018 (2017: 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	
	2018	2017
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft	**96,462,002**	76,030,351
Shareholder loan commitment to CAG Group	**228,032**	–
Additions to property, plant and equipment excluding aircraft	**–**	255
	96,690,034	76,030,606

(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	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**25,565**	15,412
Later than one year and not later than five years	**14,545**	9,774
Later than five years	**619**	1,501
	40,729	26,687

35 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(d) Operating lease arrangement – where the Group is the lessor

The Group had future minimum lease receipts under non-cancellable operating leases or sub-leases in respect of office premises and other assets as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**7,600**	5,063
Later than one year and not later than five years	**4,654**	3,960
	12,254	9,023

The above amount included the following future minimum lease receipts from related parties:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**7,421**	5,063
Later than one year and not later than five years	**4,251**	3,960
	11,672	9,023

The Group had future minimum lease receipts under non-cancellable operating leases in respect of aircraft as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**1,725,034**	1,239,800
Later than one year and not later than five years	**6,783,386**	4,871,167
Later than five years	**6,627,279**	4,406,922
	15,135,699	10,517,889

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	**1,674,666**	1,669,134
Loan and interest receivable from a subsidiary	**255,127**	–
Amounts due from subsidiaries	**831,003**	8,710,248
Prepayments and other receivables	**773**	293
Cash and cash equivalents	**4,347**	380,914
Total assets	**2,765,916**	10,760,589
EQUITY		
Share capital	**67,727**	67,818
Reserves	**1,830,231**	1,850,417
Retained earnings	**602,939**	577,698
Total equity	**2,500,897**	2,495,933
LIABILITIES		
Convertible bonds	**–**	153,190
Amounts due to subsidiaries	**2,358**	8,102,523
Interest payables	**391**	–
Bank borrowings	**253,404**	–
Other payables and accruals	**8,866**	8,943
Total liabilities	**265,019**	8,264,656
Total equity and liabilities	**2,765,916**	10,760,589

36 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 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
Balance as at 1 January 2018	**1,850,417**	**577,698**
Comprehensive income		
Profit for the year	**–**	**440,523**
Total comprehensive income	**–**	**440,523**
Transactions with shareholders		
Share option scheme:		
– Value of services	**5,531**	**–**
– Issue of new shares from exercise of share options	**7**	**–**
Buy-back of shares	**(7,143)**	**(27)**
Transfer of reserves upon maturity of convertible bonds	**(18,581)**	**18,581**
Dividends	**–**	**(433,836)**
Total transactions with shareholders	**(20,186)**	**(415,282)**
Balance as at 31 December 2018	**1,830,231**	**602,939**

37 SUBSIDIARIES

As at 31 December 2018, 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 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 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 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 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

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37 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 33-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 Aviation Assets Limited	Labuan 30 December 2015	US$100	100%	Aircraft trading	Limited liability entity
CALC Bermuda Holdings Limited	Bermuda 16 May 2018	US$1	100%	Investment holding	Limited liability entity
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR2,000,000	100%	Provision of financing	Partnership
CALC Global Leasing Limited	Ireland 18 December 2014	EUR1	100%	Investment holding	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 PDP 5 Limited	BVI 2 August 2018	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
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
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
ZF Ireland Aircraft 43 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 44 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 45 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 46 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity

37 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
ZF Ireland Aircraft 47 Limited	Ireland 22 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 51 Limited	Ireland 21 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 Yong Chun 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
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$544,233,280	100%	Investment holding	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 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
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
中飛中和融資租賃(天津)有限公司 (CALC Zhonghe Financial Leasing Limited)	PRC 8 August 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天壽租賃(天津)有限公司 (ZJ Tianshou Leasing (Tianjin) Co., LTD.)	PRC 17 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛光啟租賃(天津)有限公司 (CALC Guangqi Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛開慶租賃(天津)有限公司 (CALC Kaiqing Limited)	PRC 19 January 2015	RMB1,100,000	100%	Aircraft leasing	Limited liability entity
中飛大中租賃(天津)有限公司 (CALC Dazhong Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity

37 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
中飛乾符租賃(天津)有限公司 (CALC Qianfu Co., LTD.)	PRC 29 September 2016	RMB1,000,000	100%	Aircraft leasing	Limited liability entity
中飛景定租賃(天津)有限公司 (CALC Jingding Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天明租賃(天津)有限公司 (ZJ Tianming Leasing (Tianjin) Co., LTD.)	PRC 22 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永紹定融資租賃(上海)有限公司 (CALC Shaoding Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機始興租賃(天津)有限公司 (ZJ Shixing Leasing (Tianjin) Co., LTD.)	PRC 16 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機開明租賃(天津)有限公司 (ZJ Kaiming Leasing (Tianjin) Co., LTD.)	PRC 16 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機乾德租賃(天津)有限公司 (ZJ Qiande Leasing (Tianjin) Co., LTD.)	PRC 22 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永咸淳融資租賃(上海)有限公司 (CALC Xianchun Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機聖武租賃(天津)有限公司 (ZJ Shengwu Leasing (Tianjin) Co., LTD.)	PRC 18 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機明政租賃(天津)有限公司 (ZJ Mingzheng Leasing (Tianjin) Co., LTD.)	PRC 17 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永淳佑融資租賃(上海)有限公司 (CALC Chunyou Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永淳化融資租賃(上海)有限公司 (CALC Chunhua Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機進通租賃(天津)有限公司 (ZJ Jintong Leasing (Tianjin) Co., LTD.)	PRC 18 August 2017	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 Director

Mr. TANG Chi Chun

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. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISER

Linklaters

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY'S WEBSITE

www.calc.com.hk

INVESTOR RELATIONS CONTACT

ir@calc.com.hk

STOCK CODE 01848

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 Beijing Co, Ltd.
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
Credit Suisse Securities (USA) LLC
Dah Sing Bank Limited
Deutsche Bank AG
Development Bank of Japan Inc.
E.Sun Commercial Bank, Ltd.
EnTie Commercial Bank
The Export-Import Bank of China
Goldman Sachs (Asia) L.L.C.
Hua Nan Commercial Bank, Ltd.
Industrial Bank Co, Ltd.
Industrial and Commercial Bank of China (Asia) Limited
KDB Asia Limited
KfW IPEX-Bank GmbH
Mega International Commercial Bank Co., Ltd.
Nanyang Commercial Bank, Ltd.
Shanghai Pudong Development Bank Co., Ltd.
SinoPac Leasing Corp.
Société Générale
Taishin International Bank Co., Ltd.
Taiwan Cooperative Bank Limited
TIAA Bank
Toronto-Dominion Bank

Full Value Chain
Aircraft Solutions Provider

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