CALC

China Aircraft Leasing Group Holdings Limited

(Incorporated under the laws of the Cayman Islands with limited liability)
Stock code : 01848

Delivering the Future

ANNUAL REPORT | 2019

Contents

2 About CALC

4 Financial Highlights and Five-Year Financial Summary

6 Chairman's Statement

9 CEO's Statement

12 Management Discussion and Analysis

22 Report of the Directors

39 Corporate Governance Report

51 Risk Management Report

56 Profile of the Directors and Senior Management

62 Independent Auditor's Report

69 Consolidated Balance Sheet

70 Consolidated Statement of Income

71 Consolidated Statement of Comprehensive Income

72 Consolidated Statement of Changes in Equity

74 Consolidated Statement of Cash Flows

76 Notes to the Consolidated Financial Statements

144 Corporate Information

ABOUT CALC

CALC ("China Aircraft Leasing Group Holdings Limited") is a full value chain aircraft solutions provider for the global aviation industry, offering one-stop and value-added solutions tailored to new, mid-aged and retiring aircraft for aviation partners worldwide.

Leveraging its respective resources and synergies among its member companies, CALC Group's services cover every stage of an aircraft life cycle, including aircraft ordering and procurement; aircraft leasing, sale and leaseback, and portfolio trading; aircraft disassembly and component sales, and aircraft maintenance, repair & overhaul ("MRO").

CALC continues to deliver on its long-term commitment to the aviation industry, offering next generation aircraft services, efficient fleet management and upgrades, providing turnkey solutions to maximize value for its stakeholders in aviation industry.

At a Glance

As of 31 December 2019

134
aircraft fleet
111 owned
+ 23 managed aircraft

218
aircraft on order
(Added 40 more Airbus A321neo in January 2020)

4.6 years
average fleet age

8.2 years
average remaining lease period

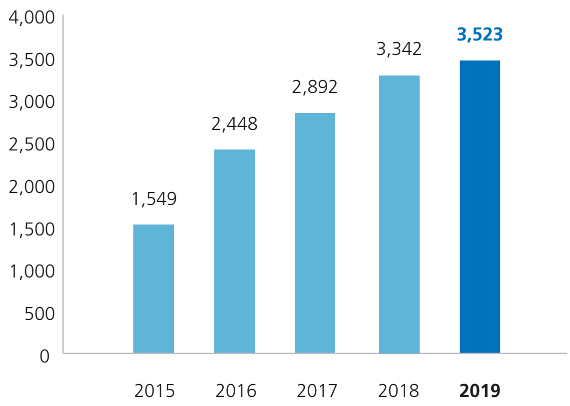
HK$43.7b
total assets

35
airline clients spread across

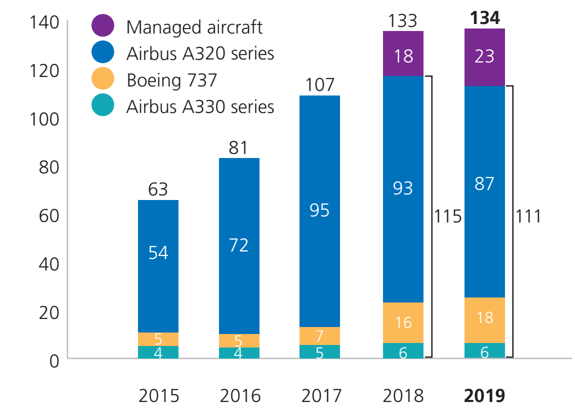
15
countries and regions

FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

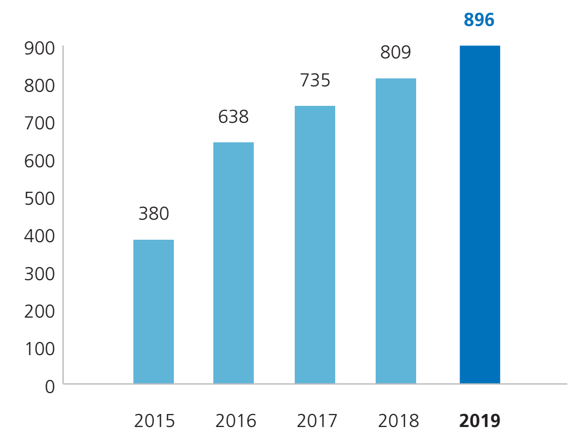
REVENUE AND OTHER INCOME
(HK$ million)



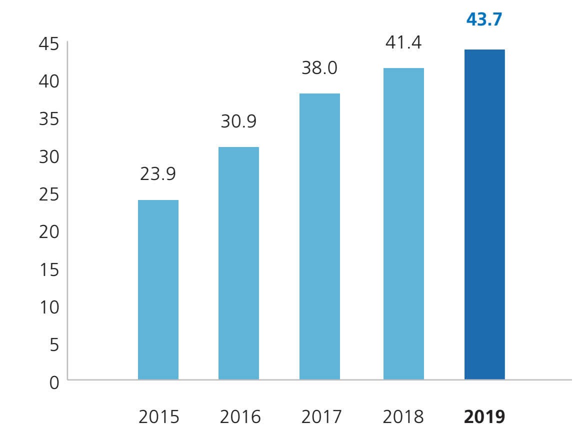
AIRCRAFT OWNED & MANAGED



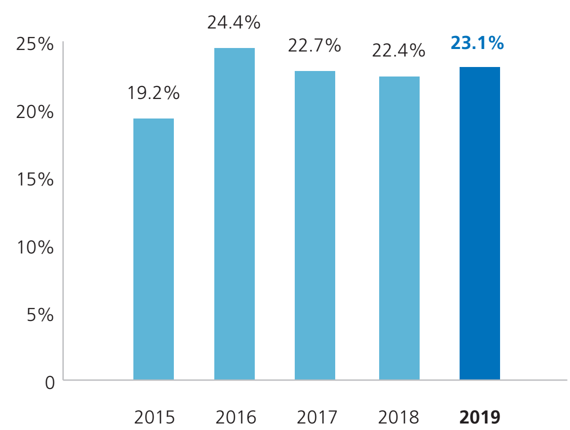
PROFIT FOR THE YEAR
(HK$ million)



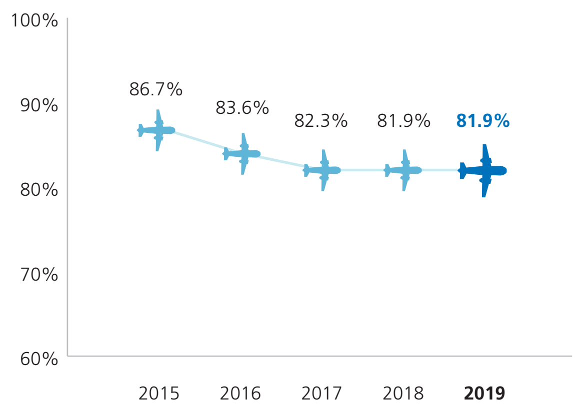
TOTAL ASSETS
(HK$ billion)



RETURN ON EQUITY



GEARING



CONSOLIDATED RESULTS

	Year ended 31 December				
	2015 HK$'m	2016 HK$'m	2017 HK$'m	2018 HK$'m	**2019 HK$'m**
Revenue and other income	1,549	2,448	2,892	3,342	**3,523**
Profit for the year	380	638	735	809	**896**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2015 HK$'m	2016 HK$'m	2017 HK$'m	2018 HK$'m	**2019 HK$'m**
ASSETS					
Property, plant and equipment and right-of-use assets	2,413	6,214	13,059	18,886	**19,611**
Interests in and loans to associates and a joint venture	–	444	870	959	**1,118**
Finance lease receivables – net	16,473	15,031	12,556	10,021	**7,791**
Financial asset at fair value through profit or loss	–	–	–	499	**753**
Derivative financial assets	19	131	91	123	**26**
Prepayments and other assets	3,444	3,063	4,022	6,772	**9,765**
Cash and bank balances	1,598	6,017	7,396	4,167	**4,587**
Total assets	23,947	30,900	37,994	41,427	**43,651**
LIABILITIES					
Total borrowings	20,767	25,826	31,278	33,942	**35,763**
Other liabilities	972	2,031	3,289	3,705	**3,918**
Total liabilities	21,739	27,857	34,567	37,647	**39,681**
Net assets	2,208	3,043	3,427	3,780	**3,970**

Per-Share-Basis	2015	2016	2017	2018	**2019**
Basic earnings per share (HK cents)	63.6	100.9	108.8	119.4	**132.3**
Net asset value per share (HK$) (note 1)	3.6	4.5	5.1	5.6	**5.9**

Financial Ratios	2015	2016	2017	2018	**2019**
Gearing ratio (total borrowings vs total assets)	86.7%	83.6%	82.3%	81.9%	**81.9%**
Return on average shareholders' equity	19.2%	24.4%	22.7%	22.4%	**23.1%**
Interest coverage (note 2)	175.8%	202.6%	207.9%	210.5%	**226.2%**

Note:

(1) Per-share-basis calculation is based on the number of shares as at 31 December.

(2) Interest Coverage = EBITDA/Interest expenses.

CHAIRMAN'S STATEMENT

ZHAO Wei
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 2019 consolidated results for the year ended 31 December 2019.

PERFORMANCE AND DIVIDENDS

CALC experienced another solid year in 2019, making impressive progress across various sectors. During the year, total lease income and other income of the Group reached HK$3,523.2 million, representing a year-on-year increase of 5.4%. Profit for the year grew by 10.8% year-on-year, amounting to HK$896.0 million. Earnings per share was HK$1.323 (2018: HK$1.194).

The Board recommended a final dividend of HK$0.48（2018: HK$0.44）per ordinary share totaling HK$325.1 million. Together with the 2019 interim dividend of HK$0.23 (2018: HK$0.22) per share, the full-year dividend will amount to HK$0.71 per share for 2019 (2018: HK$0.66), with the dividend pay-out ratio standing at 53.7% (2018: 55.3%).

BUSINESS AND STRATEGY

Building a world-leading aircraft full value chain service provider

CALC continued to advance the Company's solid infrastructure established over the years to support a larger scale of business, making great strides in developing itself into a global aircraft asset manager that provides high value-added solutions for global aviation partners.

During the year, CALC continued to maintain a fleet comprising of the most advanced and energy efficient aircraft with an optimized mix. Meanwhile, CALC further bolstered its order book with aircraft that are highly sought after in the market. The strong order book has put CALC in the league of top global lessors worldwide, and is an important asset for the Group to consolidate its market leadership going forward.

Over the years, the Group has observed a rising demand for quality aircraft portfolios in the secondary market. As such, CALC has put its portfolio trading business as a strategic priority to tap into interest from the aviation investment community, who see the unique value of aircraft with its attractive long-term returns and strong asset liquidity. The past year saw CALC's remarkable achievements made in the opening up of numerous aircraft investment platforms, allowing its asset-light model to further evolve, and facilitate enlarged business capacity.

Furthermore, the Group made steady growth in its business segments along the aviation industry chain, including aircraft maintenance, repair and overhaul ("MRO"), disassembly and components support. CALC will continue to work towards improving its asset management capability through providing comprehensive and tailored aftermarket services that serve customers' specific requirements.

Reinforcing asset management capability via proactive aviation fund deployment

Leveraging its professional expertise along aviation value chain operations, together with its relationships with all aviation stakeholders that were gained and deepened over the past decade, CALC has a well-established one-stop aircraft solutions platform that serves to maximize value for all.

Riding on its consolidating role as an asset manager for this one-stop aircraft solutions platform, CALC is reinforcing its core competency to set up specialized aviation-related funds in collaboration with its major shareholder China Everbright Limited ("CEL"), capitalizing on the latter's proven fund management capability. With a common vision to nourish the growth of an aviation ecosystem, it will be a concerted effort of CALC and CEL in connecting aviation, a traditionally capital-intensive industry, with a modern fund management approach, while maximizing returns for its investors.

CALC intends to set up funds specializing in aircraft leasing, used aircraft portfolio management, aviation aftermarket services, component support and airline operations in order to extend economic benefits to the fullest through proactive fund management. Beyond that, CALC is also accelerating the process of increasing connectivity to the Belt and Road Initiative by establishing the Air Silk Road Fund. Through this Fund, the Group will mull opportunities in aviation in countries and regions along the Belt and Road, and contribute to China's aviation industry.

These initiatives will sharpen CALC's core competitiveness in aircraft servicing and management, and at the same time open up more opportunities to fuel its further global expansion, moving towards building a "world-leading aircraft leasing company". This will also further support CEL in pursuing a "world-leading cross-border asset management company", another essential pillar under China Everbright Group's "Four World-leading" master blueprint.

The aviation industry is facing challenges in the upcoming year, with pressure building given that the industry has been tackling geopolitical, macroeconomic and industry headwinds as well as the recent Coronavirus Disease 2019 ("COVID-19") outbreak. While it will remain prudent in its business operations and be cautious of factors that are causing uncertainties in the market, CALC will continue to make solid preparations and strengthen its extended business fundamentals for growth in the future.

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 the greatest appreciation to all the staff. Finally, allow me to thank our business partners and other stakeholders for their continuing support and trust in CALC.

ZHAO Wei
Chairman of the Board
Hong Kong, 4 March 2020

CEO'S STATEMENT

POON Ho Man
Executive Director and
Chief Executive Officer

FORGING AHEAD TO TRANSFORM AS A FULL LIFE CYCLE AIRCRAFT SOLUTIONS PROVIDER

China Aircraft Leasing Group Holdings Limited ("CALC" or the "Company", together with its subsidiaries, the "Group") is pleased to announce another year of steady growth, despite global market uncertainties and headwinds in the aviation industry.

Underscoring CALC's success is its flexibility to adapt to ever-changing market conditions. The Company has put continuous endeavors to implement its special expertise as a full life cycle aircraft solutions provider, putting it in a unique market position that spearheads other global aircraft lessors through the establishment of its aviation ecosystem, which integrates the demands of its stakeholders in the global aviation industry.

During the year, CALC proactively explored various channels for aircraft acquisition and numerous aircraft investment platforms to refine its business cycle. Moreover, CALC continued to diversify its financing channels in both onshore and offshore markets, in order to power its asset-light model and support its growing business scale — hence ensuring the Group's long-term business growth with promising prospects.

2019 BUSINESS REVIEW

(1) Fleet Optimization

CALC continued to identify market opportunities for fleet portfolio optimization, backed by a diverse range of sourcing channels, including its new aircraft order book, purchase and leaseback arrangements, and aircraft acquisitions from the secondary market. During the year under review, the Group delivered 11 aircraft. As of 31 December 2019, CALC has 134 aircraft in its fleet, including 111 owned and 23 managed aircraft.

CALC maintained one of the youngest and most modern fleets in the industry. Its self-owned fleet has an average age of 4.6 years and average remaining lease period of 8.2 years as at 31 December 2019, and a high utilization rate with 99.1% of its aircraft in operation. During the year under review, CALC's aircraft were on lease to 35 airlines in 15 countries and regions, with overseas airlines taking up 32% of the leased fleet.

A strong order book has been the driving force behind CALC's sustainable business growth. As of 31 December 2019, CALC had 218 aircraft in its order book, including 125 Airbus and 93 Boeing aircraft, the majority of which are narrow body models which are seeing enormous market appetite. It is worth mentioning that the Company delivered two Boeing 787 Dreamliner passenger jets from its order book to an Asian airline in December 2019 and January 2020, marking the Group's first wide body aircraft in its fleet from a direct order, and kicking off the Group's supply of a new type of aircraft for its clients.

In addition, CALC announced its order for 40 new Airbus A321neo aircraft in January 2020. Such a strong position is a remarkable achievement, underpinned by the Company's decade-long strategic partnership with aircraft manufacturers and its growing influence in the global aviation industry. It is also a strong endorsement of CALC's active development as an asset manager in the aircraft value chain. Together with its asset-light model, CALC is well-equipped to further strengthen its order book, which is expected to drive its business growth in the long run.

(2) Enduring Asset-light Model and Asset Lifecycle Management

CALC continued to press ahead with the multi-faceted development of its asset-light business model through the management of aviation-related funds and establishment of new investment platforms. This model creates higher capital efficiency by ensuring a reasonable debt level while the Company expands its aircraft leasing and trading business.

In 2018, CALC joined hands with four leading state-owned enterprises as mezzanine financiers, held at a ratio of 20% and 80%, to roll out the global aircraft investment vehicle — CAG Bermuda 1 Limited and its subsidiaries ("CAG"). The total asset size of CAG is around US$1.34 billion. During the year, CALC injected seven more aircraft into its CAG fund. As its servicer, the Company arranged the sale of two aircraft from its CAG portfolio. The total number of aircraft under the Group's management was 23 as of 31 December 2019.

In December 2019, CALC joined hands with Aircraft Recycling International Limited ("ARI"), an associate company of CALC, and some other investors to set up another aircraft investment vehicle ARG Cayman 1 Limited ("ARG"). ARG will invest in old aircraft portfolios on lease to airlines and trading of parts and components, while CAG is investing in youngish aircraft portfolios on lease to global airlines. ARG is expected to have assets of around US$350 million and ARI will be a servicer to ARG.

The Group also further developed its aircraft portfolio trading business, responding to investors' high demand for quality aircraft assets with long-term and stable cash flow and strong liquidity. In 2019, CALC sold eight aircraft from its portfolio (seven to third parties, and one to ARI). The sale of aircraft from the Company's portfolio will be another important approach in aircraft asset management when implementing the Group's asset-light strategy in the future.

(3) Creating Synergy in Full Aviation Value Chain Operation

During the year, the Group continued to garner the respective advantages of its member companies to maximize operating synergy. As of 31 December 2019, ARI had five engines and five mid-aged aircraft on lease.

Leveraging CALC's flexible aircraft asset management capabilities and ARI's established used aircraft solutions platforms, the Group completed its first cross-border transaction between CALC and China Southern Air Leasing Limited Company with the purchase of an old aircraft portfolio including three A320 aircraft and one A320 airframe.

In October 2019, the Group's MRO arm, FL ARI Aircraft Maintenance & Engineering Company Ltd, became China's first accredited disassembler to obtain accreditations for aircraft disassembly from the Civil Aviation Administration of China ("CAAC") and officially launched its MRO service during the year. This will further render operating synergy to the Group's other business segments as part of its push to implement its full value chain strategy.

(4) Exploring Channels to Enlarge Financing Scale

To further strengthen its financing capabilities, the Group further explored financing channels in China, as well as overseas. In May 2019, the Group completed a five-year unsecured revolving syndicated loan to finance its Pre-Delivery Payments ("PDP"), the first revolving type of its syndicated loan for new aircraft orders, attracting a total of 17 banks — a number of which were making their first foray into the aviation finance sector. Thanks to the overwhelming market response, the syndicated loan, which was launched at US$300 million, closed at US$840 million, making it one of the largest deals of its kind globally. The revolving nature of such facilities allows CALC to substantially increase the number of its aircraft under order book being financed.

In June, the Group issued its first three-year senior unsecured RMB bond in China. As a result of oversubscription, the bond's issued scale rose from its initial size of RMB500 million to RMB1 billion. In August, the Group issued three-year senior unsecured RMB800 million medium-term notes.

STRATEGIC OUTLOOK

The year 2019 saw a tougher-than-expected business environment for the aviation industry, amid slowing global economic growth and market uncertainty surrounding geopolitical tensions. The commercial aviation sector also experienced a decline in deliveries in 2019 due to delays in the supply of narrow body aircraft.

Looking to 2020, the global economy is projected to grow at a modest pace with signs of slowdown in China, which has been further dented by the recent outbreak of COVID-19. Although the crisis is widely expected to be temporary, the effects are still spilling into the aviation industry amidst uncertainty over the Boeing 737 Max's return to service. Despite these challenges, the industry consensus still holds that the long-term demand for commercial aircraft will continue to remain robust, with 40,000 units likely to be required by airlines around the world over the next two decades and Asia Pacific will eventually dominate the global aviation industry. This will provide fertile soil for the Group's consistent growth for the years to come.

With our vision of carrying through full aviation value chain operation and a well-positioned asset-light model, CALC is committed to offering tailored services that cater to clients' specific fleet planning and management requirements, specializing in bundled transactions such as new deliveries, fleet trade-ins, disposals and forward commitments. CALC will also leverage on its major shareholder, CEL's proven fund management track record, combined with its aviation operation expertise, to launch aviation-related funds. Looking forward, CALC will continue to connect various stakeholders such as aircraft OEMs, airlines and aviation investors along the full aviation value chain, and deliver turnkey solutions to maximize value for all.

POON Ho Man
Executive Director and Chief Executive Officer
Hong Kong, 4 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

Total revenue and other income of the Group was HK$3,523.2 million in 2019, an increase of HK$181.7 million or 5.4% from HK$3,341.5 million in 2018. Profit for the year in 2019 amounted to HK$896.0 million, an increase of HK$87.1 million or 10.8% compared with HK$808.9 million in 2018. For the year ended 31 December 2019, the fleet size of the Group was 134 aircraft, including 111 owned aircraft and 23 managed aircraft (2018: the fleet size of the Group was 133 aircraft, including 115 owned aircraft and 18 managed aircraft).

Total assets amounted to HK$43,651.3 million as at 31 December 2019, compared with HK$41,427.1 million as at 31 December 2018, an increase of HK$2,224.2 million or 5.4%. The increase in assets was mainly due to the increase in Pre-Delivery Payment ("PDP") made to aircraft manufacturers for aircraft acquisition from order book. Total liabilities amounted to HK$39,681.6 million, an increment of HK$2,034.3 million or 5.4% compared with HK$37,647.3 million as at 31 December 2018.

The equity attributable to shareholders of the Company was HK$3,969.7 million as at 31 December 2019 compared with HK$3,779.9 million as at 31 December 2018, an increase of HK$189.8 million or 5.0%.

2. ANALYSIS OF INCOME AND EXPENSES

	Year ended 31 December		
	2019 HK$'Million	2018 HK$'Million	Change
Finance lease income	**664.3**	792.5	−16.2%
Operating lease income	**1,796.2**	1,541.6	16.5%
	2,460.5	2,334.1	5.4%
Net income from aircraft transactions and aircraft trading	**594.9**	625.7	−4.9%
Government grants	**265.1**	222.1	19.4%
Interest income from loans to associates and a joint venture	**74.4**	85.9	−13.4%
Bank interest income	**24.2**	18.9	28.0%
Other income	**104.1**	54.8	90.0%
	1,062.7	1,007.4	5.5%
Total revenue and other income	**3,523.2**	3,341.5	5.4%
Total operating expenses	**(2,555.6)**	(2,425.6)	5.4%
Share of results from associates and a joint venture and other gains	**72.9**	71.2	2.4%
Profit before income tax	**1,040.5**	987.1	5.4%
Income tax expenses	**(144.5)**	(178.2)	−18.9%
Profit for the year	**896.0**	808.9	10.8%

2.1 Total Revenue and Other Income

For the year ended 31 December 2019, the total revenue and other income amounted to HK$3,523.2 million, compared with HK$3,341.5 million in 2018, an increase of HK$181.7 million or 5.4%.

Total lease income from finance leases and operating leases for the year 2019 amounted to HK$2,460.5 million, compared with HK$2,334.1 million in 2018, an increase of HK$126.4 million or 5.4%. The decrease in finance lease income was due to the decrease in fleet size under finance lease from 62 aircraft as at 31 December 2018 to 53 aircraft as at 31 December 2019. The growth in operating lease income was attributable to the increase in fleet size under operating leases from 52 as at 31 December 2018 to 57 as at 31 December 2019.

For the year ended 31 December 2019, the Group's average lease rental yield of the finance leases and operating leases was 12.6% (2018: 11.7%) and 9.3% (2018: 9.2%), 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.

In 2019, the Group recognised net gain from disposal of 15 aircraft amounted to HK$585.3 million with aggregate net book value of HK$5,520.3 million.

In 2018, the Group recognised net gain from disposal of 21 aircraft amounted to HK$571.0 million with aggregate net book value of HK$6,461.3 million.

Government grants for the year amounted to HK$265.1 million, compared with HK$222.1 million in 2018, an increase of HK$43.0 million or 19.4%. The increase in government grants was mainly due to increase in the number of aircraft that entitled to the government grants.

2.2 Total Operating Expenses

During the year ended 31 December 2019, the Group had the following operating expenses.

	Year ended 31 December		
	2019 HK$'Million	2018 HK$'Million	Change
Interest expenses	**1,422.8**	1,422.9	0.0%
Depreciation	**755.1**	585.5	29.0%
Other operating expenses	**377.7**	417.2	−9.5%
Total operating expenses	**2,555.6**	2,425.6	5.4%

(a) Interest Expenses

For the year ended 31 December 2019, interest expenses incurred by the Group amounted to HK$1,422.8 million, was closed to HK$1,422.9 million in 2018.

(b) Depreciation

The amount represented depreciation on aircraft under operating leases, leasehold improvements, office equipment, office building, right-of-use assets and other assets. Depreciation for the year ended 31 December 2019 was HK$755.1 million compared with HK$585.5 million in 2018, an increase of HK$169.6 million or 29.0%. This was mainly 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 decrease in other operating expenses was mainly due to the Group perform the cost control on operating expenses during the year. In addition, after the new adoption of HKFRS 16, "Leases", depreciation expenses of right-of-use assets (previously booked as rental expense) amounted to HK$19.8 million was recognised for the year ended 31 December 2019, such rental expenses of HK$26.3 million was recognised under other operating expenses in 2018.

2.3 Share of Results from Associates and a Joint Venture and Other Gains

The amount mainly represents currency exchange gains and interest income from CAG Bermuda 1 Limited ("CAG") during the year.

2.4 Income Tax Expenses

Income tax for the year ended 31 December 2019 was HK$144.5 million (2018: HK$178.2 million). Decrease in the amount was mainly due to the reversal of previous tax provision upon disposal of certain aircraft during the year.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 31 December 2019, the Group's total assets amounted to HK$43,651.3 million compared with HK$41,427.1 million as at 31 December 2018, an increase of HK$2,224.2 million or 5.4%.

The majority of total assets as at 31 December 2019 represented finance lease receivables of HK$7,790.5 million (2018: HK$10,020.8 million), property, plant and equipment and right-of-use assets of HK$19,611.5 million (2018: HK$18,886.3 million) and PDP of HK$8,405.1 million (2018: HK$6,236.3 million).

	As at 31 December		
	2019 HK$'Million	2018 HK$'Million	Change
Property, plant and equipment and right-of-use assets	**19,611.5**	18,886.3	3.8%
Interests in and loans to associates and a joint venture	**1,117.6**	959.1	16.5%
Finance lease receivables – net	**7,790.5**	10,020.8	−22.3%
Financial asset at fair value through profit or loss	**752.9**	499.3	50.8%
Derivative financial assets	**26.3**	123.2	−78.7%
Prepayments and other assets	**9,765.1**	6,771.9	44.2%
Cash and bank balances	**4,587.4**	4,166.5	10.1%
Total assets	**43,651.3**	41,427.1	5.4%

3.1.1 *Finance Lease Receivables – Net and Property, Plant and Equipment and Right-of-use Assets*

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$10,020.8 million as at 31 December 2018 to HK$7,790.5 million as at 31 December 2019 because the Group reclassified eight aircraft from finance lease to operating lease during 2019.

Property, plant and equipment and right-of-use assets mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. The increase in property, plant and equipment and right-of-use assets was mainly due to aircraft delivered during 2019 under operating leases.

3.1.2 *Prepayments and Other Assets*

Prepayments mainly represented PDP made to aircraft manufacturers for aircraft acquisition from order book.

3.2 Liabilities

As at 31 December 2019, the Group's total liabilities amounted to HK$39,681.6 million, compared with HK$37,647.3 million as at 31 December 2018, an increase of HK$2,034.3 million or 5.4%.

An analysis is given as follows:

	As at 31 December		
	2019 HK$'Million	2018 HK$'Million	Change
Borrowings	**26,881.2**	24,603.2	9.3%
Bonds	**7,245.4**	8,580.4	−15.6%
Medium-term notes	**1,636.5**	758.8	115.7%
Deferred income tax liabilities	**746.4**	670.4	11.3%
Interest payables	**269.3**	269.8	−0.2%
Income tax payables	**7.3**	29.3	−75.1%
Derivative financial liabilities	**129.6**	–	N/A
Other liabilities and accruals	**2,765.9**	2,735.4	1.1%
Total liabilities	**39,681.6**	37,647.3	5.4%

3.2.1 *Borrowings*

The analysis of borrowings is as follows:

	As at 31 December		
	2019 HK$'Million	2018 HK$'Million	Change
Bank borrowings			
Bank borrowings for aircraft acquisition financing	**14,818.9**	15,634.4	−5.2%
PDP financing	**5,327.1**	3,455.3	54.2%
Other unsecured bank borrowings	**1,427.6**	77.1	1,751.6%
	21,573.6	19,166.8	12.6%
Long-term borrowings			
Borrowings from trust plans	**4,971.6**	5,114.3	−2.8%
Other borrowings	**336.0**	322.1	4.3%
	5,307.6	5,436.4	−2.4%
Total borrowings	**26,881.2**	24,603.2	9.3%

3.2.2 *Bonds*

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

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK$'Million)	Note
May 2016	Three years	May 2019	5.9%	–	–	(a)
August 2016	Five years	August 2021	4.9%	US$300.0	2,316.7	(b)
March 2017	Five years	March 2022	4.7%	US$300.0	2,262.7	(b)
March 2017	Seven years	March 2024	5.5%	US$200.0	1,551.5	
				US$800.0	6,130.9	(c)
June 2019	Three years	June 2022	5.2%	RMB1,000.0	1,114.5	(d)
Total bonds					7,245.4	

(a) In May 2019, the Group fully repaid the three-year US$300.0 million (equivalent to approximately HK$2,352.8 million) senior unsecured bonds, bearing coupon interest at 5.9% per annum at maturity date.

(b) In August and September 2019, the Group repurchased certain amount of bonds on the Hong Kong Stock Exchange for a lump sum payment of US$9,371,000. The carrying amount of the bonds in an aggregate principal amount of US$9,970,000. A net gain of US$575,000 (equivalent to approximately HK$4,505,000) was recognised after deducting the transaction cost.

(c) These bonds are listed on the Hong Kong Stock Exchange.

(d) The bond is listed on the Shanghai Stock Exchange.

3.2.3 *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	Principal amount (RMB Million)	Carrying amount (HK$ Million)
July 2015	Five years	July 2020	6.50%	340.0	379.5
November 2016	Five years	November 2021	4.19%	330.0	367.3
August 2019	Three years	August 2022	4.93%	800.0	889.7
				1,470.0	**1,636.5**

As at 31 December 2019, after deducting the issuing cost, the total carrying amount of these medium-term notes was RMB1,463.9 million (equivalent to HK$1,636.5 million).

4. ANALYSIS OF CASH FLOWS

The following table illustrates the cash position and cash flows for the year ended 31 December 2019:

		Year ended 31 December	
		2019	2018
		HK$'Million	HK$'Million
I:	Aircraft in operation		
	Lease income	**2,261.4**	2,233.4
	Bank interest and repayment	**(1,910.9)**	(1,820.4)
		350.5	413.0
II:	Aircraft purchase and delivery		
	Capital expenditure	**(3,771.1)**	(10,568.4)
	Bank borrowings	**3,405.3**	7,810.4
		(365.8)	(2,758.0)
III:	New aircraft not yet delivered		
	PDP paid	**(4,036.7)**	(3,931.3)
	PDP refunded	**822.8**	1,133.7
	PDP financing	**4,243.0**	2,425.4
	PDP financing interest and repayment	**(2,589.0)**	(838.6)
		(1,559.9)	(1,210.8)
IV:	Net capital movement		
	Buy-back of shares, including transaction costs	**–**	(7.3)
	Dividends paid	**(453.8)**	(433.8)
	Proceeds from disposal of finance lease receivables and aircraft and proceeds from long-term borrowings	**5,792.3**	7,694.3
	Loan repayment on disposal of finance lease receivables and aircraft	**(3,219.5)**	(4,285.7)
	Net payment from borrowings	**(237.5)**	–
	Net proceeds from issuance of bonds and medium-term notes	**2,057.5**	–
	Bonds repurchase, interest and repayment	**(2,806.9)**	–
	Net payments relating to loans to associates and a joint venture	**(84.0)**	(3.0)
	Convertible bonds repurchase, interest and repayment	**–**	(160.2)
	(Placement)/release of deposits pledged in respect of borrowings and derivative financial instruments	**(61.0)**	180.3
	Investment in financial asset at fair value through profit or loss	**(208.6)**	(490.3)
	Net proceeds/(net payment) from other unsecured bank borrowings and net cash generated from/(used in) other operating activities	**1,192.4**	(1,935.8)
		1,970.9	558.5
Net increase/(decrease) in cash and cash equivalents		**395.7**	(2,997.3)
Cash and cash equivalents at beginning of the year		**3,990.1**	7,023.4
Currency exchange difference on cash and cash equivalents		**(33.5)**	(36.0)
Cash and cash equivalents at end of the year		**4,352.3**	3,990.1

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 2019, 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 2019 HK$'Million	As at 1 January 2019 Restated HK$'Million	Change
Interest-bearing debts included in total liabilities	**35,763.1**	33,942.4	5.4%
Total assets	**43,651.3**	41,456.5	5.3%
Gearing ratio	**81.9%**	81.9%	—

6. HUMAN RESOURCES

As at 31 December 2019, staff of the Group numbered 169 (2018: 184). Total remuneration of employees for 2019 amounted to HK$182.5 million (2018: HK$167.4 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 2019 (2018: Nil).

7.2 Capital Commitments for Aircraft Acquisition and Qualified Aircraft Leasing Activity

The Board confirms that the Company is a listed company actively engaged in aircraft leasing with aircraft operators as principal business in its ordinary and usual course of business and the Company is therefore a Qualified Aircraft Lessor (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited) (the "Stock Exchange"). Acquisition or disposal of aircraft is a Qualified Aircraft Leasing Activity pursuant to the Listing Rules.

The Group's total aircraft purchase commitment amounted to HK$86.1 billion as at 31 December 2019 (2018: HK$96.5 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 31 December 2019, the Group had 218 aircraft in its order book, comprising 125 Airbus A320neo family aircraft and 92 Boeing B737 aircraft and 1 Boeing B787 aircraft, which will be delivered in stages by the end of 2024.

During the year under review, the Group completed the disposal of 15 aircraft.

7.3 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$737.4 million), of which US$90.1 million (equivalent to approximately HK$701.6 million) had been drawn down up to 31 December 2019. The Group's outstanding committed shareholder loan for investment in CAG as at 31 December 2019 was amounted to US$4.6 million (equivalent to approximately HK$35.6 million).

7.4 Shareholder Loan Commitment for Investment in ARG Cayman 1 Limited ("ARG")

The Group has committed shareholder loan for investment in ARG amounting to approximately US$30.0 million (equivalent to approximately HK$233.6 million), of which US$13.3 million (equivalent to approximately HK$103.8 million) had been drawn down up to 31 December 2019. The Group's outstanding committed shareholder loan for investment in ARG as at 31 December 2019 was amounted to US$16.7 million (equivalent to approximately HK$129.8 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 EVENTS

On 16 January 2020, the Group entered into an agreement with Airbus S.A.S ("Airbus") to purchase 40 additional aircraft which such agreement was executed in a form of a supplement agreement to the aircraft purchase agreements with Airbus dated 1 December 2014.

On 4 March 2020, CALC IDN Limited ("CALC IDN"), a wholly-owned subsidiary of the Company, entered into the subscription agreement with Aviation Synergy Limited ("Aviation Synergy"), pursuant to which Aviation Synergy agreed to allot and issue, and CALC IDN agreed to subscribe for, 28,000,000 Aviation Synergy's shares at a total consideration of US$28.0 million (equivalent to approximately HK$218.4 million). Aviation Synergy is mainly engaged in provision of commercial air transportation services in Indonesia.

The outbreak of COVID-19 has caused disruptions to many industries, including aviation, in China as well as other countries and regions. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The Group will closely monitor the development of the epidemic and assess its impact on its operations.

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 2019 together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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 globally.

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 6 to 8) and the CEO's Statement (on pages 9 to 11). Description of the principal risks and uncertainties facing by the Group can be found in the Risk Management Report (on pages 51 to 55). 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 4 to 5) and the Management Discussion and Analysis (on pages 12 to 21). Discussions on the Group's environmental policies and performance, and compliance with relevant laws and regulations are included in the separate Environmental, Social and Governance Report and the section of this annual report headed the Corporate Governance Report (on pages 39 to 50). 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 9 to 11) and the Corporate Governance Report (on pages 39 to 50) as well as the separate Environmental, Social and Governance Report.

The above sections or reference form part of the Report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of income on page 70 of this annual report.

The Directors have declared an interim dividend of HK$0.23 per share, totaling approximately HK$155.8 million which was paid on 26 September 2019.

The Board has recommended the payment of a final dividend of HK$0.48 per share (2018: HK$0.44 per share) in respect of the year ended 31 December 2019 to shareholders of the Company whose names appear on the register of members of the Company (the "Register of Members") on 15 May 2020. Shareholders of the Company will be given the option to receive the proposed 2019 final dividend in new shares in lieu of cash (the "Scrip Dividend Arrangement"). The Scrip Dividend Arrangement is subject to: (1) approval of the proposed 2019 final dividend at the annual general meeting of the Company to be held on 17 April 2020 (the "AGM"); and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

A circular containing details of the Scrip Dividend Arrangement will be despatched to the shareholders of the Company together with the form of election for scrip dividend in May 2020. Dividend warrants and share certificates in respect of the proposed 2019 final dividend are expected to be despatched to the shareholders of the Company on or about 29 June 2020.

DIVIDEND POLICY

The Company has a dividend policy matching its financial strategy, which aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements. The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Memorandum and Articles of Association of the Company and all applicable laws and regulations. The Board shall also take into account various factors of the Group when considering the declaration and payment of dividends. The Board will review the Dividend Policy as appropriate from time to time.

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 9 April 2020
(b)	Closure of Register of Members	10 April 2020 to 17 April 2020 *(both dates inclusive)*

(ii) For determining entitlement to the final dividend:

(a)	Latest time to lodge transfer documents for registration	4:30 pm on 13 May 2020
(b)	Closure of Register of Members	14 May 2020 to 15 May 2020 *(both dates inclusive)*
(c)	Record date	15 May 2020

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 54, 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 4 to 5 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

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 2019 are set out in Note 17 to the consolidated financial statements.

EQUITY LINKED AGREEMENTS

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 the Directors headed the Post-IPO Share Option Scheme.

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

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 ("2021 Bonds"). The 2021 Bonds were listed on the Stock Exchange. In September 2019, the Group repurchased the principal amount of US$1,670,000 of 2021 Bonds on the Stock Exchange for a payment of US$1,615,000.

In March 2017, the Group issued five-year US$300 million senior unsecured bonds due in 2022, bearing coupon interest at 4.7% per annum ("2022 Bonds"). The 2022 Bonds were listed on the Stock Exchange. In August and September 2019, the Group repurchased the principal amount of US$8,300,000 of 2022 Bonds on the Stock Exchange for a payment of US$7,756,000.

Save as disclosed above, during the year ended 31 December 2019, 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 72 to 73 of this annual report and Notes 13 and 34 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2019, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$2,463,233,000 are set out in Note 34 to the consolidated financial statements.

CHARITABLE DONATIONS

The Group's external charitable donations for the year amounted to HK$296,000.

DIRECTORS

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

Executive Directors

Mr. ZHAO Wei *(Chairman)* (appointed on 10 May 2019)
Mr. CHEN Shuang, *JP* *(Chairman)* (resigned on 10 May 2019)
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*

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. POON Ho Man, Mr. NIEN Van Jin, Robert and Mr. CHEOK Albert Saychuan 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. Accordingly, Mr. ZHAO Wei, being a director appointed by the Board on 10 May 2019, shall retire from office and, being eligible, will offer himself for re-election at the AGM.

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

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (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. CHEOK Albert Saychuan resigned as the independent non-executive chairman of International Standard Resources Holdings Limited (stock code: 91), a company listed in Hong Kong, on 3 September 2019.

Mr. CHOW Kwong Fai, Edward, *JP* was appointed as an independent non-executive director of Huali University Group Limited (stock code: 1756) on 16 August 2019, which was listed in Hong Kong on 25 November 2019, and resigned as an independent non-executive director of Redco Properties Group Limited (stock code: 1622), a company listed in Hong Kong, on 26 November 2019.

The detailed biographies of Directors are disclosed in the section headed "Profile of the Directors and Senior Management" on pages 56 to 61 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 2019.

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 56 to 61 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 Listing Rules 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 2019 are set out in Note 31(a) to the consolidated financial statements.

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

As at 31 December 2019, 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 Share held	Total interests	Approximate percentage of Shares in issue(2)
POON Ho Man	Interest of controlled corporation	197,554,589(3)		
	Interest of spouse	3,800,000(4)	201,354,589	29.73%
LIU Wanting	Interest of controlled corporation	10,000,000(5)		
	Beneficial owner	3,000,000(6)	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(6)	205,000	0.03%
CHOW Kwong Fai, Edward	Beneficial owner	200,000(6)	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 2019.

(3) 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, 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.

(4) 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 31 to this annual report.

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

(6) 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 30 to 31 to this annual report.

Save as disclosed above, as at 31 December 2019, 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 in this annual report, 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 2019 (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 2019, 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	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	241,595,479[3]	241,595,479[3]	35.67%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	241,595,479[4]	241,595,479[4]	35.67%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	241,595,479[5]	241,595,479[5]	35.67%
Central Huijin Investment Limited ("Huijin Limited")	Interest of controlled corporation	241,595,479[5]	241,595,479[5]	35.67%
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 2019.

(3) CEL was deemed to be interested in 208,979,479 and 32,616,000 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 31 to this annual report.

Save as disclosed above, as at 31 December 2019, 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.

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 14,974,000 Shares (as at 21 March 2019, the date of the 2018 annual report: 25,474,000 Shares) which represented approximately 2.2% (as at 21 March 2019: 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.

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

Name of grantees	Date of grant	Number of Shares under options					Share price	
		At 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019	Exercise price per Share HK$	Exercise period
Directors								
LIU Wanting	22/7/2016	3,000,000	–	–	–	3,000,000	8.80	up to 21/7/2020
CHEOK Albert Saychuan	22/7/2016	200,000	–	–	–	200,000	8.80	up to 21/7/2020
CHOW Kwong Fai, Edward	22/7/2016	200,000	–	–	–	200,000	8.80	up to 21/7/2020
Sub-total		**3,400,000**	**–**	**–**	**–**	**3,400,000**		
Connected Persons								
Christina NG (Note 1)	22/7/2016	3,800,000	–	–	–	3,800,000	8.80	up to 21/7/2020
CHEN Shuang (Note 2)	22/7/2016	10,000,000	–	–	(10,000,000)	–	8.80	up to 21/7/2020
Sub-total		**13,800,000**	**–**	**–**	**(10,000,000)**	**3,800,000**		
Senior Management and other Employees	22/7/2016	**8,274,000**	**–**	**–**	**(500,000)**	**7,774,000**	8.80	up to 21/7/2020
Total		**25,474,000**	**–**	**–**	**(10,500,000)**	**14,974,000**		

Notes:

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

(2) Mr. CHEN Shuang resigned from the position of the Chairman of the Board and an executive Director of the Company effective 10 May 2019. Mr. CHEN also resigned as a director of a subsidiary of the Company effective 3 November 2019.

Principal Terms of Post-IPO Share Option Scheme

The principal terms of the Post-IPO Share Option Scheme are as follows:

(a) Purpose of the Post-IPO Share Option Scheme

The purpose of the Post-IPO Share Option Scheme is to provide incentives or rewards to the participants for their contribution to the growth of 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 Post-IPO Share Option Scheme becomes effective to make offers to any participant, as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, to take up options to subscribe for Shares, being a board lot for dealing in Shares on the Main Board or an integral multiple thereof at a price to be determined by the Board. For the purpose of the Post-IPO Share Option Scheme, options may be granted to any company wholly-owned by a participant.

(c) Subscription price for Shares

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.

(d) Consideration for the option

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

(e) Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under 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.

(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 Post-IPO Share Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than ten years from the date of grant of the option and the Board may at its discretion determine the minimum period for which the option has to be held or restrictions before the exercise of the subscription right attaching to an option.

(h) ***Duration of the Post-IPO Share Option Scheme***

The Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Post-IPO Share Option Scheme and in such event no further options shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the options (to the extent not already exercised) granted prior to such termination or otherwise as may be required in accordance with the provision of Post-IPO Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

Subject to the aforesaid, the Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing from the Listing Date.

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 2019. 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 2019.

MAJOR CUSTOMERS

During the year, the income of the Group's lease accounted for 69.8% of the total revenue and other income, and the information of the customers of the lease segment is as follows:

	For the year ended 31 December 2019 Percentage of the total lease income (before business taxes and surcharges) (%)
Top five customers	**50.4%**
The largest customer	**18.4%**

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 for the initial term commencing on 14 May 2015, 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 15 October 2018, the Company and CE Group entered into three second supplemental agreements to the CE Agreements, 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.

Details of the transactions contemplated under the Second CE Supplemental Agreements are set out in the Company's announcement dated 15 October 2018 and the Company's circular dated 6 November 2018, which were proposed to and passed by the independent shareholders by way of ordinary resolutions at the Company's extraordinary general meeting held on 28 November 2018.

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$'Million) for the year ended 31 December 2019	Annual Caps (HK$'Million) for the year ended/ending 31 December 2019	2020	2021
Second CE Supplemental Deposit Services Framework Agreement	2,256 *(Actual Maximum Daily Closing Balance of Deposits including interests accrued thereon)*	**3,843**	3,843	3,843
Second CE Supplemental Loan Services Framework Agreement	4,782 *(Actual Maximum Daily Closing Balance of Loans including guarantees)*	**18,214**	18,214	18,214
Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement	Nil *(Total Consideration)*	**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.

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 initial term of the Shareholders' Loan and Guarantee Agreement commenced on 6 April 2016.

On 15 October 2018, a second supplemental agreement to the Shareholders' Loan and Guarantee 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 ended/ending 31 December 2019, 2020 and 2021 to be HK$1,300 million respectively.

Details of the transactions contemplated under the Second ARI Supplemental Agreement are set out in the Company's announcement dated 15 October 2018 and the Company's circular dated 6 November 2018, which was proposed to and passed by the independent shareholders by way of ordinary resolution at the Company's extraordinary general meeting held on 28 November 2018.

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$'Million) for the year ended 31 December 2019	Annual Caps (HK$'Million) for the year ended/ending 31 December 2019	2020	2021
Second ARI Supplemental Agreement	1,114	**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.

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 2019 is contained in Note 32 to the consolidated financial statements. Those transactions reported in Note 32 which fell under the definition of "connected transactions"or "continuing connected transactions" have been 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 2019.

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 external auditor, PricewaterhouseCoopers ("PwC"), 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 34 to 37 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 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 INEDs. 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 the review of the audited financial statements of the Group for the year ended 31 December 2019.

The consolidated financial statements of the Group for the year ended 31 December 2019 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, 4 March 2020

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 2019 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 2019.

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 Directors	Independent Non-executive Directors
Mr. Zhao Wei *(Chairman)* Mr. POON Ho Man *(CEO)* Ms. LIU Wanting *(Deputy CEO)*	Mr. TANG Chi Chun	Mr. FAN Yan Hok, Philip Mr. NIEN Van Jin, Robert 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 2019, the changes in composition of the Board and Board Committees set up under the Listing Rules are listed below:

Director	Change	Effective Date
CHEN Shuang	– resigned as the Chairman of the Board and an executive Director	10 May 2019
ZHAO Wei	– appointed as the Chairman of the Board and an executive Director	10 May 2019
	– appointed as a member of the Remuneration Committee	27 August 2019
POON Ho Man	– appointed as a member of the Remuneration Committee	27 August 2019

Save as disclosed above, there were no other changes to the composition of the Board and Board Committees set up under the Listing Rules during the year ended 31 December 2019.

Throughout the year, the Board has four independent non-executive Directors (the "INEDs") 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.

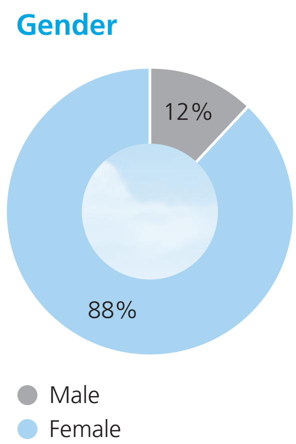
The Board received from each INED a written annual confirmation of their independence satisfied with guidelines set out in Rule 3.13 of the Listing Rules, and the Nomination Committee assessed the independence of each INED during the year. Each INED will inform the Company in writing as soon as practicable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

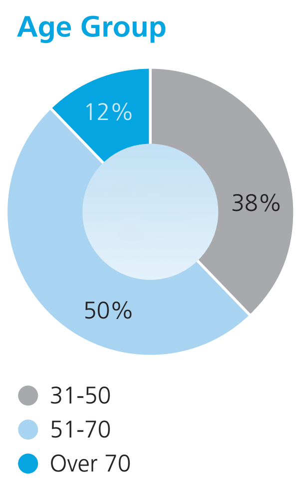
The Directors do not have financial, business, family or other material/relevant relationships with each other.

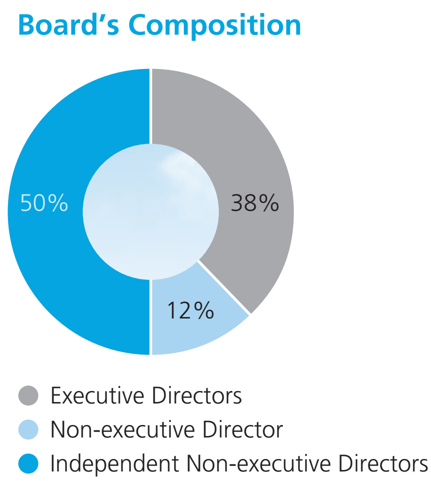
After annual assessment by the Nomination Committee during the year, the Board considers the current structure, size and composition of the Board is performing a balanced and independent monitoring function on management practices to complement the Company's corporate strategy. The profile of Directors is set out in the "Profile of the Directors and Senior Management" on pages 56 to 61 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 (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 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 25 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.

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		
ZHAO Wei	✓	✓
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 different 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 2019 is set out in Note 31(a) to the financial statements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its Directors. Following specific enquiry 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. ZHAO Wei
Mr. NIEN Van Jin, Robert	Mr. NIEN Van Jin, Robert	Mr. POON Ho Man
Mr. CHOW Kwong Fai, Edward	Mr. CHEOK Albert Saychuan	Mr. NIEN Van Jin, Robert
		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 2019, 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 2018;

- 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; and Mr. ZHAO Wei and Mr. POON Ho Man, both of them are executive Directors. Three Remuneration Committee meetings were 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 following:

– the review of the remuneration system;

– the remuneration and other benefits paid by the Company to the Directors and senior management;

– the appointment of additional members of the Remuneration Committee; and

– the grant of share options to the Directors.

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 appointment and the re-election of Directors.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

PwC, the external auditor of the Company, had given to the Company a written confirmation of its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants before the conduct of the annual audit for the year ended 31 December 2019.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of HK$6,250,000. The relevant fee paid for audit services amounted to approximately HK$4,476,000 and the balancing of the remuneration related to the non-audit services of approximately HK$1,774,000.

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 2019 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 62 to 68.

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 2019 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 51 to 55 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 laws, 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 2019.

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 meeting during the year, demonstrating satisfactory attendance, are set out below:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
ZHAO Wei(Note 1, 3)	3/3	n/a	1/1	n/a	n/a
CHEN Shuang(Note 2)	1/1	n/a	n/a	n/a	0/1
POON Ho Man(Note 3)	4/4	n/a	1/1	n/a	1/1
LIU Wanting	4/4	n/a	n/a	n/a	0/1
Non-executive Director					
TANG Chi Chun	3/4	n/a	n/a	n/a	1/1
Independent Non-executive Directors					
FAN Yan Hok, Philip	3/4	5/5	3/3	1/1	1/1
NIEN Van Jin, Robert	4/4	5/5	3/3	1/1	1/1
CHEOK Albert Saychuan	4/4	5/5	3/3	1/1	1/1
CHOW Kwong Fai, Edward	3/4	5/5	3/3	1/1	1/1
Total number of meetings	4	5	3	1	1
Dates of Meetings	21/3/2019 28/6/2019 27/8/2019 12/12/2019	15/3/2019 24/4/2019 26/8/2019 28/10/2019 11/12/2019	15/2/2019 15/8/2019 6/12/2019	11/12/2019	10/5/2019

Notes:

(1) Mr. ZHAO Wei was appointed as the Chairman of the Board and an executive Director with effect from 10 May 2019.

(2) Mr. CHEN Shuang resigned as the Chairman of the Board and an executive Director with effect from the conclusion of the annual general meeting held on 10 May 2019.

(3) Mr. ZHAO Wei and Mr. POON Ho Man were appointed as members of the Remuneration Committee of the Company with effect from 27 August 2019.

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 risks 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 risks 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 risks.

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 controls, 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 AND 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 Risk 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 mitigation 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 include 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 and 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 were 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:

- delivered 11 aircraft to airline customers in different geographic regions and continued to diversify its portfolio geographically in the long term

- diversified its financing channels through:

  – completing a USD840 million five-year unsecured syndicated pre-delivery payment loan facility, which is the first revolving syndicated loan to allow more aircraft that would have been financed and effectively support ongoing large order book delivery

  – issuing its first RMB1 billion senior unsecured bond in China

  – issuing a RMB800 million senior unsecured medium-term note in China

  – disposing an additional 7 aircraft to CAG, an aircraft investment vehicle which was established in 2018 and currently has a portfolio of 23 aircraft

The diversity of funding channels helped the Company tapped into various banks, financial institutions and investors with multiple financing products. In addition, the asset-light strategy for disposal of aircraft (including further injection of aircraft into CAG) bolstered the Company's financing capacity and supported vast aircraft trading opportunities through efficient turnover on capital. The overall liquidity risk and financial leverage risk were maintained at an acceptable level during the year.

The Company continues monitoring the currency exchange risk from time to time through matching the currencies of lease receivables and borrowings to the greatest extent possible and taking into consideration of diversified funding channels and lower funding costs, 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 its prudent interest rate hedging policy. The interest rate risk 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. ZHAO Wei

Chairman and Executive Director

Mr. ZHAO Wei, aged 48, is the Chairman and an Executive Director. Mr. ZHAO is also the chairman of the Strategy Committee and a member of Remuneration Committee of the Company. Mr. ZHAO is responsible for formulating the Group's overall strategic planning and directions. Mr. ZHAO is also the chairman and a director of Aircraft Recycling International Limited ("ARI"), a commonly held entity of the Company.

Mr. ZHAO is an executive director and the chief executive officer of China Everbright Limited (stock code: 165.HK) ("CEL") and the chairman of Everbright Jiabao Co., Ltd. (stock code: 600622.SH). Prior to joining CEL, Mr. ZHAO was the vice president and the chief financial officer of China Reinsurance (Group) Corporation (stock code: 1508.HK) and a director of Asian Reinsurance Corporation. Mr. ZHAO used to serve in China Life Insurance (Group) Company and China Life Asset Management Company Limited, and also used to serve as the general manager of China Life Asset Management (Hong Kong) Corporation Limited, the president of China Life Franklin Asset Management Co., Limited and the vice president of New China Asset Management Corporation Limited. He also used to be the vice chairman and the general manager of China Re Asset Management Company Ltd., the chairman of China Re Asset Management (Hong Kong) Company Limited and the chairman of China ReCapital Management Company Limited, and served as a non-executive director of Beijing Jingneng Clean Energy Co., Limited (stock code: 579.HK) from December 2016 to January 2019 and China Everbright Bank Company Limited (stock code: 601818.SH, 6818.HK) from February 2015 to July 2019.

Mr. ZHAO obtained a Master's degree in national economic planning and management from Jilin University and a Doctoral degree in finance from the Fiscal Science Research Institute of the Ministry of Finance (now known as Chinese Academy of Fiscal Sciences).

Mr. POON Ho Man

Executive Director and Chief Executive Officer

Mr. POON Ho Man, aged 47, is an Executive Director and the Chief Executive Officer re-appointed on 19 January 2017. Mr. POON is also a member of each of Strategy Committee and Remuneration 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, 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 and is deemed to be interested in share option with rights to subscribe for 3,800,000 shares of the Company pursuant to the Post-IPO Share Option Scheme of 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) and the Founding Chief Advisor of Hong Kong Aircraft Leasing and Aviation Finance Association (香港飛機租賃和航空融資協會創始首席顧問). Mr. POON also obtained the World Outstanding Chinese Award (世界傑出華人獎) from World Chinese Business Investment Foundation (世界華商投資基金會) in 2006.

Ms. LIU Wanting

Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer

Ms. LIU Wanting, aged 38, 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 Tianjin Municipal People's Government and a founding member of Chinese Financial Association of Hong Kong (香港中國金融協會). Ms. LIU was the vice chairman of the Aviation Safety 《航空安全》 magazine of the Aviation Safety Office under the Civil Aviation Administration of China (中國民用航空局航空安全辦公室), with a term from July 2014 to 2016. Ms. LIU was our representative in the Leasing Committee of China Association Enterprise with Foreign Investment from April 2010 to April 2011.

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

As at the date of this report, Ms. LIU has corporate interest in 10,000,000 shares of the Company (representing approximately 1.48% of the issued share capital of the Company) and is personally interested in share option with 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 58, is a Non-executive Director appointed on 12 August 2013 and is also a member of Strategy Committee of the Company. Mr. TANG is responsible for advising the business development and financial related operations of the Group. Mr. TANG is also a director of ARI.

Mr. TANG is an executive director and the chief financial officer of CEL and a non-executive and non-independent director of Ying Li International Real Estate Limited (stock code: 5DM.SGX). 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 and the Hong Kong Institute of Certified Public Accountants. 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 70, 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 Hong Kong securities market:

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 directorship in the following company listed on the overseas securities market:

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

Mr. CHEOK Albert Saychuan

Independent Non-executive Director

Mr. CHEOK Albert Saychuan, aged 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 (resigned on 27 April 2017); and (ii) Hongkong Chinese Limited, listed on the Hong Kong Stock Exchange (resigned on 31 December 2017). Mr. CHEOK was also the independent non-executive chairman of (i) Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust ("REIT"), a healthcare REIT listed in Singapore (retired on 16 April 2017); (ii) Auric Pacific Group Limited, a food group formerly listed in Singapore and was privatized on 17 April 2017 (retired on 28 April 2017); (iii) Lippo Malls Indonesia Retail Trust ("LMIRT") Management Limited, the manager of LMIRT, a shopping mall REIT listed in Singapore (resigned on 30 September 2017); and (iv) International Standard Resources Holdings Limited, listed on the Hong Kong Stock Exchange (resigned on 3 September 2019).

Mr. CHEOK is the independent non-executive chairman of (i) Amplefield Limited, listed in Singapore; (ii) 5G Networks Limited, listed in Australia; and (iii) Supermax Corporation Berhad, listed in Malaysia, as well as a non-executive director of Peppermint Innovation Limited, listed in Australia.

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

Mr. CHOW Kwong Fai, Edward, *JP*

Independent Non-executive Director

Mr. Chow Kwong Fai, Edward, *JP*, aged 67, 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 former council member of The Institute of Chartered Accountants in England and Wales ("ICAEW") and former chairman of its Hong Kong Chapter. He also chaired its Commercial Board. He is a past president of the HKICPA and chaired its Corporate Governance Committee and Professional Accountants in Business Committee. He also served as a Deputy Chairman of HKIoD, of which he is a fellow member, chaired the Professional Accountants in Business Committee of the International Federation of Accountants, served as an expert advisor of the Accounting Standards Committee of the Ministry of Finance, the People's Republic of China and was a Standing Committee member and a convenor of the Eleventh Zhejiang Province Committee of the CPPCC, and a member of the Election Committee of HKSAR.

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

Mr. CHOW is currently a core member of the OECD/World Bank Asian Corporate Governance Roundtable, an adviser of the Business and Professionals Federation of Hong Kong, a member of Council and Court of The University of Hong Kong and a former non-executive director of the Urban Renewal Authority for 6 years.

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 Melco International Development Limited (stock code: 200) and Huali University Group Limited (stock code: 1756). Mr. CHOW was an independent non-executive director of COSCO SHIPPING Ports Limited (stock code: 1199), China Merchants Bank Co., Ltd. (stock code: 3968) and Redco Properties Group Limited (stock code: 1622), all 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 61, joined the Group in June 2015. Mr. MOK assists in formulating the Group's overall strategic planning and implementation, also oversees accounting, corporate and project finance and other corporate functions. Mr. MOK is a director of a subsidiary of the Company and ARI.

Mr. MOK has over 30 years of extensive corporate and banking experience, and has arranged around HK$500 billion debt capital market facilities. Mr. MOK was previously Executive Director of Hopewell. 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 a founding board member of the Asian Pacific Loan Market Association.

Mr. TANG Yu Ping, Pitney

Chief Operating Officer

Mr. TANG Yu Ping, aged 50, 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, OEM affairs 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.

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 69 to 143, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 2019, the Group's current liabilities exceeded its current assets by HK$2,895.5 million (Note 3.1.3). The Group had capital commitments amounting to HK$86,299.0 million mainly relating to aircraft purchase, of which HK$9,771.4 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 forecasts. 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 2019 and therefore continue as a going concern. The directors' forecasts are based on a number of assumptions including the aircraft delivery and leasing schedules, available financing resources that have been granted or will be granted and the amount of capital commitments. We focused on this matter because the preparation of cash flow forecasts 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 2019. We evaluated the key assumptions made in those cash flow forecasts, in particular the forecast aircraft delivery schedules, 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 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 forecast for the year 2019 to evaluate management's prior year's experience. We performed sensitivity analysis over key assumptions to ascertain the extent of adverse changes that would make the Group incapable of meeting its ongoing obligation as they fall due. Based on the work performed, the directors' assumptions of the cash flow forecasts were supported by available evidence.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for tax positions Refer to Note 4.1(a) and Note 27 to the consolidated financial statements. As at 31 December 2019, current income tax liabilities were HK$7.4 million and deferred income tax liabilities were HK$746.4 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 the lease terms.	We examined the correspondences 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 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 the lease terms by checking the lease agreements and testing the calculation of depreciation and estimated realisable values. We tested mathematical accuracy of the directors' calculations 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 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 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 Group to update our understanding of the 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 Group's purpose and design, CAG Group'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 all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, 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.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 March 2020

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2019 HK$'000	2018 HK$'000
ASSETS			
Property, plant and equipment and right-of-use assets	5	**19,611,484**	18,886,288
Interests in and loans to associates and a joint venture	6	**1,117,606**	959,111
Finance lease receivables – net	7	**7,790,510**	10,020,816
Financial asset at fair value through profit or loss	8	**752,913**	499,323
Derivative financial assets	18	**26,337**	123,174
Prepayments and other assets	9	**9,765,047**	6,771,875
Restricted cash	10	**235,101**	176,451
Cash and cash equivalents	11	**4,352,327**	3,990,107
Total assets		**43,651,325**	41,427,145
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	12	**67,727**	67,727
Reserves	13	**1,559,472**	1,830,609
Retained earnings		**2,342,515**	1,881,523
Total equity		**3,969,714**	3,779,859
LIABILITIES			
Deferred income tax liabilities	14	**746,374**	670,401
Borrowings	15	**26,881,194**	24,603,195
Medium-term notes	16	**1,636,499**	758,831
Bonds	17	**7,245,367**	8,580,407
Derivative financial liabilities	18	**129,610**	–
Income tax payables		**7,386**	29,257
Interest payables		**269,280**	269,775
Other liabilities and accruals	19	**2,765,901**	2,735,420
Total liabilities		**39,681,611**	37,647,286
Total equity and liabilities		**43,651,325**	41,427,145

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

The financial statements on pages 69 to 143 were approved by the Board of Directors on 4 March 2020 and were signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Revenue			
Finance lease income		**664,298**	792,470
Operating lease income		**1,796,218**	1,541,677
	20	**2,460,516**	2,334,147
Net income from aircraft transactions and aircraft trading	21	**594,937**	625,705
Other income	22	**467,744**	381,681
		3,523,197	3,341,533
Expenses			
Interest expenses	23	**(1,422,812)**	(1,422,914)
Depreciation	5	**(755,075)**	(585,549)
Other operating expenses	24	**(377,716)**	(417,217)
		(2,555,603)	(2,425,680)
Operating profit		**967,594**	915,853
Share of results from associates and a joint venture and other gains	26	**72,949**	71,222
Profit before income tax		**1,040,543**	987,075
Income tax expenses	27	**(144,536)**	(178,162)
Profit for the year		**896,007**	808,913
Profit attributable to shareholders of the Company		**896,007**	808,913
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	28(a)	**1.323**	1.194
– Diluted earnings per share	28(b)	**1.323**	1.194

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Profit for the year		**896,007**	808,913
Other comprehensive loss for the year:			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	18	**(201,055)**	(4,610)
Currency translation differences		**(51,665)**	(6,253)
Total other comprehensive loss for the year, net of tax		**(252,720)**	(10,863)
Total comprehensive income for the year		**643,287**	798,050
Total comprehensive income for the year attributable to shareholders of the Company		**643,287**	798,050

The notes on pages 76 to 143 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	67,818	1,861,658	1,497,677	3,427,153
Changes in accounting policy	–	–	(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				
Cash flow hedges (Note 18)	–	(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 12(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	–	(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 76 to 143 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 2019	67,727	1,830,609	1,881,523	3,779,859
Comprehensive income				
Profit for the year	–	–	896,007	896,007
Other comprehensive loss				
Cash flow hedges (Note 18)	–	(201,055)	–	(201,055)
Currency translation differences	–	(51,665)	–	(51,665)
Total comprehensive (loss)/income	–	(252,720)	896,007	643,287
Transactions with shareholders				
Share option scheme:				
– Value of services (Note 12(a))	–	339	–	339
– Share options lapsed (Note 12(a))	–	(18,756)	18,756	–
Dividends	–	–	(453,771)	(453,771)
Total transactions with shareholders	–	(18,417)	(435,015)	(453,432)
Balance as at 31 December 2019	67,727	1,559,472	2,342,515	3,969,714

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Profit after income tax		**896,007**	808,913
Adjustments for:			
– Depreciation		**755,075**	585,549
– Net income from aircraft transactions		**(585,280)**	(625,705)
– (Reversal of impairment)/impairment loss of finance lease receivables		**(1,724)**	4,167
– Interest expenses		**1,422,812**	1,422,914
– Share-based payments	12(a)	**339**	5,531
– Unrealised currency exchange gains		**(64,382)**	(16,566)
– Fair value losses/(gains) on interest rate and currency swaps	18	**21,349**	(44,035)
– Share of results from associates and a joint venture	6	**3,315**	–
– Gain on repurchase of bonds	17	**(4,505)**	–
– Interest income		**(143,530)**	(113,792)
		2,299,476	2,026,976
Changes in working capital:			
– Finance lease receivables – net		**(178,248)**	7,638
– Prepayments and other assets		**(245,371)**	187,458
– Other liabilities and accruals		**74,600**	631,323
– Income tax payables		**(21,871)**	12,003
– Deferred income tax liabilities		**81,475**	130,676
Net cash flows generated from operating activities		**2,010,061**	2,996,074
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,776,727)**	(10,205,973)
Proceeds from disposal of aircraft		**5,905,828**	6,706,713
Deposit paid for acquisition of aircraft		**(4,036,645)**	(3,931,321)
Deposits refunded for acquisition of aircraft		**822,830**	1,133,653
Interest received		**24,217**	18,897
Net payments relating to financial asset at fair value through profit or loss		**(208,630)**	(490,304)
Investment in associates and a joint venture		**(3,502)**	–
Net payments relating to loans to an associate and a joint venture		**(83,955)**	(3,047)
Net cash flows used in investing activities		**(1,356,584)**	(6,771,382)

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Cash flows from financing activities		
Proceeds from issue of new shares from exercise of share options	**–**	7
Proceeds from borrowings	**15,579,074**	12,893,611
Issue of bonds, net of transaction costs	**1,151,837**	–
Issue of medium-term notes, net of transaction costs	**905,705**	–
Repayments of borrowings	**(13,229,659)**	(10,181,063)
Repurchase and repayment of bonds, including transaction costs	**(2,423,986)**	–
Repurchase or repayment of convertible bonds, including transaction costs	**–**	(155,160)
Interest received in respect of derivative financial instruments	**31,250**	17,673
Interest paid in respect of borrowings, notes and bonds	**(1,761,152)**	(1,552,077)
Proceeds from disposal of derivative financial instruments	**3,956**	6,865
Decrease in deposits pledged in respect of borrowings	**71,335**	174,423
(Increase)/decrease in deposits pledged in respect of derivative financial instruments	**(132,307)**	14,832
Buy-back of shares, including transaction costs	**–**	(7,261)
Dividends paid to shareholders	**(453,771)**	(433,836)
Net cash flows (used in)/generated from financing activities	**(257,718)**	778,014
Net increase/(decrease) in cash and cash equivalents	**395,759**	(2,997,294)
Cash and cash equivalents at beginning of the year	**3,990,107**	7,023,359
Currency exchange difference on cash and cash equivalents	**(33,539)**	(35,958)
Cash and cash equivalents at end of the year	**4,352,327**	3,990,107

The notes on pages 76 to 143 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 globally.

The consolidated financial statements for the year ended 31 December 2019 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 2019, the Group's current liabilities exceeded its current assets by HK$2,895.5 million. The Group had total capital commitments of HK$86,299.0 million (Note 33(b)) mainly relating to acquisition of aircraft, of which HK$9,771.4 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 2019 amounted to HK$3,758.8 million. Up to the approval date of the consolidated financial statements, the Group had signed PDP financing agreements and term sheets with various commercial banks which have agreed to provide financing of HK$3,239.8 million to the Group in the next twelve months from 31 December 2019. The remaining balance of PDP amounting to HK$519.0 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. 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 with the relevant airline companies for the aircraft scheduled for deliveries in the next twelve months from 31 December 2019. The directors of the Company thus believe that long-term aircraft borrowings can be obtained or other internal resources, issuing bonds and medium-term notes 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 2019.

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 2019. 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 2019. 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 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16 Leases. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(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 2020 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2019.

	Effective Date
Definition of Material – Amendments to HKAS 1 and HKAS 8	1 January 2020
Definition of a Business – Amendments to HKFRS 3	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17 Insurance Contracts	1 January 2021 (likely to be extended to 1 January 2022)

Management's preliminary assessment is that 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)*

2.2 Changes in accounting policy

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in Note 2.1(b) above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new accounting policy is disclosed in Note 2.20.

On adoption of HKFRS 16 Leases, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.0%.

(i) Practical expedients applied

In applying HKFRS 16 Leases for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made by applying HKAS 17 Leases and Interpretation 4 Determining whether an Arrangement contains a Lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policy *(continued)*

(ii) Measurement of lease liabilities

	2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	40,729
Discounted using the lessee's incremental borrowing rate as of the date of initial application	38,574
Less: short-term leases recognised on a straight-line basis as expense	(9,188)
Lease liabilities recognised as at 1 January 2019	29,386
Of which are:	
Current lease liabilities	16,008
Non-current lease liabilities	13,378
	29,386

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the consolidated balance sheet on 1 January 2019

Consolidated financial statement items	As at 31 December 2018 As originally presented HK$'000	HKFRS 16 Leases HK$'000	As at 1 January 2019 Restated HK$'000
ASSETS			
Right-of-use assets (Properties)	–	22,060	22,060
Finance lease receivables – net	10,020,816	7,326	10,028,142
LIABILITIES			
Lease liabilities (Properties)	–	29,386	29,386

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 to 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Associates and joint ventures

Associate

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.

Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has a joint venture.

Investments in associates and joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost. 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 equity-accounted investment includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an equity-accounted investment, any difference between the cost of the equity-accounted investment and the 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 equity-accounted investment 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 consolidated 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 equity-accounted investment equals or exceeds its interest in the equity-accounted investment, 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 equity-accounted investment.

The Group determines at each reporting date whether there is any objective evidence that the equity-accounted investment 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 investment accounted for using equity method' in profit or loss.

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

Gains or losses on dilution of equity-accounted investments 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$, which is the Company's functional and the Group's presentation currency. Functional currencies of the subsidiaries of the Company mainly include Renminbi ("RMB"), US dollar ("US$") 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 2.9).

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 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Non-current assets held for sale *(continued)*

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

2.9 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.

2.10 Investments and other financial assets

(a) Classification

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Investments and other financial assets *(continued)*

(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.

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)*

2.10 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 consolidated 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***

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.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 2019, 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)*

2.12 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.

2.13 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.

2.14 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 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.

2.16 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

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.

2.17 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Provisions *(continued)*

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.

2.20 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases of property, plant and equipment, as lessee, with substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the lessee will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the lessee were classified as operating leases (Note 33(c)). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, the Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects such penalties upon the Group exercising a purchase option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

Payments associated with short-term leases of office premises are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term (Note 20). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

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 26 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI 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) Net income from aircraft trading

Net income from aircraft trading originates primarily from the sale of engine and airframe parts. The sale is recognised when the relevant asset is delivered and the control of the relevant asset has transferred to the buyer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Revenue and income recognition *(continued)*

(e) 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.

2.22 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.

3.1.1 Market risk

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other 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 certain borrowings are denominated in different currencies.

(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 2019, the Group had 25 outstanding floating-to-fixed interest rate swaps (2018: 15 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	
	2019	2018
Interest rate swaps		
Carrying amount (liabilities)/assets (HK$'000)	**(120,641)**	80,414
Notional amount (US$'000)	**856,702**	445,068
Maturity date	**2020–2024**	2019–2024
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January (HK$'000)	**(190,690)**	28,695
Change in value of hedged item used to determine hedge effectiveness (HK$'000)	**190,690**	(28,695)
Weighted average hedged rate for the year	**2.2%**	1.7%

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2018 and 2019. 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$45,631,000 (2018: HK$30,814,000); and would also have increased/decreased the Group's reserves by approximately HK$104,331,000 (2018: HK$47,416,000), 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.

3.1.2 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk (continued)

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 19). 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 five 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.

(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.

(d) Concentration of credit risk

During the year ended 31 December 2019, the lessees of the Group are airline companies located in the Mainland China, United States and other countries or regions globally. Please see Note 7 and Note 20 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Current assets		
Loans to an associate and a joint venture	**1,117,419**	959,111
Finance lease receivables – net	**218,422**	791,028
Financial asset at fair value through profit or loss	**154,372**	76,830
Derivative financial assets	**4,624**	44,023
Prepayments and other assets	**581,447**	128,316
Cash and cash equivalents	**4,352,327**	3,990,107
	6,428,611	5,989,415
Current liabilities		
Deferred income tax liabilities	**116,559**	102,518
Borrowings	**6,194,009**	5,181,104
Medium-term notes	**379,516**	–
Bonds	**–**	2,349,360
Derivative financial liabilities	**27,465**	–
Income tax payables	**7,386**	29,257
Interest payables	**269,280**	269,775
Other liabilities and accruals	**2,329,924**	2,167,051
	9,324,139	10,099,065
Net current liabilities	**(2,895,528)**	(4,109,650)

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.

Borrowings of HK$6.19 billion under current liabilities mainly comprised of bank borrowings of HK$3.01 billion from aircraft acquisition financing ("aircraft loans") and HK$2.19 billion from PDP financing. The above aircraft loans will be partially funded by the collection of operating lease receivables of HK$1.78 billion (which has not been included under current assets above) which is expected to be received in the next twelve months from 31 December 2019. PDP financing is expected to be fully funded by new aircraft loans when aircraft is delivered based on industry practice and prior experience.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk (continued)

Besides, the Group will consider to raise funds through PDP financing, new commercial loans and aircraft bank loans, bonds, medium term notes, other debt and capital financing, and the asset-light strategy for disposal of aircraft. 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$2.90 billion as of 31 December 2019 and those capital commitments in the next twelve months from 31 December 2019.

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 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 2019					
Financial liabilities					
Borrowings	**7,348,866**	**4,607,268**	**7,994,712**	**12,613,315**	**32,564,161**
Medium-term notes	**446,350**	**420,269**	**918,856**	**–**	**1,785,475**
Bonds	**368,061**	**2,663,451**	**5,245,268**	**–**	**8,276,780**
Other liabilities and accruals (i)	**1,273,004**	**2,802**	**1,753**	**208,584**	**1,486,143**
Off-balance sheet – operating lease commitments (ii)	**334**	**–**	**–**	**–**	**334**
As at 31 December 2018					
Financial liabilities					
Borrowings	6,377,813	3,765,954	6,420,158	14,632,993	31,196,918
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 (i)	1,326,132	12,615	12,159	179,559	1,530,465
Off-balance sheet – operating lease commitments (ii)	25,565	12,141	2,404	619	40,729

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

(ii) Off-balance sheet operating lease commitments are the operating lease rentals, which will be paid according to the schedules in the lease contracts. From 1 January 2019, the Group has recognised lease liabilities for these leases, except for short-term and low-value leases.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4 Disposal of 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 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 2019, service fee income of HK$1,158,000 (2018: HK$1,096,000) 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 are unconsolidated structured entities and the Group has no control over the trust plans or asset-backed securities programme. 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:

	The trust plan			
	Size HK$'000	Funding provided by the Group (Note (i)) HK$'000	Group's maximum exposure (Note (ii)) HK$'000	Interest held by Group
As at 31 December 2019	**10,810,782**	**3,403**	**122,137**	**Service fee**
As at 31 December 2018	10,871,867	3,477	122,825	Service fee

Notes:

(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$3,403,000 (2018: HK$3,477,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2019 (Note 10).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4 Disposal of finance lease receivables *(continued)*

Notes: *(continued)*

(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$122,137,000). As at 31 December 2019, the fair value of this currency swap contract amounted to HK$19,045,000 (2018: HK$16,121,000) and the fair value gain of HK$3,033,000 was recognised in "Other gains" for the year ended 31 December 2019 (2018: gain of HK$1,124,000) (Note 18(a)).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plan or asset-backed securities programme as at 31 December 2019. 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 2019.

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 2019 HK$'000	As at 1 January 2019 Restated HK$'000
Interest-bearing debts included in total liabilities	**35,763,060**	33,942,433
Total liabilities	**39,681,611**	37,676,672
Total assets	**43,651,325**	41,456,531
Gearing ratio	**81.9%**	81.9%
Asset-liability ratio	**90.9%**	90.9%

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

The gearing ratio and asset-liability ratio were restated following the adoption of HKFRS 16 Leases. Both total liabilities and total assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019. See Note 2.2 for further information.

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 liability 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 2019				
Assets				
Currency swap	–	19,045	–	19,045
Interest rate swaps	–	7,292	–	7,292
Financial asset at fair value through profit or loss	–	–	752,913	752,913
	–	26,337	752,913	779,250
Liability				
Interest rate swaps	–	129,610	–	129,610

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities measured at fair values *(continued)*

	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

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 2019.

	Financial asset at fair value through profit or loss HK$'000
As at 31 December 2018 and 1 January 2019	**499,323**
Investment to financial asset at fair value through profit or loss	**296,801**
Proceeds from financial asset at fair value through profit or loss and interest accrued	**(38,845)**
Currency translation difference	**(4,366)**
As at 31 December 2019	**752,913**

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and bank balances, other receivables, loans to an associate and a joint venture, 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.

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

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables – net	7,790,510	8,753,176	10,020,816	10,403,135
Borrowings	26,881,194	26,950,714	24,603,195	25,272,662
Medium-term notes	1,636,499	1,677,286	758,831	775,926
Bonds	7,245,367	7,274,165	8,580,407	8,178,044

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

(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 2019.

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 53 (2018: 62) finance leases as at 31 December 2019 were approximately HK$5,742,735,000 (2018: HK$6,548,174,000). 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 2019 by approximately HK$11,767,000 (2018: HK$19,350,000).

(c) *Impairment of non-financial assets*

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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.

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

4.2 Critical judgements in applying the Group's accounting policies

(a) Classification of leases

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

(b) Disposal of finance lease receivables

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

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) Consolidation assessment of 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 determination of the Group's level of involvement with another entity will require exercise of judgement under certain circumstances. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group also considers, in particular, whether it obtains benefits from its power to control the entity. As such, the classification of the entity as a subsidiary, a joint venture, a joint operation, an associate or an equity investment requires the application of judgement through the analysis of various factors, such as whether CAG Group is a structured entities, the percentage of ownership interest held in the entity, CAG Group's purpose and design, CAG Group's relevant activities, the decision-making authority about its relevant activities, whether the rights of the Group give it current ability to direct CAG Group's relevant activities, the Group's exposure or rights to variable returns from its involvement with CAG Group and the ability to use its power over CAG Group to affect the amount of the Group's returns. This assessment has involved critical judgement by management.

5 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Aircraft and engine HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Office building HK$'000	Right-of-use assets HK$'000	Others HK$'000	Total HK$'000
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**
Year ended 31 December 2019							
Opening net book amount	**18,824,290**	**964**	**3,700**	**44,796**	**–**	**12,538**	**18,886,288**
Adjustment for changes in accounting policy (Note 2.2(iv))	**–**	**–**	**–**	**–**	**22,060**	**–**	**22,060**
Restated opening net book amount	**18,824,290**	**964**	**3,700**	**44,796**	**22,060**	**12,538**	**18,908,348**
Additions	**4,922,749**	**–**	**5,553**	**–**	**31,506**	**110**	**4,959,918**
Transfer from finance lease receivables	**2,389,411**	**–**	**–**	**–**	**–**	**–**	**2,389,411**
Assets classified as held for sale and other disposals	**(5,778,415)**	**–**	**–**	**–**	**–**	**–**	**(5,778,415)**
Depreciation	**(729,801)**	**(871)**	**(1,994)**	**(913)**	**(19,786)**	**(1,710)**	**(755,075)**
Currency translation difference	**(112,415)**	**–**	**(40)**	**(246)**	**–**	**(2)**	**(112,703)**
Closing net book amount	**19,515,819**	**93**	**7,219**	**43,637**	**33,780**	**10,936**	**19,611,484**
As at 31 December 2019							
Cost	**20,930,322**	**4,872**	**15,945**	**45,360**	**53,566**	**15,150**	**21,065,215**
Accumulated depreciation	**(1,414,503)**	**(4,779)**	**(8,726)**	**(1,723)**	**(19,786)**	**(4,214)**	**(1,453,731)**
Net book amount	**19,515,819**	**93**	**7,219**	**43,637**	**33,780**	**10,936**	**19,611,484**

Lease rental income amounting to HK$1,796,218,000 relating to the leasing of aircraft and engine for the year ended 31 December 2019 are included in "operating lease income" in the consolidated statement of income (2018: HK$1,541,677,000).

As at 31 December 2019, the net book value of aircraft amounted to HK$19,424,240,000 (2018: HK$18,728,949,000).

As at 31 December 2019, the net book value of aircraft amounting to HK$14,707,462,000 (2018: HK$12,965,632,000) were pledged as collateral for bank borrowings for aircraft acquisition financing and borrowings from trust plans (Note 15).

6 INTERESTS IN AND LOANS TO ASSOCIATES AND A JOINT VENTURE

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Interests in and loans to associates and a joint venture	**1,117,606**	959,111

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Share of results from associates and a joint venture	**3,315**	–

As at 31 December 2019, the Group had direct interests in the following principal associate and joint venture:

Name of entity	Country of incorporation	% of ownership interest	Measurement method
Aircraft Recycling International Limited ("ARI") (a)	Cayman Islands	48%	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	PRC	34.52%	Equity

(a) ARI is an investment holding company and its subsidiaries (collectively as "ARI Group") 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 2019, the Group's outstanding loans balance receivable from ARI amounted to HK$1,114,409,000 (2018: HK$959,111,000). For details, please refer to Note 32(c)(ii).

(b) FLARI has operations mainly in the Mainland China and are principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 31 December 2019, the Group's outstanding loans balance receivable from FLARI amounted to HK$3,010,000 (2018: Nil). For details, please refer to Note 32(c)(iii).

(c) There are no contingent liabilities relating to the Group's interests in associates and a joint venture. As the results of the associates and a joint venture are not material to the Group, no summarised financial information of the associates and a joint venture is disclosed.

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Finance lease receivables	**1,700,856**	3,790,263
Guaranteed residual values	**4,888,495**	5,849,909
Unguaranteed residual values	**5,742,735**	6,548,174
Gross investment in leases	**12,332,086**	16,188,346
Less: Unearned finance income	**(4,529,275)**	(6,153,437)
Net investment in leases	**7,802,811**	10,034,909
Less: Accumulated allowance for impairment	**(12,301)**	(14,093)
Finance lease receivables – net	**7,790,510**	10,020,816

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	
	2019	2018
	HK$'000	HK$'000
Gross investment in finance leases	**12,332,086**	16,188,346
Less: Unguaranteed residual values	**(5,742,735)**	(6,548,174)
Minimum lease payments receivable	**6,589,351**	9,640,172
Less: Unearned finance income related to minimum lease payments receivable	**(2,297,322)**	(3,406,188)
Present value of minimum lease payments receivable	**4,292,029**	6,233,984

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	
	2019	2018
	HK$'000	HK$'000
Gross investment in finance leases		
– Not later than 1 year	**263,813**	952,009
– Later than 1 year and not later than 5 years	**1,382,555**	1,955,373
– Later than 5 years	**10,685,718**	13,280,964
	12,332,086	16,188,346

7 FINANCE LEASE RECEIVABLES – NET *(continued)*

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	
	2019	2018
	HK$'000	HK$'000
Present value of minimum lease payments receivable		
– Not later than 1 year	**204,700**	542,839
– Later than 1 year and not later than 5 years	**695,651**	1,112,478
– Later than 5 years	**3,391,678**	4,578,667
	4,292,029	6,233,984

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

	As at 31 December			
	2019		2018	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**5,889,902**	**76%**	8,060,406	80%
Others	**1,900,608**	**24%**	1,960,410	20%
Finance lease receivables – net	**7,790,510**	**100%**	10,020,816	100%

8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Long-term debt investments – CAG (a)	**648,940**	499,323
Long-term debt investments – ARG (b)	**103,973**	–
	752,913	499,323

(a) 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 mezzanine financing proportion. The Group's committed shareholder loan is approximately US$94,700,000 (equivalent to approximately HK$737,448,000).

(b) ARG Cayman 1 Limited ("ARG") 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 25% to 75%, with a shareholding between the Group and other investors at a ratio of 8% to 92%. Pursuant to shareholders' agreement and shareholder loan agreement, all investors of ARG committed to invest in ARG through shareholder loans according to the mezzanine financing proportion. The Group's committed shareholder loan is approximately US$30,000,000 (equivalent to approximately HK$233,616,000).

9 PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
PDP (a)	**8,405,090**	6,236,290
Assets classified as held for sale	**299,119**	–
Interest capitalised	**563,964**	305,594
Prepayments and receivables relating to aircraft acquisition	**372,492**	99,056
Deposits paid	**51,610**	60,906
Amounts due from related parties (Note 32(f))	**706**	4,467
Others (b)	**72,066**	65,562
	9,765,047	6,771,875

(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 entered into supplementary agreement with Airbus for the purchase of additional 65 aircraft.

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 2024.

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

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
US$	**9,693,376**	6,679,480
RMB	**64,766**	80,270
HK$	**5,907**	6,647
Other currencies	**998**	5,478
	9,765,047	6,771,875

10 RESTRICTED CASH

	As at 31 December	
	2019 HK$'000	2018 HK$'000
Pledged for bank borrowings for aircraft acquisition financing (Note 15)	56,123	128,678
Pledged for long-term borrowings (Note 15)	44,068	44,296
Pledged for interest rate swap contracts	131,507	–
Pledged for a currency swap contract (Note 18(a))	3,403	3,477
	235,101	176,451

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

	As at 31 December	
	2019 HK$'000	2018 HK$'000
US$	188,515	50,141
RMB	46,586	126,310
	235,101	176,451

The average effective interest rate as at 31 December 2019 was 1.65% (2018: 0.78%).

11 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019 HK$'000	2018 HK$'000
Cash at bank and on hand	4,352,327	3,990,107

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

	As at 31 December	
	2019 HK$'000	2018 HK$'000
US$	3,849,477	2,992,481
RMB	489,707	967,512
HK$	8,626	16,596
Other currencies	4,517	13,518
	4,352,327	3,990,107

The average effective interest rate as at 31 December 2019 was 1.79% (2018: 1.49%).

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 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, 1 January 2019 and 31 December 2019		**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 new shares being issued, with total proceeds of HK$7,000. The related weighted average share price at the time of exercise was HK$7.77 per share. As at 31 December 2019, 14,974,000 (2018: 16,790,400) share options were exercisable.

Movement of outstanding share options granted by the Group on 4 August 2011 ("Pre-IPO Share Option Scheme"), 2 September 2014 ("First Post-IPO Share Option Scheme") and 22 July 2016 ("Second Post-IPO Share Option Scheme") is as follows:

	Year ended 31 December 2019			Year ended 31 December 2018		
	Pre-IPO	**Post-IPO**	**Total**	Pre-IPO	Post-IPO	Total
Beginning of year	**–**	**25,474,000**	**25,474,000**	4,020	25,875,000	25,879,020
Exercised	**–**	**–**	**–**	(4,020)	–	(4,020)
Lapsed	**–**	**(10,500,000)**	**(10,500,000)**	–	(401,000)	(401,000)
End of year	**–**	**14,974,000**	**14,974,000**	–	25,474,000	25,474,000

For share options outstanding as at 31 December 2019, the exercise price per share of Second Post-IPO Share Option Scheme was HK$8.8.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the year ended 31 December 2019 and 2018 are as follows:

	Year ended 31 December	
	2019 HK$'000	2018 HK$'000
Directors and employees	**339**	5,531

(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.

No change was noted during the year ended 31 December 2019.

13 RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$000	Share-based payments HK$'000	Hedging reserves HK$'000	Convertible bonds HK$'000	Currency translation differences HK$'000	Total HK$'000
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 18)	–	–	–	–	(4,610)	–	–	(4,610)
Currency translation differences	–	–	–	–	–	–	(6,253)	(6,253)
Share option scheme:								
– Value of services	–	–	–	5,531	–	–	–	5,531
– Issue of new shares from exercise of share options	7	–	–	–	–	–	–	7
Buy-back of shares	(7,143)	–	–	–	–	–	–	(7,143)
Transfer of reserves upon maturity of convertible bonds	–	–	–	–	–	(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

	Share premium HK$'000	**Merger reserve HK$'000**	**Capital reserve HK$000**	**Share-based payments HK$'000**	**Hedging reserves HK$'000**	**Currency translation differences HK$'000**	**Total HK$'000**
Balance as at 1 January 2019	**1,092,091**	**623,720**	**(39)**	**42,163**	**80,414**	**(7,740)**	**1,830,609**
Cash flow hedges (Note 18)	**–**	**–**	**–**	**–**	**(201,055)**	**–**	**(201,055)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(51,665)**	**(51,665)**
Share option scheme:							
– Value of services	**–**	**–**	**–**	**339**	**–**	**–**	**339**
– Share options lapsed	**–**	**–**	**–**	**(18,756)**	**–**	**–**	**(18,756)**
Balance as at 31 December 2019	**1,092,091**	**623,720**	**(39)**	**23,746**	**(120,641)**	**(59,405)**	**1,559,472**

14 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	As at 31 December	
	2019 HK$'000	2018 HK$'000
Deferred tax liabilities:		
– To be settled within 12 months	**116,559**	102,518
– To be settled after 12 months	**629,815**	567,883
	746,374	670,401

14 DEFERRED INCOME TAX LIABILITIES *(continued)*

The movement of the deferred income tax liabilities during the year is as follows:

	Accelerated depreciation of leased assets HK$'000
Deferred tax liabilities	
As at 1 January 2018	544,549
Charged to profit or loss (Note 27)	128,160
Currency translation difference	(2,308)
As at 31 December 2018	670,401
As at 1 January 2019	**670,401**
Charged to profit or loss (Note 27)	**80,844**
Currency translation difference	**(4,871)**
As at 31 December 2019	**746,374**

As at 31 December 2019, certain subsidiaries of the Group had unused tax losses of approximately HK$909,704,000 (2018: HK$729,568,000) available to offset against future profits, for which deferred tax asset of HK$138,366,000 (2018: HK$100,401,000) 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	
	2019 HK$'000	2018 HK$'000
Year		
2019	**–**	12,750
2020	**14,953**	14,953
2021	**49,672**	49,672
2022	**52,381**	52,381
2023	**62,165**	62,165
2024	**91,383**	–
No expiry date	**639,150**	537,647
	909,704	729,568

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$1,885,384,000 as at 31 December 2019 (2018: HK$1,675,316,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

15 BORROWINGS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Bank borrowings		
Bank borrowings for aircraft acquisition financing (a)	**14,818,861**	15,634,391
PDP financing (b)	**5,327,145**	3,455,263
Other unsecured bank borrowings (c)	**1,427,624**	77,098
	21,573,630	19,166,752
Long-term borrowings		
Borrowings from trust plans (d)	**4,971,585**	5,114,323
Other borrowings (e)	**335,979**	322,120
	5,307,564	5,436,443
	26,881,194	24,603,195

Bank borrowings

(a) Bank borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 31 December 2019, 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$56,123,000 (2018: HK$128,678,000).

(b) As at 31 December 2019, PDP financing of HK$5,137,170,000 (2018: HK$2,184,082,000) 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 2019, the Group had aggregate unsecured bank borrowings of HK$1,427,624,000 (2018: HK$77,098,000) which were guaranteed by certain companies of the Group.

The borrowings are repayable as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Within 1 year	**6,078,900**	5,082,167
Between 1 and 2 years	**3,493,766**	2,625,649
Between 2 and 5 years	**5,023,091**	3,506,434
Over 5 years	**6,977,873**	7,952,502
	21,573,630	19,166,752

15 BORROWINGS *(continued)*

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	
	2019	2018
	HK$'000	HK$'000
Fixed-interest rate	**4,713,749**	3,683,553
Floating-interest rate	**16,859,881**	15,483,199
	21,573,630	19,166,752

The average effective interest rate as at 31 December 2019 of bank borrowings was 4.64% (2018: 4.50%). The carrying amounts of borrowings are principally denominated in US$.

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Floating rate:		
– Expiring within one year	**77,872**	273,309
– Expiring beyond one year	**4,359,323**	6,133,418
	4,437,195	6,406,727

Long-term borrowings

(d) As at 31 December 2019, 46 borrowings (2018: 46 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% (2018: 3.5% to 7.8%) per annum for remaining terms of four to 10 years (2018: five 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$44,068,000 (2018: HK$44,296,000).

(e) As at 31 December 2019, four borrowings (2018: four borrowings) were obtained through a structured financing arrangement for four aircraft (2018: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2018: 3.9% to 5.7%) per annum for their remaining terms of five to six years (2018: six to seven years) and are guaranteed by the Company.

16 MEDIUM-TERM NOTES

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

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

In August 2019, the Group issued three-year senior unsecured medium-term notes in a principal amount of RMB800 million due in 2022, bearing coupon interest at 4.93% per annum.

As at 31 December 2019, after deducting the issuing cost, the total carrying amount of these notes was HK$1,636,499,000 (2018: HK$758,831,000).

17 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. These bonds had been fully repaid on maturity.

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. These bonds above were listed on the Stock Exchange and are guaranteed by the Company.

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 above were listed on the Stock Exchange and are guaranteed by the Company.

In June 2019, one of wholly owned subsidiaries in PRC issued three-year RMB1.0 billion unsecured bonds due in 2022, bearing coupon rate of 5.2% per annum. These bonds were listed on the Shanghai Stock Exchange. Both the issuer and the corporate bonds were rated AA+ by China Cheng Xin International Credit Rating Company Limited.

In August and September 2019, the Group repurchased certain amount of bonds on the Stock Exchange for a lump sum payment of US$9,371,000. The carrying amount of the bonds in an aggregate principal amount of US$9,970,000. A net gain of US$575,000 (equivalent to approximately HK$4,505,000) was recognised after deducting the transaction cost.

As at 31 December 2019, after deducting the issuing cost, the total carrying amount of these bonds was HK$7,245,367,000 (2018: HK$8,580,407,000).

18 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2019 HK$'000	2018 HK$'000
Derivative financial assets		
– Currency swap (a) (Note 3.1.4)	**19,045**	16,121
– Interest rate swaps (b)	**7,292**	107,053
	26,337	123,174
Derivative financial liabilities		
– Interest rate swaps (b)	**129,610**	–

(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 2019, the fair value of this currency swap contract amounted to HK$19,045,000 (2018: HK$16,121,000) and the fair value gain of HK$3,033,000 was recognised in "Other gains" for the year ended 31 December 2019 (2018: gain of HK$1,124,000). As at 31 December 2019, this arrangement was secured by a pledged deposit of HK$3,403,000 (2018: HK$3,477,000).

(b) As at 31 December 2019, the Group had 29 outstanding interest rate swap contracts (2018: 19 contracts) which will expire at various dates from 3 August 2020 to 21 December 2024 (2018: 19 September 2019 to 21 December 2024), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.3% to 2.6% (2018: 1.3% to 2.0%). As at 31 December 2019, this arrangement was secured by margin deposit of HK$131,507,000 (2018: Nil).

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

	Year ended 31 December 2019 HK$'000	2018 HK$'000
Recognised in other comprehensive income		
– Change in fair value of interest rate swaps	**(206,398)**	47,713
– Reclassified from other comprehensive income to profit or loss	**5,343**	(52,323)
	(201,055)	(4,610)
Recognised in other gains of profit or loss		
– Fair value (losses)/gains on interest rate swaps	**(14,327)**	26,659
– Unrealised gain on currency swap	**3,033**	1,124
– Realised (losses)/gains on interest rate swaps	**(10,055)**	16,252
	(21,349)	44,035

19 OTHER LIABILITIES AND ACCRUALS

	As at 31 December 2019 HK$'000	2018 HK$'000
Deposits and fund received for lease and aircraft projects	**1,722,574**	1,627,449
Consultant and insurance premium payable	**85,593**	113,052
Value-added tax and withholding tax payables	**526,641**	593,400
Operating lease rentals received in advance	**144,195**	128,014
Amounts due to related parties (Note 32(f))	**101**	2,973
Lease liabilities	**36,862**	–
Others (including salary and bonus payable)	**249,935**	270,532
	2,765,901	2,735,420

20 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2019, the Group was engaged in a single business segment, the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

	Year ended 31 December 2019 HK$'000	2019 %	2018 HK$'000	2018 %
Categorised by customer in terms of lease income:				
Airline Company – A	**452,815**	**18%**	235,802	10%
Airline Company – B	**297,608**	**12%**	196,249	8%
Airline Company – C	**168,004**	**7%**	152,403	7%
Airline Company – D	**164,343**	**7%**	145,189	6%
Airline Company – E	**156,799**	**6%**	154,336	7%
Others	**1,220,947**	**50%**	1,450,168	62%
Total finance and operating lease income	**2,460,516**	**100%**	2,334,147	100%

21 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT TRADING

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Aircraft transactions (a)	**585,280**	625,705
Aircraft trading (b)	**9,657**	–
	594,937	625,705

(a) 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 and the gain from disposal of three aircraft to ARI Group and the net gain from 18 aircraft disposed to CAG Group, determined by comparing the net proceeds with the relevant carrying amount of net assets less transaction costs and other expenses.

The net gain from aircraft transactions for the year ended 31 December 2019 included the gain from disposal of one aircraft to ARI Group, the disposal of seven aircraft to CAG Group and the disposal of seven aircraft to third parties, determined by comparing the net proceeds with the relevant carrying amount of net assets less transaction costs and other expenses.

(b) Aircraft trading

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Sales from aircraft trading assets	**171,698**	–
Less: Cost of aircraft trading assets	**(162,041)**	–
Profit from aircraft trading assets	**9,657**	–

22 OTHER INCOME

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Government grants (a)	**265,119**	222,135
Interest income from loans to associates and a joint venture (Note 32(c))	**74,353**	85,876
Bank interest income	**24,217**	18,897
Servicer fees income from CAG Group (Note 32(d))	**33,209**	5,536
Operating lease income on office premises from related parties (Note 32(a))	**–**	1,402
Operating lease income on other assets from a related party (Note 32(b))	**2,640**	2,640
Operating lease income on office premises from an associate (Note 32(c))	**–**	3,106
Others	**68,206**	42,089
	467,744	381,681

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

23 INTEREST EXPENSES

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Interest expense on borrowings	**1,374,701**	1,162,253
Fair value gain on interest rate swaps designated as cash flow hedges		
– transfer from other comprehensive income	**(31,726)**	(17,673)
Interest expense on convertible bonds	**–**	7,012
Interest expense on medium-term notes	**59,001**	44,717
Interest expense on bonds	**406,932**	473,971
	1,808,908	1,670,280
Less: Interest capitalised on qualifying assets (a)	**(386,096)**	(247,366)
	1,422,812	1,422,914

(a) Interest expenses capitalised on qualifying assets represent the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

24 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Employee benefit expenses (Note 25)	**182,464**	167,369
Value-added tax and other taxes	**78,749**	83,780
Professional service expenses	**54,375**	60,493
Rental and utilities expenses	**5,346**	29,137
Office and meeting expenses	**12,618**	16,508
Travelling and training expenses	**11,944**	15,365
Auditor's remuneration		
– Audit service	**4,476**	4,345
– Non-audit service	**1,774**	3,796
(Reversal of impairment)/impairment loss of finance lease receivables	**(1,724)**	4,167
Others	**27,694**	32,257
	377,716	417,217

25 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Wages, salaries and bonuses	**167,002**	147,564
Share-based compensation (Note 12)	**339**	5,531
Welfare, medical and other expenses	**15,123**	14,274
	182,464	167,369

26 SHARE OF RESULTS FROM ASSOCIATES AND A JOINT VENTURE AND OTHER GAINS

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Unrealised gain on currency swap (Note 18)	**3,033**	1,124
Realised (losses)/gains on interest rate swaps (Note 18)	**(10,055)**	16,252
Fair value (losses)/gains on interest rate swaps (Note 18)	**(14,327)**	26,659
Currency exchange gains	**52,653**	18,168
Interest income from CAG Group (Note 32(d))	**44,960**	9,019
Share of results from associates and a joint venture	**(3,315)**	–
	72,949	71,222

27 INCOME TAX EXPENSES

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	**63,692**	50,002
Deferred income tax (Note 14)	**80,844**	128,160
	144,536	178,162

Mainland China

The subsidiaries incorporated in the Mainland China are subject to the PRC corporate income tax ("CIT") at 25% (2018: 25%). The leasing income of the subsidiaries in the Mainland China is subject to VAT at 13% from 1 April 2019.

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% on the estimated assessable profits.

Profit tax concessions have been announced to the corporations carrying on certain businesses in connection with aircraft. The taxable amount of rentals derived from leasing of an aircraft to Non-Hong Kong aircraft operator by a qualifying aircraft lessor is equal to 20% of the tax base. The qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers are subject to the half of the normal rate at 8.25%.

27 INCOME TAX EXPENSES *(continued)*

Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first EUR200,000 of its taxable income and a rate of 25% over its taxable income in excess of EUR200,000.

The subsidiary incorporated in France is subject to income tax at 33.33%.

The subsidiary incorporated in Singapore is subject to income tax at 17%.

Before 1 January 2019, 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. Since 1 January 2019, the subsidiaries incorporated in Labuan are subject to income tax at 3% on the net profits annually.

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 2019, 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	
	2019	2018
	HK$'000	HK$'000
Profit before income tax	**1,040,543**	987,075
Tax calculated at a tax rate of 25%	**260,136**	246,769
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	**(30,122)**	(28,827)
– Income not subject to tax	**(184,921)**	(133,131)
– Non-deductible expenses	**64,457**	100,345
– Utilisation of previously unrecognised tax losses	**(6,164)**	(19,643)
– Tax losses for which no deferred income tax assets were recognised	**41,150**	12,649
Tax charge	**144,536**	178,162

28 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 2018 and 2019.

	Year ended 31 December	
	2019	2018
Profit attributable to shareholders of the Company (HK$'000)	**896,007**	808,913
Weighted average number of ordinary shares in issue (number of shares in thousands)	**677,269**	677,721
Basic earnings per share (HK$ per share)	**1.323**	1.194

(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	
	2019	2018
Earnings		
Profit attributable to shareholders of the Company (HK$'000)	**896,007**	808,913
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	**677,269**	677,721
Adjustment for:		
– Share options (number of shares in thousands)	**–**	–
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	**677,269**	677,721
Diluted earnings per share (HK$ per share)	**1.323**	1.194

29 DIVIDENDS

A final dividend of HK$0.44 per ordinary share totalling HK$298.0 million for the year ended 31 December 2018, which was paid in June 2019.

An interim dividend of HK$0.23 per ordinary share totalling HK$155.8 million was paid in September 2019.

On 4 March 2020, the Board recommended a final dividend of HK$0.48 per ordinary share totalling HK$325.1 million and proposed a scrip dividend option to be offered, which is calculated based on 677,269,380 issued shares as at 4 March 2020. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2019, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Interim dividend paid of HK$0.23 (2018: HK$0.22) per ordinary share	**155,772**	148,999
Proposed final dividend of HK$0.48 (2018: HK$0.44) per ordinary share	**325,089**	297,999
Total	**480,861**	446,998

30 NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December 2019 HK$'000	As at 1 January 2019 Restated HK$'000
Cash and cash equivalents	**4,352,327**	3,990,107
Borrowings	**(26,881,194)**	(24,603,195)
Medium-term notes	**(1,636,499)**	(758,831)
Bonds	**(7,245,367)**	(8,580,407)
Other liabilities and accruals – lease liabilities	**(36,862)**	(29,386)
Net debt	**(31,447,595)**	(29,981,712)
Cash and cash equivalents	**4,352,327**	3,990,107
Gross debt – fixed interest rates	**(18,940,041)**	(18,488,620)
Gross debt – variable interest rates	**(16,859,881)**	(15,483,199)
Net debt	**(31,447,595)**	(29,981,712)

30 NET DEBT RECONCILIATION *(continued)*

		Liabilities from financing activities					
	Cash and cash equivalents HK$'000	Borrowings HK$'000	Lease liabilities HK$'000	Medium-term notes HK$'000	Convertible bonds HK$'000	Bonds HK$'000	Total HK$'000
Net debt as at 1 January 2018	7,023,359	(21,787,807)	–	(798,094)	(153,190)	(8,538,932)	(24,254,664)
Cash flows	(2,997,294)	(2,712,548)	–	–	160,202	–	(5,549,640)
Currency exchange adjustments	(35,958)	(37,914)	–	41,410	–	(18,118)	(50,580)
Interest expense	–	–	–	–	(7,012)	–	(7,012)
Other non-cash movements (a)	–	(64,926)	–	(2,147)	–	(23,357)	(90,430)
Net debt as at 31 December 2018	3,990,107	(24,603,195)	–	(758,831)	–	(8,580,407)	(29,952,326)
Recognised on adoption of HKFRS 16 Leases (see Note 2.2)	–	–	(29,386)	–	–	–	(29,386)
Net debt as at 1 January 2019 Restated	**3,990,107**	**(24,603,195)**	**(29,386)**	**(758,831)**	**–**	**(8,580,407)**	**(29,981,712)**
Cash flows	**395,759**	**(2,349,415)**	**25,385**	**(905,705)**	**–**	**1,272,149**	**(1,561,827)**
Acquisition – leases	**–**	**–**	**(31,592)**	**–**	**–**	**–**	**(31,592)**
Currency exchange adjustments	**(33,539)**	**160,640**	**86**	**(12,719)**	**–**	**71,794**	**186,262**
Other non-cash movements (a)	**–**	**(89,224)**	**(1,355)**	**40,756**	**–**	**(8,903)**	**(58,726)**
Net debt as at 31 December 2019	**4,352,327**	**(26,881,194)**	**(36,862)**	**(1,636,499)**	**–**	**(7,245,367)**	**(31,447,595)**

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

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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 (ii)	–	–	5,000	–	2,654	–	7,654
Executive directors							
Mr. Poon Ho Man	–	2,261	17,341	–	–	18	19,620
Ms. Liu Wanting	–	3,452	13,541	–	670	18	17,681
Non-executive directors							
Mr. Tang Chi Chun	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

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

(a) Directors' emoluments *(continued)*

Year ended 31 December 2019

	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. Zhao Wei (i)	–	–	3,000	–	–	–	3,000
Mr. Chen Shuang (ii)	–	–	–	–	140	–	140
Executive directors							
Mr. Poon Ho Man	–	1,728	14,512	–	–	18	16,258
Ms. Liu Wanting	–	2,988	10,213	–	35	18	13,254
Non-executive directors							
Mr. Tang Chi Chun	200	20	–	–	–	–	220
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	200	245	–	–	–	–	445
Mr. Nien Van Jin, Robert	200	240	–	–	–	–	440
Mr. Cheok Albert Saychuan	200	250	–	–	2	–	452
Mr. Chow Kwong Fai, Edward	200	255	–	–	2	–	457
	1,000	5,726	27,725	–	179	36	34,666

Note:

(i) Appointed on 10 May 2019

(ii) Resigned on 10 May 2019

(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 2019 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 2019 (2018: Nil).

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

(b) Five highest paid individuals

During the year ended 31 December 2019, the five individuals whose emoluments were the highest in the Group include two directors and three individuals (2018: three directors and two individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2019, the emoluments paid to three (2018: two) remaining individuals are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Basic salaries and allowances	**8,769**	5,293
Discretionary bonuses	**5,272**	5,575
Share-based payments	**69**	1,317
Other benefits	**354**	254
	14,464	12,439

The emoluments of the above three (2018: two) individuals fell within the following bands:

	Year ended 31 December	
	2019	2018
HK$3,000,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$5,000,000	**1**	1
HK$6,000,001 to HK$7,000,000	**1**	–
HK$7,000,001 to HK$8,000,000	**–**	1

During the years ended 31 December 2019 and 2018, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.

32 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 12(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

32 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with Friedmann Pacific Asset Management Limited and its subsidiaries (collectively as "FPAM Group")

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Lease income on office premises earned from:		
FPAM Group	**–**	1,402

Upon the adoption of HKFRS 16 Leases from 1 January 2019, the lease arrangement with FPAM Group was classified as finance lease (For the year of 2018: the lease arrangement with FPAM Group was classified as operating lease). The finance lease receivables from FPAM Group is amounted to HK$482,000 as at 31 December 2019 (2018: Nil).

(b) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiary

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 35.7% equity interest in the Company as at 31 December 2019. 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.

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Interest income from CE Group	**8,764**	3,697
Interest expenses to CE Group	**278,110**	280,013
Loans upfront and arrangement fee to CE Group	**2,744**	10,038
Transactions handling charges to CE Group	**12,570**	21,727

	As at 31 December	
	2019	2018
	HK$'million	HK$'million
Bank deposits placed in CE Group	**1,730.4**	1,724.1
Borrowings due to CE Group	**4,243.5**	4,547.6
Undrawn facilities provided by CE Group	**370.7**	1,335.0

32 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiary *(continued)*

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

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Operating lease income on other assets earned from:		
CEL Management	**2,640**	2,640

(c) Transactions with ARI Group

(i) Lease of office premises to and service provided by ARI Group

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Lease income on office premises earned from:		
ARI Group	**–**	3,106
Service fee charged by:		
ARI Group	**23,150**	1,607

Upon the adoption of HKFRS 16 Leases from 1 January 2019, the lease arrangement with ARI Group was classified as finance lease (For the year of 2018: the lease arrangement with ARI Group was classified as operating lease). The finance lease receivables from ARI Group is amounted to HK$1,982,000 as at 31 December 2019 (2018: Nil).

(ii) Loans to 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 2019, the outstanding balance receivable from ARI was amounted to HK$1,114,409,000 (2018: HK$959,111,000) (Note 6) and interest income for the year ended 31 December 2019 was HK$74,342,000 (2018: HK$85,876,000) (Note 22).

(iii) Loans to FLARI

Pursuant to the shareholders' credit line agreement dated 30 October 2019, the Group granted loans to FLARI, interest bearing at 6.6% per annum which is calculated on quarterly basis on the actual amount of the shareholders' loan drawn down.

As at 31 December 2019, the outstanding balance receivable from FLARI was amounted to HK$3,010,000 (2018: Nil) (Note 6) and interest income for the year ended 31 December 2019 was HK$11,000 (2018: Nil) (Note 22).

32 RELATED PARTY TRANSACTIONS *(continued)*

(d) Transactions with CAG Group

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Interest income from CAG Group	**44,960**	9,019
Servicer fees income from CAG Group	**33,209**	5,536

(e) Disposal of aircraft to CAG Group and ARI Group

The Group has significant influence over CAG Group and ARI Group. During the year ended 31 December 2019, the Group disposed one aircraft to ARI Group (2018: three aircraft) and disposed seven aircraft (2018: 18 aircraft) by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in the aircraft to CAG Group. During the year ended 31 December 2019, the total consideration from aforementioned disposal of aircraft to ARI Group and CAG Group is HK$3,724.9 million (2018: HK$7,060.5 million) and the Group recorded a net gain from aircraft transactions (Note 21(a)) in the consolidated financial statements.

(f) Amounts due from related parties

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
ARI Group	**522**	1,082
CEL Management	**–**	406
FPAM Group	**83**	6
	605	1,494

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

(g) Key management compensation

Key management includes directors of the Company. The compensation paid or payable to key management is shown below:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Director fee, salaries, bonus and other short-term employee benefits	**48,882**	54,928
Share-based payments	**248**	4,773
	49,130	59,701

33 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

The Group had no material contingent liabilities outstanding at the end of each of the year ended 31 December 2019 (2018: 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	
	2019	2018
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft	**86,133,642**	96,462,002
Shareholder loan commitment to CAG	**35,580**	228,032
Shareholder loan commitment to ARG	**129,781**	–
	86,299,003	96,690,034

(c) Operating lease commitments – where the Group is the lessee

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.2 for further information.

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Not later than one year	**334**	25,565
Later than one year and not later than five years	**–**	14,545
Later than five years	**–**	619
	334	40,729

33 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

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

From 1 January 2019, the Group has recognised finance lease receivables for sub-leases, see Note 2.2 for further information.

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	
	2019	2018
	HK$'000	HK$'000
Not later than one year	**1,495**	7,600
Later than one year and not later than five years	**219**	4,654
	1,714	12,254

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Not later than one year	**1,320**	7,421
Later than one year and not later than five years	**–**	4,251
	1,320	11,672

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Not later than one year	**1,782,259**	1,725,034
Later than one year and not later than five years	**6,935,639**	6,783,386
Later than five years	**6,471,011**	6,627,279
	15,188,909	15,135,699

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	**1,675,005**	1,674,666
Loan and interest receivable from a subsidiary	**238,486**	255,127
Amounts due from subsidiaries	**1,018,899**	831,003
Prepayments and other receivables	**1,958**	773
Cash and cash equivalents	**3,637**	4,347
Total assets	**2,937,985**	2,765,916
EQUITY		
Share capital	**67,727**	67,727
Reserves	**1,811,814**	1,830,231
Retained earnings	**651,419**	602,939
Total equity	**2,530,960**	2,500,897
LIABILITIES		
Amounts due to subsidiaries	**2,428**	2,358
Interest payables	**460**	391
Bank borrowings	**392,536**	253,404
Other liabilities and accruals	**11,601**	8,866
Total liabilities	**407,025**	265,019
Total equity and liabilities	**2,937,985**	2,765,916

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(a) Reserve movement of the Company

	Reserves HK$'000	Retained earnings HK$'000
Balance as at 1 January 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
Balance as at 1 January 2019	**1,830,231**	**602,939**
Comprehensive income		
Profit for the year	**–**	**483,495**
Total comprehensive income	**–**	**483,495**
Transactions with shareholders		
Share option scheme:		
– Value of services	**339**	**–**
– Share options lapsed	**(18,756)**	**18,756**
Dividends	**–**	**(453,771)**
Total transactions with shareholders	**(18,417)**	**(435,015)**
Balance as at 31 December 2019	**1,811,814**	**651,419**

35 SUBSIDIARIES

As at 31 December 2019, 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 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 30-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 31-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 32-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 33-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 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 PDP 8 Limited	Cayman Islands 12 June 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
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 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
ZF Ireland Aircraft 49 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
ZF Ireland Aircraft 78 Limited	Ireland 23 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 87 Limited	Ireland 10 September 2018	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

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US$683,933,280	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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中機始興租賃（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
中機建隆租賃（天津）有限公司 (ZJ Jianlong Leasing (Tianjin) Co., LTD.)	PRC 23 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機開寶租賃（天津）有限公司 (ZJ Kaibao Leasing (Tianjin) Co., LTD.)	PRC 23 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機干德租賃（天津）有限公司 (ZJ Gande Leasing (Tianjin) Co., LTD.)	PRC 24 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機治平租賃（天津）有限公司 (ZJ Zhiping Leasing (Tianjin) Co., LTD.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大曆租賃（天津）有限公司 (ZJ Dali Leasing (Tianjin) Co., LTD.)	PRC 29 June 2018	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.

36 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 16 January 2020, the Group entered into an agreement with Airbus to purchase 40 additional aircraft which such agreement was executed in a form of a supplemental agreement to the aircraft purchase agreements with Airbus dated 1 December 2014.

On 4 March 2020, CALC IDN Limited ("CALC IDN"), a wholly-owned subsidiary of the Company, entered into the subscription agreement with Aviation Synergy Limited ("Aviation Synergy"), pursuant to which Aviation Synergy agreed to allot and issue, and CALC IDN agreed to subscribe for, 28,000,000 Aviation Synergy's shares at a total consideration of US$28 million (equivalent to approximately HK$218.4 million). Aviation Synergy is mainly engaged in provision of commercial air transportation services in Indonesia.

The outbreak of coronavirus disease 2019 (COVID-19) has caused disruptions to many industries, including aviation, in China as well as other countries and regions. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The Group will closely monitor the development of the epidemic and assess its impact on its operations.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHAO Wei *(Chairman of the Board)*
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. ZHAO Wei
Mr. POON Ho Man
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 ADVISERS

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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS AND FINANCIAL INSTITUTIONS

Agricultural Bank of China Limited
Bank of Beijing Co, Ltd
Bank of China Limited
Bank of Communications Co., Ltd.
The Bank of East Asia, Limited
Bank of Jiangsu Co., Ltd
Bank SinoPac Company Limited
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 Limited
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
Far Eastern International Bank, Ltd.
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
Industrial and Commercial Bank of China (Thai) Public Company Limited
KDB Asia Limited
KfW IPEX-Bank GmbH
Mega International Commercial Bank Co., Ltd
MUFG Bank, Ltd
Nanyang Commercial Bank, Limited
Ping An Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd
SinoPac Leasing Corp.
Société Générale
Tai Fung Bank Limited
Taishin International Bank Co., Ltd
Taiwan Cooperative Bank Limited
TIAA Bank
Toronto-Dominion Bank

CALC

www.calc.com.hk

FULL VALUE CHAIN AIRCRAFT SOLUTIONS PROVIDER

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC™ C120915