CALC

China Aircraft Leasing Group Holdings Limited

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

Fly Ahead

2020
ANNUAL
REPORT

CONTENTS

2 About CALC

4 Financial Highlights and Five-Year Financial Summary

6 Chairman's Statement

10 CEO's Statement

15 Management Discussion and Analysis

27 Report of the Directors

47 Corporate Governance Report

59 Risk Management Report

64 Profile of the Directors and Senior Management

70 Independent Auditor's Report

79 Consolidated Balance Sheet

80 Consolidated Statement of Income

81 Consolidated Statement of Comprehensive Income

82 Consolidated Statement of Changes in Equity

84 Consolidated Statement of Cash Flows

86 Notes to the Consolidated Financial Statements

172 Corporate Information

ABOUT CALC

CALC ("China Aircraft Leasing Group Holdings Limited") is a one-stop aircraft full life-cycle solutions provider for global airlines and aircraft asset owners. Its businesses are engaging in two major segments, aircraft leasing and aviation aftermarket. Its conventional businesses include provision of aircraft operating leasing, purchase and leaseback, and structured financing services. It also covers value-added services such as fleet upgrades, aircraft maintenance, repair and overhaul ("MRO"), aircraft disassembly and component sales.

With its promising development prospects, CALC was integrated into the "Four-Three-Three" ten-year development strategy of China Everbright Group ("CE Group") in 2018, set to receive from CE Group strengthened deployment of resources to be nurtured into a "world-leading aircraft lessor".

At a Glance

As of 31 December 2020

128
Aircraft fleet (103 owned aircraft + 25 managed aircraft)

253
Aircraft on order

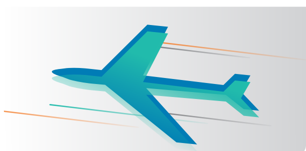
5.7 years
Average fleet age

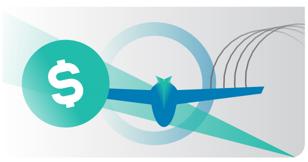
7.6 years
Average remaining lease term

HK$46.4b
Total assets

35
Airline clients spanning

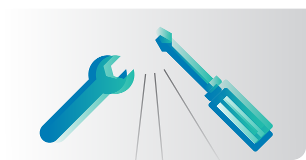
15
Countries and regions


Aircraft operating leasing, purchase and leaseback



Structured financing services


Fleet upgrade

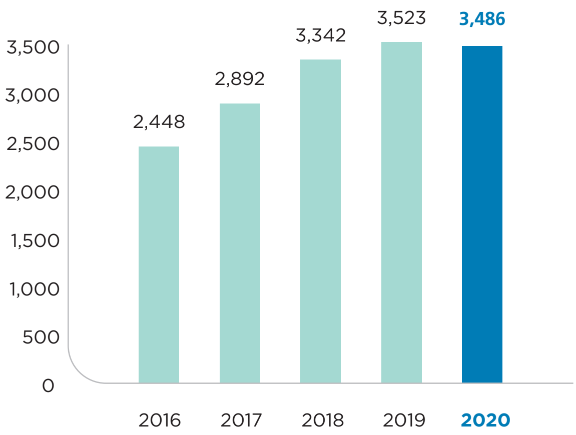

Aircraft maintenance, repair & overhaul ("MRO")


Aircraft disassembly and component sales

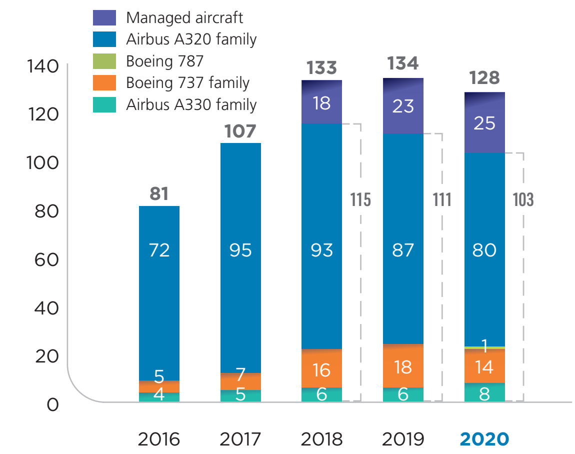
FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

TOTAL REVENUE

(HK$ million)

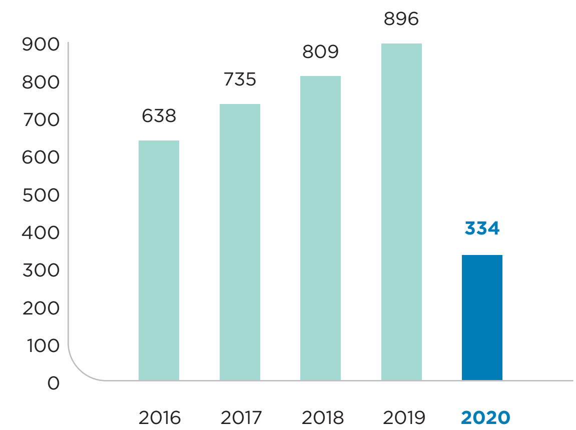


AIRCRAFT OWNED & MANAGED



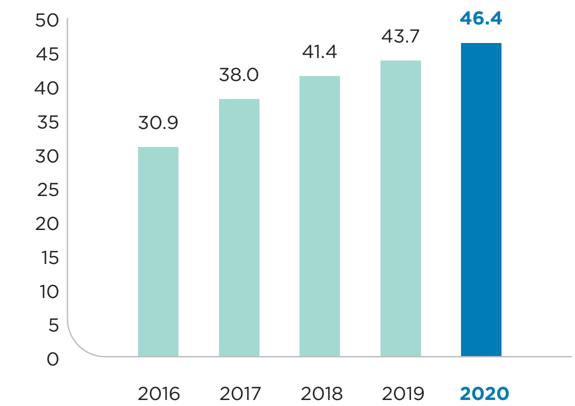
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK$ million)

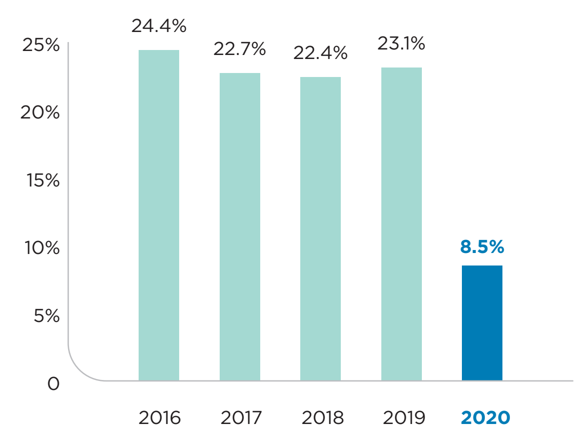


TOTAL ASSETS

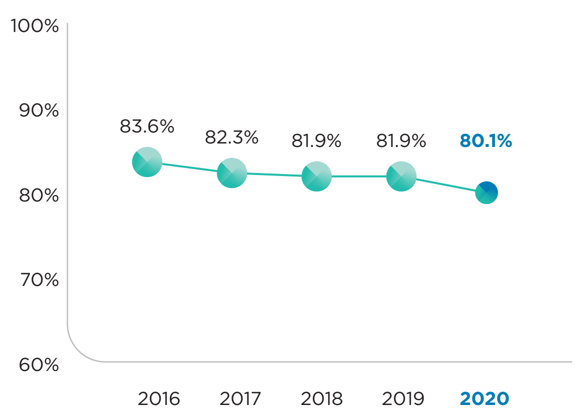
(HK$ billion)



RETURN ON EQUITY



GEARING



FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2016 HK$'m	2017 HK$'m	2018 HK$'m	2019 HK$'m	**2020 HK$'m**
Total revenue	2,448	2,892	3,342	3,523	**3,486**
Profit attributable to shareholders of the Company	638	735	809	896	**334**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2016 HK$'m	2017 HK$'m	2018 HK$'m	2019 HK$'m	**2020 HK$'m**
ASSETS					
Property, plant and equipment and right-of-use assets	6,214	13,059	18,886	19,611	**18,451**
Interests in and loans to associates and joint ventures	444	870	959	1,118	**1,135**
Finance lease receivables – net	15,031	12,556	10,021	7,791	**7,264**
Financial asset at fair value through profit or loss	–	–	499	753	**798**
Derivative financial assets	131	91	123	26	**18**
Prepayments and other assets	3,063	4,022	6,772	9,765	**13,419**
Aircraft trading assets	–	–	–	–	**19**
Cash and bank balances	6,017	7,396	4,167	4,587	**5,289**
Total assets	30,900	37,994	41,427	43,651	**46,393**
LIABILITIES					
Total borrowings	25,826	31,278	33,942	35,763	**37,156**
Other liabilities	2,031	3,289	3,705	3,918	**3,821**
Total liabilities	27,857	34,567	37,647	39,681	**40,977**
Net assets	3,043	3,427	3,780	3,970	**5,416**

Per-Share-Basis	2016	2017	2018	2019	**2020**
Basic earnings per share (HK cents)	100.9	108.8	119.4	132.3	**48.2**
Net asset value per share (HK$) (note 1)	4.5	5.1	5.6	5.9	**7.8**

Financial Ratios	2016	2017	2018	2019	**2020**
Gearing ratio (total borrowings vs total assets)	83.6%	82.3%	81.9%	81.9%	**80.1%**
Return on average shareholders' equity	24.4%	22.7%	22.4%	23.1%	**8.5%**
Interest coverage (note 2)	202.6%	207.9%	210.5%	226.2%	**197.3%**

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 consolidated results of the Group for the year ended 31 December 2020 ("**Review Year**").

RESULTS AND DIVIDEND

In 2020, the global spread of COVID-19 pandemic dwarfed drastically global logistics and passenger travel volumes and brought about unprecedented challenges to the aviation industry. Airlines were the first to bear the brunt, and were hit badly on the revenue and profit fronts. On the one hand, major countries had been implementing policies including travel restrictions and others that reduced flights, putting the whole industry under pressure of consolidation and reshuffle. On the other hand, with much shrunken demand from routes, there were significantly fewer new aircraft deliveries by aircraft manufacturers in 2020 compared with the previous year.

CHAIRMAN'S STATEMENT

It was against this backdrop that CALC navigated its journey through an extremely challenging year in 2020. During the Review Year, total revenue of the Group amounted to HK$3,485.8 million (2019: HK$3,523.2 million). Operating profit was approximately HK$948.7 million (2019: HK$967.6 million). Both were maintained at similar levels to those of last year. Profit attributable to shareholders of the Company was HK$334.1 million (2019: HK$896.0 million). Earnings per share were HK$0.482 (2019: HK$1.323). As at 31 December 2020, the Group had a cash balance of HK$5,289.4 million, representing an increase of 15.3% from the beginning of the Review Year.

The Board has recommended the payment of a final dividend of HK$0.2 (2019: HK$0.48) per ordinary share. Together with the 2020 interim dividend of HK$0.2 (2019: HK$0.23) per share already paid, the total dividend payout for the year 2020 amount to HK$0.4 per share (2019: HK$0.71). The Company has continued its scrip dividend scheme for the final dividend for 2020.

Identifying Opportunities in the Middle of the Crisis to Reinforce Strength in Global Aircraft Operating Lease Business

Opportunities come with challenges especially in the middle of the pandemic. Aircraft lessors, as an important segment in the aviation industry chain, help airlines alleviate liquidity pressure and avoid major capital expenditure. They also help aircraft manufacturers coordinate their delivery schedules to significantly lower operating risk for airlines. According to Cirium, an aviation industry consultant, more of the new aircraft deliveries around the world were done through lessors, elevating the penetration rate of global lessors to nearly 50%. This particular market landscape in the middle of the pandemic had highlighted the importance of aircraft lessors, creating opportunities for development of aircraft leasing businesses.

During the Review Year, the CALC team proactively identified opportunities and actually turned crises into opportunities. They continued to enhance the Group's strengths in aircraft operating leasing around the world. According to the statistics released by Cirium, CALC ranked first among the world's large-scale lessors in November 2020 with 95% of its fleet in service, and was listed in the category of companies having lowest risk coefficients, benefitting from a high proportion of 91% of narrow-body aircraft among the peer listed lessors. CALC not only provides aircraft leasing services customized to client requirements, but also unleashes edges in its full value chain foothold to integrate professionally solutions for old and retiring aircraft; completing purchase-and-leaseback transactions and disposals of retiring aircraft for major airlines, thereby helping them to mitigate redelivery risk.

Ploughing Deep into the China Market to Establish a Competitive Aircraft Asset Management Platform

Although the global aviation market was still in doldrums, China saw rapid recovery momentum for domestic routes, thanks to accomplishments the country made in putting the pandemic under effective control. In addition, subsequent to an array of support policies and infrastructure investments by the Chinese government, such as the persisting efforts in improving the transportation infrastructure and expanding in-region traffic volumes, aviation capacities and infrastructure were expanded accordingly. We are delighted to witness China's leapfrogging into an aviation transportation superpower from a major aviation transportation player during the inaugural year of the 14th Five-Year Plan, with steady enhancements made in demand, speed, quality and efficiency, etc., of civil aviation transportation.

CHAIRMAN'S STATEMENT

China Asset Leasing Company Limited (中飛租融資租賃有限公司)("**CALC Tianjin**"), a wholly-owned subsidiary of the Group, is the first and one of the few lessors in China capable of providing one-stop fleet upgrading service for airline customers. During the Review Year, major shareholders of the Company provided the Group further with strategic planning, financing, resources allocation and others to support its layout in domestic market, aiming at pooling in resources of unparalleled edges to optimize the landscape for enlarging market share of CALC in China, grooming the Group into the most competitive integrated aircraft asset management platform in the country.

Relentlessly Enhancing the Aviation Full-life-cyle Industry Chain Operations

In the post-pandemic era, airlines incline to partner with lessors having scale advantages to help them meet their capital and operational requirements. They incline even more to work with professional asset managers with aircraft asset management capacities to develop more comprehensive lease structures and provide one-stop services to realize integrated fleet management to accomplish better cost efficiency.

In the past few years, CALC has been continuously enhancing its aircraft full value chain operations and extending its service coverage to all major segments of the aircraft aftermarket. During the Review Year, CALC proactively pursued fleet management and lease management, upgrading its service capabilities in the aviation aftermarket. CALC's aircraft maintenance, repair and overhaul ("**MRO**") business was granted Part 145 approval certification by the European Aviation Safety Agency ("**EASA**") and undertook more maintenance support services compared with the previous year for domestic airline customers. In addition, through the establishment of various aviation industry fund platforms and joint ventures, CALC fostered industrial cooperation ecosystems, accreting value and realizing returns for financiers, investors and other aircraft asset owners in its capacity as an aircraft asset manager.

Pursuing strategies to establish as a world-leading aircraft leasing full value chain service provider

The establishment of a world-leading aircraft leasing full value chain service provider constitutes key objectives of the "143 (One-Four-Three)" strategy of China Everbright Limited ("**CEL**") under the "433 (Four-Three-Three)" development architecture of China Everbright Group. In January 2021, CALC procured ARJ21 series aircraft with 30 firm orders and 30 intended orders from Commercial Aircraft Service Corporation of China Ltd. ("**COMAC**"), and signed a tripartite project investment cooperation memorandum with CEL and COMAC in respect of deep and pragmatic cooperation in the areas of overseas operation of aircraft made in China, aircraft asset management and aviation aftermarket, etc. This constituted a key directive in supporting realization of China Everbright Group's vision of serving the new development landscape of the dual domestic and international industry cycles.

In 2021, although the availability of vaccines for COVID-19 has shed lights to the aviation industry, it will still take time for the aviation sector to recover. Industry participants are charged with missions and shouldering responsibilities to work harder and progress further. CALC will continue its prudence in business operations, consolidating its business foundation in various areas to unleash its industry edges in full, treading ahead our journey of accomplishing the vision of becoming a world-leading aircraft lessor providing full value chain solutions.

ACKNOWLEDGEMENTS

I would like to express my sincere appreciation to my fellow Board members and the management for fighting together with the Company as a team with full confidence and determination in the development of the Company during this challenging year. On behalf of the Board, I would also like to extend my heartfelt appreciation to all the staff. Last but not least, 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, 15 March 2021

CEO'S STATEMENT

POON Ho Man

Executive Director and Chief Executive Officer

NAVIGATING THROUGH A CHALLENGING 2020

2020 had marked the most challenging year ever in the commercial aviation industry. The COVID-19 outbreak has brought upon unprecedented upheaval to the aviation industry.

To minimize the risk of the spread of COVID-19, some hard-hit countries have introduced border restrictions, which led to grounded flights, particularly international long-haul routes serviced by large widebodies. Whilst cross-border operations were still under pressure, domestic markets had been leading the recovery, albeit in different trajectories. In particular, with the pandemic gradually being brought under control, the domestic market in China has rebounded significantly with passenger traffic returned to approximately pre-crisis level.

Although the challenging business environment exacts pressure on CALC for the near term, the key fundamentals supporting its operations for the long term remain unscathed. The resilience of CALC's business model is built on its highly-liquid asset portfolios, region-specific marketing platforms, diversified funding and trading channels, flexibilities in leasing arrangements, asset management expertise, and strong relationships with its industry stakeholders.

CALC maintained its operating profit for 2020 at approximately the same level as 2019, with much more abundant balance of cash and stronger credit support from banks and investors, ending the Review Year with a better position to prepare for next phase of development.

2020 BUSINESS REVIEW

1) A young, narrow-body-dominant fleet

CALC continued to apply prudent principles in optimizing its fleet portfolio. During 2020, the Group delivered 10 aircraft through order book placements as well as flexible purchase and lease back arrangements; and disposed of 18 aircraft to its diversified aircraft investment platforms and third parties. As of 31 December 2020, CALC had 128 aircraft in its fleet, including 103 owned and 25 managed aircraft.

CALC has been very selective in the type of aircraft assets to be included in its portfolio. As of 31 December 2020, by number of aircraft, 91% of CALC's owned fleet are narrow-body aircraft, a highly liquid asset class and the most popular aircraft type mainly serving domestic routes and short-haul flights, which had been proven to be less impacted by the pandemic.

CALC has been maintaining a young and modern fleet. Its self-owned fleet had an average age of 5.7 years and average remaining lease period of 7.6 years as at 31 December 2020. CALC continued to pursue its long-standing strategy of investing in modern aircraft that are the most fuel-efficient and sought-after category as it prepared itself for recovery and growth in the future. As at 31 December 2020, CALC had 253 narrow-body aircraft in its order book, to be delivered in stages by 2027.

By number of aircraft, 78% of CALC's owned fleet as of 31 December 2020 were leased to Chinese clients, the majority of which are state-owned airlines with strong financial and liquidity strengths. CALC's non-Chinese clients are mainly flag-carriers or backed by strong shareholders. As of 31 December 2020, CALC's owned and managed aircraft were on lease to 35 airlines in 15 countries and regions.

CEO'S STATEMENT

2) Persisting the asset-light model to enhance earnings quality further

CALC is one of the few lessors that boast not only global, but domestic aircraft trading platforms to introduce various aviation finance products, including lease rental realization, asset-backed securities (ABS), joint ventures with other lessors and management of aviation-related funds that acquire aircraft from its fleet, taking its asset-light model to the next level.

Perfecting the asset-light model is instrumental in CALC's long term strategy of increasing its presence in the aviation industry chain as a lessor playing heavier roles, with broader business opportunities. This is particularly important given the earth-breaking changes in the industry ecosystem in response to the pandemic. The asset-light model ensures CALC's fleet portfolio to be optimized with discipline, capital efficiency at high levels and low gearing and strengthens of its core businesses.

CALC rolled out ARG Cayman 1 Limited ("**ARG**"), another aircraft investment vehicle focusing on old aircraft portfolios and trading of parts and components following the full operation of CAG. During 2020, CALC injected four aircraft into ARG while its associate Aircraft Recycling International Limited served as the servicer to advance its asset management strengths.

During 2020, CALC also disposed of two aircraft to a joint venture it established with HNCA Aviation & Equipment Leasing Co., Ltd. Furthermore, CALC joined forces with Moutai Financial Leasing Co., Ltd. in a strategic cooperative partnership for the investment in lease-attached aircraft portfolio in May 2020.

CALC also completed the disposal of seven aircraft to Everbright Financial Leasing Co., Ltd. in a move to seek win-win cooperation where CALC optimizes its fleet and asset portfolio while the latter expands its business presence.

3) Enhancing financing capabilities

Given the challenging environment, managing liquidity is vital to the aviation industry to bridge the Group to recovery. CALC continues to advance its onshore and offshore financing platforms to flexibly tap opportunities to access quality funding sources. Bank loans still remains the main source of funding for its fleet. Banks have given adequate credit lines to support the Group's business development.

Capitalizing on the relative abundance of liquidity in the domestic market in China, CALC completed a RMB300 million short-term debenture issuance at a 4% coupon in June 2020, following a RMB1 billion short-term debenture issuance at a 3.65% coupon in March.

As RMB exchange rate changed rapidly against USD during the year, an unrealised mark-to-market RMB exchange loss of approximately HK$306 million was incurred in 2020. Currently RMB loan represents approximately 13% of the Group's total debt portfolio. In order to mitigate RMB exchange rate risks, a hedging arrangement has been made and unhedged exposure on RMB has been decreased by around 50% as of the date of this Report when compared to the general level as for the Review Year.

In June 2020, CALC received an approval from the Shanghai Stock Exchange for its RMB5 billion asset-backed securities (ABS) issuance programme. As the first ABS issuance programme for the aircraft leasing industry in China, it allows multiple issuances within a two-year period without further approval requirements. This flexibility will enable CALC to capture new business opportunities more timely while lowering related costs.

In August 2020, the Group received the highest AAA credit rating from Dagong Global Credit Rating Co., Ltd, an accolade conducive to future financings in the domestic market in China.

CALC has also been working in parallel in the offshore market. The Group arranged US$70 million five-year unsecured bonds at a coupon of 5.90% with two issuance of US$35 million each completed in November 2020 and January 2021.

In December 2020, the Group completed a US$200 million issue of perpetual bond for the first time at a coupon of 6.4% over London Interbank Offered Rate ("**LIBOR**"). This transaction has showcased the recognition from reputable institutional investors in CALC's creditworthiness backed by its strong business fundamentals and sound development prospects.

Under the prevailing unprecedented times, CALC has successfully arranged project loan facilities for eight aircraft. To shore up its financial position, CALC has also received strong support from the associate companies under China Everbright Group. Together with liquidity provided by other commercial banks, CALC has been granted US$275 million of standby credits and committed working capital facilities.

With all these measures, despite the backdrop of a challenging environment, the Group has gathered rich ammunition to tap opportunities from the imminent recovery of its key aviation markets in China and the region.

4) Perfecting full-value-chain operations to exploit further synergies in the ecosystem

Following its expansion into mid-aged to end-of-life aircraft solutions ranging from aircraft leasing, portfolio trading, MRO, aircraft disassembly and component sales, CALC extended downstream along the aviation value chain into the end-user segment to further enhance its business synergies. In March 2020, CALC acquired a 72.82% interest in Aviation Synergy Ltd., which holds a 49% indirect equity interest in an Indonesian regional airline. In January 2021, CALC placed firm order for 30 ARJ21 aircraft and, together with China Everbright Group and CEL, further its strategic cooperation with COMAC in the fields of aircraft asset management, MRO and aviation aftermarket services. The move paves the way for the imminent effort by CALC to stretch its muscles further to the aircraft aftermarket.

As civil aviation market in Indonesia has been severely impacted by the pandemic, CALC shared losses and made provision on the investment in Aviation Synergy Ltd totaling approximately HK$205 million, compared with the Group's investment cost of US$28 million (equivalent to approximately HK$218 million). The Group still believes in synergies to be exploited from the "manufacturer-lessor-airlines" ecosystem development.

CEO'S STATEMENT

PROSPECTS

2020 has been unprecedented for the aviation industry, but we are glad to conclude the Review Year with the solid progress on the front of vaccine development for the pandemic. The Group envisages that as vaccines are gradually administered to the world population and cross-border restrictions are lifted, the reviving economy will again spur demand for global air connectivity. Commercial aviation will demonstrate resilience against turbulences time and time again.

Recovery of the aviation industry and the general economy as a whole is likely to be gradual and uneven, with timing uncertain. Yet China will obviously be leading the recovery momentum in this region. The market generally expects China to emerge as the largest delivery destination for commercial aircraft and passenger jets between 2021 and 2039, taking up a 22% share globally. At the same time, product differentiation and diversity will be the key that distinguishes professionalism of individual aircraft lessors.

CALC will channel more resources into the China market to further consolidate its leading position there. Meanwhile, CALC will continue to sharpen its edge as a matured aircraft asset manager – a local aviation player with global resources. This full integration of the Group's capabilities along the aviation value chain is set to advance with the unparalleled flexibility in mobilizing resources from the global platform it has been building over the years, bringing the Group closer to its goal of becoming a world leading aircraft lessor.

The CALC team continues to persevere in its set priorities. With its strong shareholder backing, a diversified clientele of Chinese airlines and ready access to both PRC onshore and offshore platforms of aircraft trading and aviation financing, CALC is well-positioned to weather these challenges with its partners together, and emerge stronger for us and the industry as a whole.

POON Ho Man
Executive Director and Chief Executive Officer
Hong Kong, 15 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

Total revenue of the Group was HK$3,485.8 million in 2020, a decrease of HK$37.4 million or 1.1% from HK$3,523.2 million in 2019. Operating profit for the year in 2020 amounted to HK$948.7 million, a decrease of HK$18.9 million or 2.0% compared with HK$967.6 million in 2019. Profit attributable to shareholders of the Company in 2020 amounted to HK$334.1 million, a decrease of HK$561.9 million or 62.7% compared with HK$896.0 million in 2019. As at 31 December 2020, the fleet size of the Group was 128 aircraft, including 103 owned aircraft and 25 managed aircraft (2019: the fleet size of the Group was 134 aircraft, including 111 owned aircraft and 23 managed aircraft).

Total assets amounted to HK$46,392.5 million as at 31 December 2020, compared with HK$43,651.3 million as at 31 December 2019, an increase of HK$2,741.2 million or 6.3%. The increase in assets was mainly due to the increase in Pre-Delivery Payments ("**PDP**") made to aircraft manufacturers for aircraft acquisition from order book. Total liabilities amounted to HK$40,976.8 million, an increment of HK$1,295.2 million or 3.3% compared with HK$39,681.6 million as at 31 December 2019.

Total equity amounted to HK$5,415.8 million as at 31 December 2020 compared with HK$3,969.7 million as at 31 December 2019, an increase of HK$1,446.1 million or 36.4%. The increase in equity was mainly due to the issuance of US$200 million (equivalent to approximately HK$1,550.5 million) perpetual capital securities in December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF INCOME AND EXPENSES

	Year ended 31 December 2020 HK$'Million	2019 HK$'Million	Change
Total revenue			
Lease income			
Finance lease income	**541.2**	664.3	–18.5%
Operating lease income	**1,945.6**	1,796.2	8.3%
	2,486.8	2,460.5	1.1%
Other income			
Net income from aircraft transactions and aircraft trading	**514.3**	594.9	–13.5%
Government grants	**251.5**	265.1	–5.1%
Interest income from loans to associates and joint ventures	**92.9**	74.4	24.9%
Forfeiture of deposit received	**84.6**	–	N/A
Bank interest income	**10.0**	24.2	–58.7%
Servicer fees income from CAG Group	**12.2**	33.2	–63.3%
Others	**33.5**	70.9	–52.8%
	999.0	1,062.7	–6.0%
Total revenue	**3,485.8**	3,523.2	–1.1%
Total operating expenses	**(2,537.1)**	(2,555.6)	–0.7%
Operating profit	**948.7**	967.6	–2.0%
Share of losses and provision on investment in associates and joint ventures	**(209.0)**	(3.3)	6,233.3%
Other (losses)/gains	**(306.7)**	76.2	N/A
	(515.7)	72.9	607.4%
Profit before income tax	**433.0**	1,040.5	–58.4%
Income tax expenses	**(165.1)**	(144.5)	14.3%
Profit for the year	**267.9**	896.0	–70.1%
Profit/(loss) attributable to			
Shareholders of the Company	**334.1**	896.0	–62.7%
Holders of perpetual capital securities and other non-controlling interests	**(66.2)**	–	N/A
	267.9	896.0	–70.1%

2.1 Total Revenue

For the year ended 31 December 2020, the total revenue amounted to HK$3,485.8 million, compared with HK$3,523.2 million in 2019, a decrease of HK$37.4 million or 1.1%.

Total lease income from finance leases and operating leases for the year 2020 amounted to HK$2,486.8 million, compared with HK$2,460.5 million in 2019, an increase of HK$26.3 million or 1.1%. The decrease in finance lease income was due to the reclassification of aircraft from finance lease aircraft to operating lease aircraft. The increase in operating lease income was attributable to the reclassification of finance lease aircraft to operating lease aircraft as mentioned above.

For the year ended 31 December 2020, the Group's average lease rental yield of the finance leases and operating leases was 11.8% (2019: 12.6%) and 10.2% (2019: 9.3%), respectively. Average lease rental yield for finance leases and operating leases is calculated by expected annual gross lease receipt divided by net book value of aircraft. Weighted average lease rental yield of the Group was 10.4% (2019: 9.9%).

In 2020, the Group recognised net gain from disposal of 18 aircraft amounted to HK$514.3 million with aggregate net book value of HK$5,579.5 million.

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.

Government grants for the year amounted to HK$251.5 million, compared with HK$265.1 million in 2019, a decrease of HK$13.6 million or 5.1%.

In 2020, the Group recorded an income from forfeiture of deposit received amounted to HK$84.6 million (2019: Nil) from an independent third party relating to an aircraft transaction.

2.2 Total Operating Expenses

During the year ended 31 December 2020, the Group had the following operating expenses.

	Year ended 31 December		
	2020	2019	Change
	HK$'Million	HK$'Million	
Interest expenses	**1,328.8**	1,422.8	–6.6%
Depreciation	**859.4**	755.1	13.8%
Expected credit losses/ (reversal of expected credit losses)	**80.6**	(1.7)	N/A
Other operating expenses	**268.3**	379.4	–29.3%
Total operating expenses	**2,537.1**	2,555.6	–0.7%

MANAGEMENT DISCUSSION AND ANALYSIS

(a) Interest Expenses

For the year ended 31 December 2020, interest expenses incurred by the Group amounted to HK$1,328.8 million compared with HK$1,422.8 million in 2019, a decrease of HK$94.0 million or 6.6%. The total interest-bearing debts as at 31 December 2020 amounted to HK$37,156.1 million (As at 31 December 2019: HK$35,763.1 million). The decrease in interest expenses was mainly due to the decrease in US$ LIBOR rate during the year. The average effective interest rate of bank borrowings during the year was 3.34% (2019: 4.64%).

(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 2020 was HK$859.4 million compared with HK$755.1 million in 2019, an increase of HK$104.3 million or 13.8%. The increase in depreciation was mainly due to the reclassification of finance lease aircraft to operating lease aircraft.

(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's implementation of cost control measures on operating expenses and decrease in value-added tax and other tax expenses during the year.

2.3 Share of Losses and Provision on Investment in Associates and Joint Ventures

The amount mainly represents share of losses and provisions totally amounted to HK$205.4 million on the investment in PT TransNusa Aviation Mandiri ("**TAM**") (A joint venture acquired by the Group in March 2020) (2019: Nil) during the year. The share of losses and provisions on the investment in TAM was mainly due to the global pandemic exacted pressure on the operation of TAM during the year.

On 4 March 2020, CALC IDN Limited ("**CALC IDN**"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with Aviation Synergy Ltd ("**Aviation Synergy**"), which was owned as to 52% by Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive Director and chief executive officer of the Company) and 48% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive Director and deputy chief executive officer of the Company).

Pursuant to the subscription agreement, 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), representing approximately 72.82% of the enlarged share capital in Aviation Synergy. Aviation Synergy indirectly (i) holds 49% equity interest in TAM and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in TAM. The principal activity of TAM is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

2.4 Other Losses/Gains

The amount mainly represents currency exchange losses of HK$277.7 million (2019: currency exchange gains of HK$52.7 million), in which currency exchange losses of HK$306.5 million (2019: currency exchange gains of HK$23.5 million) arising from borrowings denominated in RMB and currency exchange gains of HK$28.8 million (2019: currency exchange gains of HK$29.2 million) arising from borrowings denominated in US$. The exchange losses arising from borrowings denominated in RMB was mainly due to the appreciation of RMB exchange rate against USD during the year from 6.99 to 6.53.

To manage and mitigate the foreign exchange exposure arising from various liabilities denominated in RMB, the Group entered into various currency forward contracts with notional amount of RMB400 million (equivalent to approximately HK$475 million) in December 2020 and RMB1.6 billion (equivalent to approximately HK$1.9 billion) subsequent to 31 December 2020 and up to the announcement date.

Up to the announcement date, the carrying amount of RMB debt amounted to RMB4.0 billion (equivalent to approximately HK$4.7 billion), hedged by the currency exchange forward contracts with total notional amount of RMB2.0 billion (equivalent to approximately HK$2.4 billion), the unhedged currency exposure on RMB has been decreased by around 50%.

2.5 Income Tax Expenses

Income tax for the year ended 31 December 2020 was HK$165.1 million (2019: HK$144.5 million). Increase in the amount was mainly due to the increase in tax provision relating to increase in number of disposal of aircraft in PRC from 6 aircraft in 2019 to 17 aircraft in 2020.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 31 December 2020, the Group's total assets amounted to HK$46,392.5 million compared with HK$43,651.3 million as at 31 December 2019, an increase of HK$2,741.2 million or 6.3%.

The majority of total assets as at 31 December 2020 represented property, plant and equipment and right-of-use assets of HK$18,450.6 million (2019: HK$19,611.5 million), finance lease receivables of HK$7,263.7 million (2019: HK$7,790.5 million) and PDP of HK$11,294.7 million (2019: HK$8,405.1 million). The increase in total assets was mainly due to the increase in PDP made to aircraft manufacturers for aircraft acquisition from order book.

	As at 31 December		
	2020	2019	Change
	HK$'Million	HK$'Million	
Property, plant and equipment and right-of-use assets	**18,450.6**	19,611.5	–5.9%
Interests in and loans to associates and joint ventures	**1,134.9**	1,117.6	1.5%
Finance lease receivables – net	**7,263.7**	7,790.5	–6.8%
Financial asset at fair value through profit or loss	**797.9**	752.9	6.0%
Derivative financial assets	**17.7**	26.3	–32.7%
Aircraft trading assets	**19.5**	–	N/A
Prepayments and other assets	**13,418.8**	9,765.1	37.4%
Cash and bank balances	**5,289.4**	4,587.4	15.3%
Total assets	**46,392.5**	43,651.3	6.3%

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$7,790.5 million as at 31 December 2019 to HK$7,263.7 million as at 31 December 2020 because the Group reclassified two aircraft from finance lease to operating lease and disposed two aircraft under finance lease during the year.

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 decrease in property, plant and equipment and right-of-use assets was mainly due to aircraft disposed during the year under operating leases.

3.1.2 Aircraft Portfolio

Aircraft portfolio by number of aircraft is as follows:

Aircraft Type	As at 31 December 2020 Owned Aircraft	2019 Owned Aircraft
Airbus A320 CEO family	**74**	83
Airbus A320 NEO family	**6**	4
Airbus A330 CEO family	**8**	6
Boeing B737 NG family	**14**	18
Boeing B787	**1**	–
Total	**103**	111

3.1.3 Prepayments and Other Assets

Prepayments mainly represented PDP made to aircraft manufacturers for aircraft acquisition from order book. The increase in prepayments and other assets was mainly due to the increase in PDP made to aircraft manufacturers by HK$2,889.6 million (PDP as at 31 December 2020: HK$11,294.7 million; 31 December 2019: HK$8,405.1 million) and the increase in operating lease receivables by HK$350.8 million (Operating lease receivables as at 31 December 2020: HK$376.7 million; 31 December 2019: HK$25.9 million) during the year. Expected credit losses of HK$75.8 million (2019: Nil) was made on the operating lease receivables in the year.

3.2 Liabilities

As at 31 December 2020, the Group's total liabilities amounted to HK$40,976.8 million, compared with HK$39,681.6 million as at 31 December 2019, an increase of HK$1,295.2 million or 3.3%.

An analysis is given as follows:

	As at 31 December 2020 HK$'Million	2019 HK$'Million	Change
Borrowings	**26,763.0**	26,881.2	–0.4%
Bonds and debentures	**9,054.8**	7,245.4	25.0%
Medium-term notes	**1,338.3**	1,636.5	–18.2%
Total interest-bearing debts	**37,156.1**	35,763.1	3.9%
Deferred income tax liabilities	**788.7**	746.4	5.7%
Interest payables	**276.1**	269.3	2.5%
Income tax payables	**24.9**	7.3	241.1%
Derivative financial liabilities	**355.6**	129.6	174.4%
Other liabilities and accruals	**2,375.4**	2,765.9	–14.1%
Total liabilities	**40,976.8**	39,681.6	3.3%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.1 Borrowings

The analysis of borrowings is as follows:

	As at 31 December 2020 HK$'Million	2019 HK$'Million	Change
Bank borrowings			
Bank borrowings for aircraft acquisition financing	**10,542.0**	14,818.9	–28.9%
PDP financing	**8,456.6**	5,327.1	58.7%
Other unsecured bank borrowings	**2,595.0**	1,427.6	81.8%
	21,593.6	21,573.6	0.1%
Long-term borrowings			
Borrowings from trust plans	**4,818.5**	4,971.6	–3.1%
Other borrowings	**350.9**	336.0	4.4%
	5,169.4	5,307.6	–2.6%
Total borrowings	**26,763.0**	26,881.2	–0.4%

3.2.2 Bonds and debentures

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

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK$ Million)	Note
August 2016	Five years	August 2021	4.90%	US$ 300.0	2,260.7	(a)&(b)
March 2017	Five years	March 2022	4.70%	US$ 300.0	2,254.2	(a)&(b)
March 2017	Seven years	March 2024	5.50%	US$ 200.0	1,542.0	(a)&(b)
November 2020	Five years	November 2025	5.90%	US$ 35.0	269.0	(c)
				US$ 835.0	6,325.9	
June 2019	Three years	June 2022	5.20%	RMB1,000.0	1,185.6	(d)
March 2020	One year	March 2021	3.65%	RMB1,000.0	1,187.3	(e)
June 2020	One year	June 2021	4.00%	RMB300.0	356.0	(e)
				RMB2,300.0	2,728.9	
Total bonds and debentures as at 31 December 2020					9,054.8	
Total bonds as at 31 December 2019					7,245.4	

(a) These bonds are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

(b) In October, November and December 2020, the Group repurchased certain amount of bonds on the Stock Exchange for a lump sum payment of US$6,992,000. The carrying amount of the bonds in an aggregate principal amount of US$7,200,000. A net gain of US$190,000 (equivalent to approximately HK$1,474,000) was recognised after deducting the transaction cost.

(c) The bond is unlisted and subscribed by an independent third party.

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

(e) The debentures are listed on the Inter-bank Bond Market of China.

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)	Note
July 2015	Five years	July 2020	6.50%	–	–	(a)
November 2016	Five years	November 2021	4.19%	330.0	391.1	
August 2019	Three years	August 2022	4.93%	800.0	947.2	
Total medium-term notes as at 31 December 2020				1,130.0	1,338.3	
Total medium-term notes as at 31 December 2019					1,636.5	

(a) In July 2020, the Group fully repaid the five-year RMB340.0 million (equivalent to approximately HK$377.5 million) medium-term notes, bearing coupon interest at 6.5% per annum on maturity date.

As at 31 December 2020, after deducting the issuing cost, the total carrying amount of these medium-term notes was RMB1,126.8 million (equivalent to HK$1,338.3 million).

3.3 Equity

	As at 31 December		
	2020 HK$'Million	2019 HK$'Million	Change
Share capital	72.0	67.7	6.4%
Reserves	1,585.5	1,559.5	1.7%
Retained earnings	2,235.6	2,342.5	–4.6%
Equity attributable to shareholders of the Company	3,893.1	3,969.7	–1.9%
Perpetual capital securities and other non-controlling interests	1,522.7	–	N/A
Total equity	5,415.8	3,969.7	36.4%

Perpetual capital securities and other non-controlling interests of HK$1,522.7 million (2019: Nil) mainly represents the issuance of US$200 million (equivalent to approximately HK$1,550.5 million) floating rate guaranteed perpetual capital securities in December 2020, which resulted in the increase of total equity in the current year.

4. 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 debentures, 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, HNCA&CALC One (Tianjin) Leasing Company Limited ("**HNCA One (Tianjin)**") and HNCA&CALC Two (Tianjin) Leasing Company Limited ("**HNCA Two (Tianjin)**").

For the year ended 31 December 2020, 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 ratio and debt to equity ratio:

	As at 31 December		
	2020	2019	Change
	HK$'Million	HK$'Million	
Interest-bearing debts included in total liabilities	**37,156.1**	35,763.1	3.9%
Total assets	**46,392.5**	43,651.3	6.3%
Total equity	**5,415.8**	3,969.7	36.4%
Gearing ratio	**80.1%**	81.9%	–1.8p.p.
Interest-bearing debts to equity ratio	**7:1**	9:1	–22.2%

5. HUMAN RESOURCES

As at 31 December 2020, staff of the Group numbered 162 (2019: 169). Total remuneration of employees for 2020 amounted to HK$135.7 million (2019: HK$182.5 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.

6. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

6.1 Contingent Liabilities

As at 31 December 2020, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounted to HK$729.0 million (2019: Nil).

6.2 Capital Commitments for Aircraft Acquisition and Qualified Aircraft Leasing Activity

The Board confirms that the Company is a listed issuer actively engaged in aircraft leasing with aircraft operators as a principal business in its ordinary and usual course of business and the Company is therefore a Qualified Aircraft Lessor (as 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$98.0 billion as at 31 December 2020 (2019: HK$86.1 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 31 December 2020, the Group had 253 aircraft in its order book, comprising 161 Airbus A320 family and 92 Boeing B737 family.

During the year under review, the Group completed the disposal of 18 aircraft.

6.3 Shareholder Loan Commitment for Investment in CAG Bermuda 1 Limited ("CAG")

The Group has committed shareholder loan for investment in CAG amounting to approximately US$94.7 million (equivalent to approximately HK$734.2 million), of which US$90.1 million (equivalent to approximately HK$698.5 million) had been drawn down up to 31 December 2020. The Group has no outstanding committed shareholder loan for investment in CAG as at 31 December 2020.

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

The Group has committed shareholder loan for investment in ARG amounted to approximately US$30.0 million (equivalent to approximately HK$232.6 million), of which US$13.3 million (equivalent to approximately HK$103.1 million) had been drawn down up to 31 December 2020. The Group's outstanding committed shareholder loan for investment in ARG as at 31 December 2020 was amounted to US$16.7 million (equivalent to approximately HK$129.5 million).

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

7. OTHER EVENT

(a) On 8 January 2021, the Group entered into the aircraft sale and purchase agreement with Commercial Aircraft Corporation of China., Ltd, pursuant to which the Group agreed to place order for purchasing 30 ARJ21 series aircraft, which will be delivered in stages up to 2026. Pursuant to the aircraft sale and purchase agreement, the Group were granted the option to place order for purchasing 30 additional ARJ21 series aircraft with terms and conditions similar to the sale and purchase under the aircraft sale and purchase agreement.

(b) To manage and mitigate the foreign exchange exposure arising from various liabilities denominated in RMB, the Group entered into various currency forward contracts with notional amount of RMB400 million (equivalent to approximately HK$475 million) in December 2020 and RMB1.6 billion (equivalent to approximately HK$1.9 billion) subsequent to 31 December 2020 and up to the announcement date.

Up to the announcement date, the carrying amount of RMB debt amounted to RMB4.0 billion (equivalent to approximately HK$4.7 billion), hedged by the currency exchange forward contracts with total notional amount of RMB2.0 billion (equivalent to approximately HK$2.4 billion), the unhedged currency exposure on RMB has been decreased by around 50%.

(c) In view of the continued development of the Aircraft Recycling International Limited ("**ARI**") business, ARI and the shareholders of ARI entered into a supplemental shareholders' loan and guarantee agreement on 26 January 2021 to extend the term of the shareholders' loan and guarantee agreement to 31 December 2023 and increase the annual cap for the years ending 31 December 2021, 2022 and 2023 from HK$1.3 billion to HK$1.5 billion. The above transaction was approved at the extraordinary general meeting of the Company held on 10 March 2021.

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 2020 together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

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 and the CEO's Statement. Description of the principal risks and uncertainties facing by the Group can be found in the Risk Management Report. 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 and the Management Discussion and Analysis. 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. 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 and the Corporate Governance Report 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 2020 are set out in the consolidated statement of income on page 80 of this annual report.

The Directors have declared an interim dividend of HK$0.20 per share, totaling approximately HK$141.2 million which was paid on 29 October 2020.

The Board has recommended the payment of a final dividend of HK$0.20 per share (2019: HK$0.48 per share) in respect of the year ended 31 December 2020 to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company (the "Register of Members") on 20 May 2021. Shareholders will be given the option to receive the proposed 2020 final dividend in new shares in lieu of cash (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is subject to: (1) approval of the proposed 2020 final dividend at the annual general meeting of the Company to be held on 7 May 2021 (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 Scheme will be despatched to the Shareholders together with the form of election for scrip dividend in June 2021. Cheques for cash dividend and/or definitive certificates for the scrip shares in respect of the proposed 2020 final dividend are expected to be despatched to the Shareholders on or about 8 July 2021.

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. 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, 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 3 May 2021
(b)	Closure of Register of Members	4 May 2021 to 7 May 2021 *(both days inclusive)*

(ii) For determining entitlement to the final dividend:

(a)	Latest time to lodge transfer documents for registration	4:30 pm on 17 May 2021
(b)	Closure of Register of Members	18 May 2021 to 20 May 2021 *(both days inclusive)*
(c)	Record date	20 May 2021

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 and 5 of 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.

BANK LOANS, BONDS PAYABLE AND OTHER BORROWINGS

Particulars of the Group's bank loans, bonds payable and other borrowings as at 31 December 2020 are set out in Notes 16 and 18 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 paragraph of this Report of the Directors headed the Post-IPO Share Option Scheme.

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

The Company repurchased a total of 3,000,000 ordinary shares of the Company at the highest price and the lowest price per share of HK$6.63 and HK$6.10 respectively on the Stock Exchange for the year ended 31 December 2020 at an aggregate consideration of approximately HK$19,103,060 (before expense). All the repurchased shares were subsequently cancelled by the Company on 3 April 2020.

In August 2016, the Group issued a 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 October and December 2020, the Group repurchased the principal amount of US$6,400,000 of 2021 Bonds on the Stock Exchange for a total payment of US$6,216,000. All the repurchased 2021 Bonds were subsequently cancelled by the Group.

In March 2017, the Group issued a 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 November 2020, the Group repurchased the principal amount of US$400,000 of 2022 Bonds on the Stock Exchange for a total payment of US$392,000. All the repurchased 2022 Bonds were subsequently cancelled by the Group.

In March 2017, the Group also issued a seven-year US$200 million senior unsecured bonds due in 2024, bearing coupon interest at 5.5% per annum ("2024 Bonds"). The 2024 Bonds were listed on the Stock Exchange. In November 2020, the Group repurchased the principal amount of US$400,000 of 2024 Bonds on the Stock Exchange for a total payment of US$384,000. All the repurchased 2024 Bonds were subsequently cancelled by the Group.

Save as disclosed above, during the year ended 31 December 2020, 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 82 to 83 of this annual report and Notes 13 and 35 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2020, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$2,768,121,000 are set out in Note 35 to the consolidated financial statements.

CHARITABLE DONATIONS

The Group's external charitable donations for the year amounted to HK$126,000.

DIRECTORS

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

Executive Directors

Dr. ZHAO Wei *(Chairman)*
Mr. POON Ho Man *(Chief Executive Officer)*
Ms. LIU Wanting *(Deputy Chief Executive Officer)*

Non-executive Director

Mr. TANG Chi Chun

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon (appointed on 18 September 2020)
Mr. CHOW Kwong Fai, Edward (passed away on 1 June 2020)

According to Article 16.18 of the Company's articles of association, not less than one-third of the Directors (including those appointed for a specific term) shall retire from office by rotation provided that each director shall be subject to retirement by rotation at the annual general meeting at least once every three years. Accordingly, Ms. LIU Wanting, Mr. TANG Chi Chun and Mr. FAN Yan Hok, Philip shall retire by rotation. All of 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 causal 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, Dr. TSE Hiu Tung, Sheldon, being a Director appointed by the Board on 18 September 2020, had retired from office and was re-elected at an extraordinary general meeting held on 10 March 2021.

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, an independent non-executive Director of the Company (the "INED") was appointed as the independent non-executive chairman of MC Payment Limited which became a listed company on Singapore Stock Exchange on 22 February 2021.

Dr. TSE Hiu Tung, Sheldon was appointed as an INED with effect from 18 September 2020. Dr. TSE also resigned as an independent non-executive director of Fullsun International Holdings Group Co., Limited, a company listed on the Stock Exchange (stock code: 627), with effect from 14 December 2020.

The detailed biographies of Directors are disclosed in the section headed Profile of the Directors and Senior Management 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

Save as disclosed in the paragraph of this Report of the Directors headed Connected Transactions and Continuing Connected Transactions, 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 2020.

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 64 to 69 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 INEDs 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 Dr. TSE Hiu Tung, Sheldon, is independent.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors for the year ended 31 December 2020 are set out in Note 32(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 2020, the interests or short positions of the Directors and the chief executive of the Company in the shares of the Company (the "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 Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was taken or deemed to have and such provision of 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:

Name of Directors	Capacity	Number of Shares (L)[(1)]/ underlying Share held	Approximate percentage of Shares in issue [(2)]
ZHAO Wei	Beneficial owner	10,000,000 [(3)]	1.39%
POON Ho Man	Interest of controlled corporation	209,820,979 [(4)]	29.14%
LIU Wanting	Interest of controlled corporation	11,011,689 [(5)]	1.53%
TANG Chi Chun	Beneficial owner	200,000	0.03%
FAN Yan Hok, Philip	Beneficial owner	200,000	0.03%
NIEN Van Jin, Robert	Beneficial owner	234,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000	0.01%

REPORT OF THE DIRECTORS

Notes:

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

(2) Based on 720,004,837 Shares in issue as at 31 December 2020.

(3) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Dr. ZHAO Wei pursuant to the Post-IPO Share Option Scheme.

(4) Mr. POON Ho Man was deemed to be interested in 209,820,979 Shares in the following manner:

  (a) 201,023,453 Shares held by Friedmann Pacific Asset Management Limited, a substantial shareholder of the Company and wholly-owned by Capella Capital Limited which in turn was owned as to 50% by Ms. Christina NG and 50% by Mr. POON; and

  (b) 8,797,526 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

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

Save as disclosed above, as at 31 December 2020, 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 2020 (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 2020, 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:

Name of Shareholders	Capacity	Number of Shares (L)[1]/ underlying Shares held	Total interests	Approximate percentage of Shares in issue[2]
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	230,121,724[3]	230,121,724	31.96%
China Everbright Limited ("CEL")	Interest of controlled corporation	267,225,817[3]	267,225,817	37.11%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	267,225,817[4]	267,225,817	37.11%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	267,225,817[5]	267,225,817	37.11%
Central Huijin Investment Limited ("Central Huijin")	Interest of controlled corporation	267,225,817[5]	267,225,817	37.11%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	201,023,453[6]	201,023,453[6]	27.92%
Capella Capital Limited ("Capella")	Interest of controlled corporation	201,023,453[6]	201,023,453	27.92%
POON Ho Man	Interest of controlled corporation	209,820,979[7]&[8]	209,820,979	29.14%
Christina NG	Interest of controlled corporation	201,023,453[7]	–	–
	Beneficial owner	7,500,000	208,523,453	28.96%

REPORT OF THE DIRECTORS

Notes:

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

(2) Based on 720,004,837 Shares in issue as at 31 December 2020.

(3) CEL was deemed to be interested in 230,121,724 and 37,104,093 Shares held by CE Aerospace and China Everbright Financial Investments Limited respectively, both of which were wholly-owned by CEL.

(4) CE Hong Kong indirectly held more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong was deemed to be interested in all Shares mentioned in note (3) above.

(5) Central Huijin held 63.16% equity interest in CE Group which in turn held 100% of the issued share capital of CE Hong Kong. Accordingly, CE Group and Central Huijin were deemed to be interested in all Shares mentioned in notes (3) and (4) above.

(6) The issued share capital of FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM.

(7) The issued share capital of Capella was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man. Accordingly, Mr. POON and Ms. NG were deemed to be interested in all Shares mentioned in note (6) above.

(8) Mr. POON Ho Man was interested in 8,797,526 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

Save as disclosed above, as at 31 December 2020, 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 of the Company (the "Post-IPO Share Option Scheme") was conditionally approved and adopted pursuant to a resolution in writing passed by the Shareholders 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 10,000,000 Shares (as at 4 March 2020, the date of the 2019 annual report: 14,974,000 Shares) which represented approximately 1.4% (as at 4 March 2020: 2.2%) of the Shares in issue.

On 2 January 2020, options to subscribe for 10,000,000 Shares were granted to Dr. ZHAO Wei, an executive Director and the Chairman of the Board, pursuant to the Post-IPO Share Option Scheme, which was approved by the Shareholders at an extraordinary general meeting of the Company held on 17 April 2020.

REPORT OF THE DIRECTORS

During the year, no share options were exercised and 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: At 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2020	Exercise price per Share HK$	Adjusted exercise price per Share HK$ *(Note 1)*	Exercise period
Directors									
ZHAO Wei	2 Jan 2020	–	10,000,000	–	–	10,000,000	9.00	8.46	17 Apr 2020 to 17 Apr 2022 *(Note 2)*
LIU Wanting	22 Jul 2016	3,000,000	–	–	(3,000,000)	–	8.80	–	up to 21 Jul 2020
CHEOK Albert Saychuan	22 Jul 2016	200,000	–	–	(200,000)	–	8.80	–	up to 21 Jul 2020
Sub-total		**3,200,000**	**10,000,000**	**–**	**(3,200,000)**	**10,000,000**			
Substantial Shareholder Christina NG	22 Jul 2016	3,800,000	–	–	(3,800,000)	–	8.80	–	up to 21 Jul 2020
Sub-total		**3,800,000**	**–**	**–**	**(3,800,000)**	**–**			
Other participants Senior management and other employees	22 Jul 2016	7,774,000	–	–	(7,774,000)	–	8.80	–	up to 21 Jul 2020
Others *(Note 3)*	22 Jul 2016	200,000	–	–	(200,000)	–	8.80	–	up to 21 Jul 2020
Sub-total		**7,974,000**	**–**	**–**	**(7,974,000)**	**–**			
Total		**14,974,000**	**10,000,000**	**–**	**(14,974,000)**	**10,000,000**			

Notes:

(1) On 29 October 2020, the exercise price of outstanding share options has been adjusted as a result of capitalisation issues.

(2) As approved by the Shareholders at an extraordinary general meeting of the Company held on 17 April 2020, the initial exercise period of all share options granted to Dr. ZHAO Wei will expire on 17 April 2022 (the "Expiry Date"). Subject to the approval of the Board on or before the Expiry Date and also compliance with the relevant requirements under the Listing Rules, any share options which have not been exercised by Dr. ZHAO within the initial exercise period will have an additional exercise period of two years from the date following the Expiry Date.

(3) Mr. CHOW Kwong Fai, Edward, an INED, passed away on 1 June 2020. Pursuant to the Post-IPO Share Option Scheme, Mr. CHOW's legal personal representative is entitled to take up his options to subscribe for 200,000 Shares.

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.

RETIREMENT SCHEMES

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the "MPF Scheme") to all employees of the Group's subsidiaries in Hong Kong. Under the MPF Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a monthly relevant income cap of HK$30,000.

The employees of the subsidiaries of the Group established in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a percentage of their payroll to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to these schemes charged to the consolidated statement profit or loss during the year amounted to approximately HK$1,556,430.

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 2020. 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 2020.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the lease income of the Group accounted for 71.3% of the total revenue, and the information of the customers of the lease segment is as follows:

	For the year ended 31 December 2020 Percentage of the total lease income (before business taxes and surcharges) (%)
Top five customers	49.6%
The largest customer	17.0%

The Group has no major suppliers due to the nature of its business. During the year, the Group purchased aircraft primarily from the aircraft manufacturers, Airbus and Boeing.

Saved as disclosed above, as far as the Directors are aware, none of the Directors, their associates or Shareholders holding more than 5% of the Shares in issue had any interest in the five largest customers and suppliers 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:

Continuing Connected Transactions

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.

REPORT OF THE DIRECTORS

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

CE Agreements	Actual Maximum Daily Closing Balance/ Total Consideration (HK$'Million) for the year ended 31 December 2020	Annual Caps (HK$'Million) for the year ended/ending 31 December 2020	2021
Second CE Supplemental Deposit Services Framework Agreement	2,472 (Actual Maximum Daily Closing Balance of Deposits including interests accrued thereon)	3,843	3,843
Second CE Supplemental Loan Services Framework Agreement	5,201 (Actual Maximum Daily Closing Balance of Loans including guarantees)	18,214	18,214
Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement	Nil (Total Consideration)	7,020	7,020

CE Group is the sole shareholder of CE Hong Kong. CE Hong Kong is the indirect controlling shareholder of CEL. CEL is a controlling shareholder of the Company. Accordingly, CE Group is a controlling shareholder of the Company, and thus CE Group and its associates, including CE Bank and the Trustee, are connected persons of the Company. Therefore, the transactions contemplated under the CE Agreements 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") (a wholly-owned subsidiary of FPAM) and Neo Modern Limited ("Neo Modern") (a wholly-owned subsidiary of CEL) (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 (a) revise 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; (b) revise the guarantee fee from 4% to 3% per annum of the principal amount of the bank loan guaranteed by the guarantor; and (c) renew 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 an ordinary resolution at the Company's extraordinary general meeting held on 28 November 2018.

On 26 January 2021, a third supplemental agreement to the Shareholders' Loan and Guarantee Agreement (the "Third ARI Supplemental Agreement") was entered into amongst the ARI Shareholders to extend the term of the Shareholders' Loan and Guarantee Agreement to 31 December 2023 and revise the annual caps for each of the years ending 31 December 2021, 2022 and 2023 to be HK$1,500 million respectively.

Details of the transactions contemplated under the Third ARI Supplemental Agreement are set out in the Company's announcement dated 26 January 2021 and the Company's circular dated 23 February 2021, which was proposed to and passed by the independent Shareholders by way of an ordinary resolution at the Company's extraordinary general meeting held on 10 March 2021.

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 guarantee fees and interests accrued thereon) (HK$'Million) for the year ended 31 December	Annual Caps (HK$'Million) for the year ended/ending 31 December			
	2020	2020	2021	2022	2023
Third ARI Supplemental Agreement	1,263	1,300	1,500	1,500	1,500

As ARI is indirectly held by the Company, FPAM and CEL (both are substantial Shareholders) as to 48%, 18% and 14% respectively and therefore 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.

REPORT OF THE DIRECTORS

Connected Transactions

3. Transactions contemplated under the Subscription Agreement

On 4 March 2020, a Subscription Agreement was entered into between CALC IDN Limited as subscriber (a wholly-owned subsidiary of the Company), Aviation Synergy Ltd ("Aviation Synergy") (now known as Linkasia Airlines Group Limited), Equal Honour Holdings Limited ("Equal Honour") and Smart Aviation Investment Limited ("Smart Aviation"), pursuant to which Aviation Synergy agreed to allot and issue, and the subscriber agreed to subscribe for, 28,000,000 shares of Aviation Synergy at a total cash consideration of US$28 million (equivalent to approximately HK$218.4 million) (the "Subscription"). Following the Subscription, the Company is indirectly interested in approximately 72.82% of the enlarged share capital in Aviation Synergy and Aviation Synergy becomes a non-wholly owned subsidiary of the Company. Details of the above transaction are set out in the Company's announcements dated 4 and 23 March 2020.

As at the date of the Subscription Agreement, Aviation Synergy is owned as to 52% by Equal Honour (which is wholly-owned by Mr. POON Ho Man, a substantial Shareholder, an executive Director and chief executive officer of the Company, and a connected person of the Company) and 48% by Smart Aviation (which is wholly-owned by Ms. LIU Wanting, an executive Director and deputy chief executive officer of the Company, and a connected person of the Company). Accordingly, Aviation Synergy is an associate of connected persons of the Company under the Listing Rules and the Subscription constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Subscription is subject to the reporting and announcement requirements but is exempted from the independent Shareholders' approval requirement under the Listing Rules.

Mr. POON and Ms. LIU (both being shareholders of Aviation Synergy) are deemed to have a material interest in the transactions contemplated under the Subscription Agreement. Accordingly, they have abstained from voting on the board resolutions in connection with the Subscription.

4. Transactions contemplated under the Aircraft Sale and Purchase Agreements

On 2 July 2020, seven Aircraft Sale and Purchase Agreements were entered into between seven wholly-owned special purpose vehicles of the Company as vendors and six special purpose vehicles of Everbright Financial Leasing Co., Ltd. ("CEB Leasing") as purchasers respectively, pursuant to which the vendors agreed to sell and the purchasers agreed to purchase the respective seven Boeing B737-800 aircraft (together with the rights and obligations of the underlying leases) at the market appraised value of approximately US$316 million (equivalent to HK$2.46 billion). Details of the above transaction are set out in the Company's announcement dated 2 July 2020 and the Company's circular dated 8 July 2020, which were proposed to and passed by the independent Shareholders by way of an ordinary resolution at the Company's extraordinary general meeting held on 31 July 2020.

CEB Leasing is a non-wholly-owned subsidiary of CE Bank. As disclosed in sub-paragraph 1 above of this paragraph, CE Bank and CEB Leasing, being associates of CE Group, are connected persons of the Company. Therefore, the transactions contemplated under the Aircraft Sale and Purchase Agreements constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

Save for the connected transactions and 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 2020 is contained in Note 33 to the consolidated financial statements. Those transactions reported in Note 33 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 2020.

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 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 their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group 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. CHEOK Albert Saychuan (chairman of the Audit Committee), Mr. FAN Yan Hok, Philip and Mr. NIEN Van Jin, Robert, 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 2020.

The consolidated financial statements of the Group for the year ended 31 December 2020 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, 15 March 2021

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 2020 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 2020.

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)

EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTOR	INDEPENDENT NON-EXECUTIVE DIRECTORS
Dr. 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 Dr. TSE Hiu Tung, Sheldon

CORPORATE GOVERNANCE REPORT

Throughout the year, the Board has complied with the Listing Rules to have at least three independent non-executive Directors ("INED(s)") 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 64 to 69 of this annual report.

Changes in Composition of the Board and Board Committees

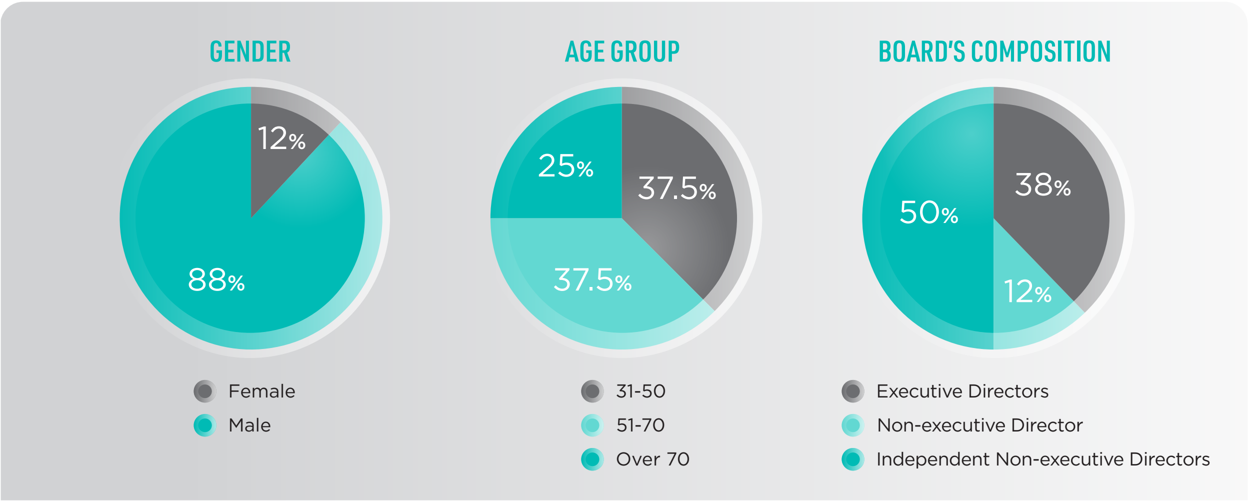
During the year ended 31 December 2020, the changes in composition of the Board and Board Committees set up under the Listing Rules are listed below:

Director	Change
CHOW Kwong Fai, Edward	– passed away on 1 June 2020
CHEOK Albert Saychuan	– appointed as the chairman of the Audit Committee on 2 June 2020
TSE Hiu Tung, Sheldon	– appointed as an INED on 18 September 2020

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 2020.

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 and the Chief Executive Officer (the "CEO") etc. 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 of the Company (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 31 of this annual report.

In accordance with provision A.4.2 of the CG Code, all directors appointed to fill a causal vacancy should be subject to election by the Shareholders at the first general meeting after the appointment.

Accordingly, a Director who was appointed by the Board on 18 September 2020 had retired from office and was re-elected at an extraordinary general meeting on 10 March 2021.

Board Meetings and General Meetings

An annual general meeting and two extraordinary general meetings were 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	✓	✓
TSE Hiu Tung, Sheldon	✓	✓

Type of trainings:

1. Reading materials.
2. Attending or giving speech at seminars or training sessions/press conference, and accessing to web-based e-learning courses launched by the Stock Exchange for directors of listed companies.

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, and 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 2020 is set out in Note 32(a) to the consolidated 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, 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. As at the date of this annual report, the composition of such Board Committees is set out below:

Nomination Committee	Audit Committee	Remuneration Committee
Mr. CHEOK Albert Saychuan *(chairman)*	Mr. CHEOK Albert Saychuan *(chairman)*	Mr. FAN Yan Hok, Philip *(chairman)*
Mr. FAN Yan Hok, Philip	Mr. FAN Yan Hok, Philip	Dr. ZHAO Wei
Mr. NIEN Van Jin, Robert	Mr. NIEN Van Jin, Robert	Mr. POON Ho Man
		Mr. NIEN Van Jin, Robert
		Mr. CHEOK Albert Saychuan

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 annual report, the Audit Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. Fan Yan Hok, Philip and Mr. NIEN Van Jin, Robert, all of them are INEDs. The chairman of the Audit Committee holds 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 had 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 2020, 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 2019;

- 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 annual report, the Remuneration Committee consisted of Mr. FAN Yan Hok, Philip (chairman), Mr. NIEN Van Jin, Robert and Mr. CHEOK Albert Saychuan, all of them are INEDs; and Dr. ZHAO Wei and Mr. POON Ho Man, both of them are executive Directors. A Remuneration Committee meeting was held during the year. The attendances of each Remuneration Committee member during the year are set out below under section headed "Board, Board Committee and General Meetings Attendance".

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

Nomination Committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference which aligned with Code Provision A.5 of the CG Code and have been posted on the websites of both HKEX and the Company. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, review of the structure, size and composition of the Board and assessment of the independence of INEDs.

As at the date of this annual report, the Nomination Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. FAN Yan Hok, Philip and Mr. NIEN Van Jin, Robert, 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 had 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 of Dr. TSE Hiu Tung, Sheldon as INED 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 2020.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of HK$5,721,000. The relevant fee paid for audit services amounted to approximately HK$4,176,000 and the balancing of the remuneration related to the non-audit services of approximately HK$1,545,000.

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 consolidated financial statements of the Company for the year ended 31 December 2020 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 70 to 78 of this annual report.

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 2020 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 59 to 63 of this 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 directly 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 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
32/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 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 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 2020.

CONSTITUTIONAL DOCUMENTS

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

BOARD, BOARD COMMITTEE AND GENERAL MEETINGS ATTENDANCE

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

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting	Extraordinary General Meeting
Executive Directors						
ZHAO Wei	4/4	n/a	1/1	n/a	0/1	0/2
POON Ho Man	4/4	n/a	1/1	n/a	1/1	2/2
LIU Wanting	4/4	n/a	n/a	n/a	0/1	0/2
Non-executive Director						
TANG Chi Chun	4/4	n/a	n/a	n/a	1/1	2/2
Independent Non-executive Directors						
FAN Yan Hok, Philip	4/4	5/5	1/1	1/1	1/1	2/2
NIEN Van Jin, Robert	4/4	5/5	1/1	1/1	1/1	2/2
CHEOK Albert Saychuan	4/4	5/5	1/1	1/1	0/1	1/2
TSE Hiu Tung, Sheldon *(Note 1)*	1/1	n/a	n/a	n/a	n/a	n/a
CHOW Kwong Fai, Edward *(Note 2)*	1/1	1/2	1/1	n/a	1/1	1/1
Total number of meetings	4	5	1	1	1	2
Dates of Meetings	4/3/2020 30/6/2020 14/8/2020 17/12/2020	2/3/2020 24/4/2020 12/8/2020 23/10/2020 14/12/2020	14/2/2020	21/8/2020	17/4/2020	17/4/2020 31/7/2020

Notes:

(1) Dr. TSE Hiu Tung, Sheldon was appointed as an INED with effect from 18 September 2020.

(2) Mr. CHOW Kwong Fai, Edward passed away on 1 June 2020.

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.

RISK MANAGEMENT REPORT

Strategic dimension

Risk management initiatives are led by the Board (through its Audit Committee), and executed by CEO and his senior management team, 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. 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 an 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 risks. 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, 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 key areas such as 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.

Due to the strong average credit quality of the Company's portfolio, counterparty risk has not been prevalent in previous periods and is not expected to be a long term challenge for the Company. However, the impact of the COVID-19 pandemic has been felt acutely by the worlds' airlines, including the Company's customers. Although the global spread of the pandemic has affected the Company's overseas business, which represented 22.3% of the overall fleet size. China has achieved remarkable results in the fight against the pandemic and the domestic aviation market had been leading global recovery. Benefited from the outstanding performance of the Company's China operations, which accounted for 77.7% of the Company's overall fleet size. The Risk Management team has been in constant dialogue with customers that did not receive substantial governmental or shareholders' support, or did not possess Investment Grade balance sheets with which to tap capital/debt markets, have invariably been obliged to seek accommodations with major suppliers including banks and lessors, seeking to provide support wherever possible. Features of such support, where agreed are i) maximize cash flow in the near term; ii) protect the Company's assets and iii) compensate for financial concessions through lease amendments or interest payments. The status of receivables is reported to the Management on a regular basis and remedial actions are discussed frequently between relevant departments. In order to mitigate any risk to the integrity of the Company's assets, Risk Management, Legal and Technical teams coordinate to appoint local representatives to act on behalf of the Company.

During the year, the Company undertook the following measures in order to further mitigate finance/portfolio related risks:

(i) took delivery of 10 aircraft and sold 18 aircraft to reduce geographical and portfolio concentration risks.

The asset-light strategy for disposal of aircraft bolstered the Company's financing capacity and supported additional aircraft trading opportunities through efficient turnover on capital.

(ii) diversified its financing channels through:

- issuing a USD70 million private senior unsecured bond in Hong Kong
- issuing a USD200 million perpetual bond in Hong Kong which was classified as equity and improved gearing ratio
- issuing a RMB1.3 billion unsecured debenture in China
- completing an additional USD275 million standby credits and committed working capital facilities from associate companies under China Everbright Group and other commercial banks since the outbreak of COVID-19
- completing 8 aircraft project loan facilities for USD240 million

The diversity of funding channels helped the Company access various banks, financial institutions and investors with multiple financing products.

(iii) The Company continues to monitor currency exchange risk through matching the currencies of lease receivables and borrowings to the greatest extent possible. In order to mitigate currency exchange risk, a hedging arrangement has been made and unhedged exposure on RMB has been decreased by around 50% as of end of February 2021 when compared to the general level as for the financial year ended 31 December 2020.

(iv) 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Dr. ZHAO Wei

Chairman and Executive Director

Dr. ZHAO Wei, aged 49, is the Chairman and an Executive Director. Dr. ZHAO is also the chairman of the Strategy Committee and a member of the Remuneration Committee of the Company. Dr. ZHAO is responsible for formulating the Group's overall strategic planning and directions. Dr. ZHAO is also the chairman and a director of Aircraft Recycling International Limited ("ARI"), a commonly held entity of the Company.

Dr. ZHAO is the chairman and an executive director of China Everbright Limited (stock code: 165.HK) ("CEL"). Prior to joining CEL, Dr. 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. Dr. 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. Dr. ZHAO was the chairman of Everbright Jiabao Co., Ltd. (stock code: 600622.SH) from July 2019 to May 2020. He also 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.

Dr. 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 48, is an Executive Director and the Chief Executive Officer of the Company. Mr. POON is a member of each of Strategy Committee and Remuneration Committee of the Company. He is also a director of certain subsidiaries of the Company and is interested in 14.13% equity interest in Linkasia Airlines Group Limited ("Linkasia Airlines"), a non-wholly-owned subsidiary of the Company. He is responsible for formulating the Group's overall strategic planning and managing overall business operations. Mr. POON has over 25 years of experience in direct investment, structured financing and aviation financing, of which over 14 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 is deemed to be interested in approximately 29.14% of the issued shares in the Company. Mr. POON also oversaw the founding of ARI, which is the first in Asia to provide solutions for mid-to-end of life aftermarket aircraft. ARI is indirectly owned by Friedmann Pacific Asset Management Limited, a substantial shareholder of the Group, as to 18% which is in turn beneficially owned by Mr. POON as to 50%. Mr. POON serves as the chief executive officer and a director of ARI.

Mr. POON obtained the degree of bachelor of engineering from the University of Hong Kong in 1995, and obtained the degree of executive master of business administration 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 39, is an Executive Director, the Deputy Chief Executive Officer and the Chief Commercial Officer of the Company. Within the Group, Ms. LIU is a director of certain subsidiaries of the Company and is interested in 13.05% equity interest in Linkasia Airlines. She is also a member of Strategy Committee of the Company. 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 11,011,689 shares of the Company (representing approximately 1.5% of the issued share capital of the Company).

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. TANG Chi Chun

Non-executive Director

Mr. TANG Chi Chun, aged 59, is a Non-executive Director appointed on 12 August 2013 and is also a member of the Strategy Committee of the Company. Mr. TANG is responsible for advising the business development and financial related operations of the Group. Mr. TANG is also a director of ARI.

Mr. TANG is an executive director and the chief financial officer of 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 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 71, 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 an independent non-executive director of the following companies listed on the Stock Exchange:

Name of listed company	Stock code
China Everbright Environment Group Limited (formerly known as China Everbright International Limited)	257
Hysan Development Company Limited	14
First Pacific Company Limited	142
PFC Device Inc.	8231

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 73, 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. 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 70, is an Independent Non-executive Director appointed on 8 May 2015. Mr. CHEOK is also the chairman of each of Audit Committee and Nomination Committee and a member of 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 and a fellow of the Institute of Corporate Directors Malaysia. He is also a banker with over 40 years of experience in banking and business consultancy in the Asia-Pacific region.

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 a non-executive director of Peppermint Innovation Limited, listed in Australia (resigned on 31 March 2020) and the independent non-executive chairman of International Standard Resources Holdings Limited, listed on the Stock Exchange (resigned on 3 September 2019). Mr. CHEOK was the vice president of the board of governors of the Malaysian Institute of Corporate Governance until end 2020.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. CHEOK is the independent non-executive chairman of (i) Amplefield Limited, listed in Singapore; (ii) 5G Networks Limited, listed in Australia; (iii) Supermax Corporation Berhad, listed in Malaysia; and (iv) MC Payment Limited, listed in Singapore.

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.

Dr. TSE Hiu Tung, Sheldon

Independent Non-executive Director

Dr. TSE Hiu Tung, Sheldon, aged 56, is an Independent Non-executive Director appointed on 18 September 2020. Dr. TSE is a partner at a law firm in Hong Kong providing corporate and commercial legal services and has over 20 years of experience in corporate finance, mergers and acquisitions, private equity, joint ventures and compliance matters. Dr. TSE is qualified to practise law in Hong Kong, England and Wales and the PRC. He graduated with a bachelor's degree in law from Zhongshan University in Guangzhou in 1986. Dr. TSE obtained a master's degree in law and a doctorate degree in law from the University of London, the United Kingdom in 1989 and 1993 respectively. He is a China appointed attesting officer, and a member of the Hong Kong Securities Institute. He is also a member of the China Political Consultative Committee of Guizhou Province.

Dr. TSE was an independent non-executive director of Fullsun International Holdings Group Co., Limited, a company listed on the Stock Exchange (resigned on 14 December 2020).

SENIOR MANAGEMENT

Mr. MOK Chung Tat, Barry

Deputy Chief Executive Officer and Chief Financial Officer

Mr. MOK Chung Tat, Barry, aged 62, 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

Chief Operating Officer

Mr. TANG Yu Ping, aged 51, 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 such as the COVID-19 derived tasks. 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 79 to 171, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- 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 2020, 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.

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

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.

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")
- Provision of lease receivables

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

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 2020, the Group's current liabilities exceeded its current assets by HK$8,938.7 million (Note 3.1.3). The Group had capital commitments amounting to HK$98,048.6 million (Note 34) mainly relating to aircraft purchase, of which HK$4,377.9 million was payable within one year. The coronavirus epidemic ("the COVID-19") and responsive government actions have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally in the short term, all of which might have a contrary effect on the business operation and financial condition of the Group. 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 2020 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 2020. 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 into 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, and reviewed the application of short-term commercial papers of a principal amount of RMB3 billion and aircraft financing from the Export Credit Agencies in Europe. 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 into by the Group and aircraft manufacturers. We compared the actual outcome with the forecast for the year 2020 to evaluate management assessment made in prior year. We performed sensitivity analysis over key assumptions to ascertain the extent of adverse changes that would make the Group incapable of meeting its ongoing obligations as they fall due. We assessed the adequacy of the disclosures relating to the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. 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 15 to the consolidated financial statements. As at 31 December 2020, current income tax liabilities were HK$24.9 million and deferred income tax liabilities were HK$788.7 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 assessed the inherent risk of material misstatement on provision for tax positions by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. 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 laws 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 for tax positions 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 as to whether the Group has control of 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.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision of lease receivables	
Refer to Note 4.1(d) to the consolidated financial statements. Due to the COVID-19 pandemic, many of the airline customers have curtailed their commercial operations, which could result in lease defaults. As at 31 December 2020, the finance lease receivables and operating lease receivables are HK$7,270.8 million and HK$376.7 million respectively. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management made impairment provisions of finance lease receivables of HK$7.1 million (Note 7) and impairment provisions of operating lease receivables of HK$75.8 million (Note 9). The Group applied the simplified approach on measuring expected credit losses ("ECL") prescribed by HKFRS 9. The management categorised the lease receivables portfolio based on the lease classification and shared credit risk characteristics of airlines, and recognised provision for ECL based on assumptions about risk of default and expected loss rates, which include consideration of historical credit loss experience, current status and forward-looking information. We focused on this matter because the provision for ECL involves significant accounting estimations and judgements.	We assessed the inherent risk of material misstatement on provision for lease receivables by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We understood, evaluated and validated key controls over the internal credit rating assessment. We reviewed the modelling methodology for measurement of ECL, and assessed the reasonableness of the key parameters, judgements and assumptions in relation to the models. We assessed the forward-looking information management used to determine ECL, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios. We examined the calculation of ECL model, on a sample basis, to validate whether the ECL calculation reflected the modelling methodology documented by the management. We assessed the adequacy of the disclosures relating to provision for lease receivables in the context of the HKFRS disclosure requirements. Based on the procedures performed, we considered that the risk assessment of provision for lease receivables remained appropriate and model, significant assumptions and data used by the directors in the assessment of provision for lease receivables were supported by the 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 is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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 Chow Sai Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2021

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2020 HK$'000	2019 HK$'000
ASSETS			
Property, plant and equipment and right-of-use assets	5	**18,450,641**	19,611,484
Investments in and loans to associates and joint ventures	6	**1,134,904**	1,117,606
Finance lease receivables – net	7	**7,263,697**	7,790,510
Financial asset at fair value through profit or loss	8	**797,888**	752,913
Derivative financial assets	19	**17,720**	26,337
Prepayments and other assets	9	**13,418,840**	9,765,047
Aircraft trading assets		**19,486**	–
Restricted cash	10	**411,786**	235,101
Cash and cash equivalents	11	**4,877,557**	4,352,327
Total assets		**46,392,519**	43,651,325
EQUITY			
Share capital	12	**72,000**	67,727
Reserves	13	**1,585,478**	1,559,472
Retained earnings		**2,235,560**	2,342,515
Equity attributable to shareholders of the Company		**3,893,038**	3,969,714
Perpetual capital securities and other non-controlling interests	14	**1,522,731**	–
Total equity		**5,415,769**	3,969,714
LIABILITIES			
Deferred income tax liabilities	15	**788,716**	746,374
Borrowings	16	**26,763,014**	26,881,194
Medium-term notes	17	**1,338,308**	1,636,499
Bonds and debentures	18	**9,054,779**	7,245,367
Derivative financial liabilities	19	**355,566**	129,610
Income tax payables		**24,897**	7,386
Interest payables		**276,113**	269,280
Other liabilities and accruals	20	**2,375,357**	2,765,901
Total liabilities		**40,976,750**	39,681,611
Total equity and liabilities		**46,392,519**	43,651,325

The notes on pages 86 to 171 are an integral part of these consolidated financial statements.

The financial statements on pages 79 to 171 were approved by the Board of Directors on 15 March 2021 and were signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December 2020 HK$'000	2019 HK$'000
Total revenue			
Lease income			
Finance lease income	21	**541,243**	664,298
Operating lease income	21	**1,945,545**	1,796,218
		2,486,788	2,460,516
Other income			
Net income from aircraft transactions and aircraft trading	22	**514,275**	594,937
Other operating income	23	**484,719**	467,744
		3,485,782	3,523,197
Expenses			
Interest expenses	24	**(1,328,782)**	(1,422,812)
Depreciation	5	**(859,349)**	(755,075)
(Expected credit losses)/reversal of expected credit losses		**(80,630)**	1,724
Other operating expenses	25	**(268,299)**	(379,440)
		(2,537,060)	(2,555,603)
Operating profit		**948,722**	967,594
Share of losses and provisions on investment in associates and joint ventures	6	**(208,971)**	(3,315)
Other (losses)/gains	27	**(306,750)**	76,264
Profit before income tax		**433,001**	1,040,543
Income tax expenses	28	**(165,058)**	(144,536)
Profit for the year		**267,943**	896,007
Profit/(loss) attributable to			
Shareholders of the Company		**334,143**	896,007
Holders of perpetual capital securities and other non-controlling interests		**(66,200)**	–
		267,943	896,007
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	29(a)	**0.482**	1.323
– Diluted earnings per share	29(b)	**0.482**	1.323

The notes on pages 86 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020 HK$'000	2019 HK$'000
Profit for the year		**267,943**	896,007
Other comprehensive loss for the year:			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	19	**(203,011)**	(201,055)
Currency translation differences		**(38,537)**	(51,665)
Total other comprehensive loss for the year, net of tax		**(241,548)**	(252,720)
Total comprehensive income for the year		**26,395**	643,287
Total comprehensive income/(loss) for the year attributable to			
Shareholders of the Company		**93,284**	643,287
Holders of perpetual capital securities and other non-controlling interests		**(66,889)**	–
		26,395	643,287

The notes on pages 86 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Perpetual capital securities and other non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2020	67,727	1,559,472	2,342,515	3,969,714	–	3,969,714
Comprehensive income						
Profit for the year	–	–	334,143	334,143	(66,200)	267,943
Other comprehensive loss						
Cash flow hedges (Note 19)	–	(203,011)	–	(203,011)	–	(203,011)
Currency translation differences	–	(37,848)	–	(37,848)	(689)	(38,537)
Total comprehensive (loss)/income	–	(240,859)	334,143	93,284	(66,889)	26,395
Transactions with shareholders						
Issuance of perpetual capital securities (Note 14)	–	–	–	–	1,545,501	1,545,501
Transactions with non-controlling interests	–	–	–	–	44,119	44,119
Buy-back of shares (Note 12(a))	(300)	(18,872)	–	(19,172)	–	(19,172)
Share option scheme:						
– Value of services (Note 13(a))	–	330	–	330	–	330
– Share options lapsed (Note 13(a))	–	(23,746)	23,746	–	–	–
Dividends (Note 30)	4,573	309,153	(464,844)	(151,118)	–	(151,118)
Total transactions with shareholders	4,273	266,865	(441,098)	(169,960)	1,589,620	1,419,660
Balance as at 31 December 2020	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769

The notes on pages 86 to 171 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 19)	–	(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 13(a))	–	339	–	339
– Share options lapsed (Note 13(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 86 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Profit after income tax		**267,943**	896,007
Adjustments for:			
– Depreciation		**859,349**	755,075
– Net income from aircraft transactions		**(514,275)**	(585,280)
– Expected credit losses/(reversal of expected credit losses)		**80,630**	(1,724)
– Interest expenses		**1,328,782**	1,422,812
– Share-based payments	13(a)	**330**	339
– Unrealised currency exchange losses/(gains)		**279,366**	(64,382)
– Fair value losses on interest rate, currency swaps and currency forwards	19	**22,542**	21,349
– Share of losses and provisions on investment in associates and joint ventures	6	**208,971**	3,315
– Gain on repurchase of bonds	18	**(1,474)**	(4,505)
– Interest income		**(141,810)**	(143,530)
		2,390,354	2,299,476
Changes in working capital:			
– Finance lease receivables – net		**(433,449)**	(178,248)
– Prepayments and other assets		**(686,340)**	(245,371)
– Aircraft trading assets		**(19,486)**	–
– Other liabilities and accruals		**(359,722)**	74,600
– Income tax payables		**18,043**	(21,871)
– Deferred income tax liabilities		**54,911**	81,475
Net cash flows generated from operating activities		**964,311**	2,010,061
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,900,017)**	(3,776,727)
Proceeds from disposal of aircraft		**5,534,659**	5,905,828
Deposits paid for acquisition of aircraft		**(4,422,512)**	(4,036,645)
Deposits refunded for acquisition of aircraft		**378,213**	822,830
Interest received		**113,517**	143,530
Net payments relating to financial asset at fair value through profit or loss		**(20,245)**	(253,590)
Investment in associates and joint ventures		**(3,447)**	(3,502)
Net payments relating to loans to associates and joint ventures		**(61,996)**	(158,308)
Net cash flows used in investing activities		**(1,381,828)**	(1,356,584)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Cash flows from financing activities		
Proceeds from borrowings	**9,771,604**	15,579,074
Issue of bonds and debentures, net of transaction costs	**1,696,189**	1,151,837
Issue of medium-term notes, net of transaction costs	**–**	905,705
Issue of perpetual capital securities, net of transaction costs	**1,545,501**	–
Repayments of borrowings	**(9,689,697)**	(13,229,659)
Repurchase and repayment of bonds, including transaction costs	**(54,368)**	(2,423,986)
Repayment of medium-term notes	**(377,524)**	–
Repayment of amount due to non-controlling interests	**(38,950)**	–
Interest (paid)/received in respect of derivative financial instruments	**(74,896)**	31,250
Interest paid in respect of borrowings, notes and bonds	**(1,505,411)**	(1,761,152)
Proceeds from disposal of derivative financial instruments	**–**	3,956
Decrease in deposits pledged in respect of borrowings	**4,910**	71,335
Increase in deposits pledged in respect of derivative financial instruments	**(181,946)**	(132,307)
Buy-back of shares, including transaction costs	**(19,172)**	–
Dividends paid to shareholders	**(151,118)**	(453,771)
Net cash flows generated from/(used in) financing activities	**925,122**	(257,718)
Net increase in cash and cash equivalents	**507,605**	395,759
Cash and cash equivalents at beginning of the year	**4,352,327**	3,990,107
Currency exchange difference on cash and cash equivalents	**17,625**	(33,539)
Cash and cash equivalents at end of the year	**4,877,557**	4,352,327

The notes on pages 86 to 171 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 2020 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

As at 31 December 2020, the Group's current liabilities exceeded its current assets by HK$8,938.7 million. The Group had total capital commitments of HK$98,048.6 million as at 31 December 2020, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years till the end of 2027. Out of the total capital commitments, HK$4,377.9 million will be incurred and payable within one year based on the current delivery schedule as agreed with the Original Equipment Manufacturers ("OEMs"). In addition, according to the relevant aircraft purchase agreements, Pre-Delivery Payments ("PDP") scheduled to be paid in the next twelve months from 31 December 2020 amounted to HK$445.0 million excluding the PDP of those aircraft which the delivery schedules are not yet confirmed. The Group will satisfy these capital commitments through the Group's internal resources, available banking facilities and may also require additional aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 31 December 2020, the Group has undrawn borrowing facilities of HK$2,993.9 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

COVID-19 and responsive government actions have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally in the short term, all of which have a negative effect on the business operation and financial condition of the airline customers of the Group, especially on those overseas airline customers which rely more heavily on international flights. The Group experienced delay in lease payments from a few airline customers during the year. Moreover, the Group also received requests from certain airline customers to postpone the delivery of new aircraft and to defer lease payments due to the impact of COVID-19.

The Group will need to secure a substantial amount of funds in the foreseeable future to finance these financial obligations and capital expenditures under contractual and other arrangements. The directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than twelve months from 31 December 2020. The directors have taken into account the following plans and measures for the purposes of their assessment:

– The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful to delay or change the delivery schedules in the past, even under the impact of COVID-19 during 2020. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs often accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances after mutual discussion in good faith. Management of the Group will continue to monitor the delivery schedule of the aircraft closely through ongoing discussion with the OEMs, its airline customers and the relevant banks on the delivery and financing arrangements. Based on its experience, the Group is confident that it would be able to obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next twelve months from 31 December 2020 as and when needed.

– New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and the repayments of the PDP financing due upon delivery of aircraft. Such aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes financed the new aircraft with internal resources or short-term financing and the Group may have to obtain refinancing for these aircraft through new aircraft project loans. In January 2021, the Group has applied for aircraft project loan facility with a limit of RMB8 billion from an onshore bank in the PRC and a revolving loan facility with a limit of US$300 million from an offshore bank in Hong Kong. The Group has also applied for financing from the Export Credit Agencies in Europe ("ECA") for aircraft scheduled to be delivered in 2021. ECA is generally regarded as lender of last resort for new aircraft deliveries when the global economic conditions become uncertain. Based on the latest communication with various potential financiers, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 31 December 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Going concern (continued)

- The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approval from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience and industry knowledge. The directors are of the view that they are able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances. The Group had PDP financing facilities from certain commercial banks to provide financing of HK$1,947.3 million to the Group to satisfy part of the forecasted committed PDP payments of HK$356.0 million in the next twelve months from 31 December 2020. The remaining balances of PDP scheduled to be paid of approximately HK$89.0 million in the next twelve months from 31 December 2020 are expected to be funded by internal resources of the Group.

- In January 2021, the Group has renewed an existing revolving loan facilities of HK$77.5 million. The Group will further obtain new working capital loan facilities and renew existing revolving loan facilities if required. As at 31 December 2020, the Group had working capital loan and revolving loan facilities of HK$3,741 million out of which HK$2,966 million has been utilized. The directors are confident that the Group can draw down the remaining unutilized loan facilities of HK$775 million as and when required and will be able to renew substantially all the existing revolving facilities.

- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes, as well as other debt and capital financing. In particular, the Group has (i) obtained the official registration acceptance notification from the China Securities Regulatory Commission for issuance of unsecured bonds up to a principal amount of RMB1.5 billion in the PRC before June 2021, (ii) obtained the official registration acceptance notification from the National Association of Financial Market Institutional Investors for issuance of unsecured debentures up to a principal amount of RMB1.5 billion in the PRC within 2 years from March 2020. As at 31 December 2020, the Group had not fully utilized the above limit and therefore is capable to raise additional RMB700 million as the remaining balances under the above programmes. Moreover, the Group has also applied for the issuance of short-term commercial papers of a principal amount of RMB3 billion in the PRC and the directors believe that the Group will obtain the approval in the first half of 2021. Based on the Group's experience, the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

- The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network with third-party buyers that will acquire aircraft from its fleet. The Group expands its portfolio trading business and it has scheduled 3 aircraft to be disposed of in the next twelve months from 31 December 2020. Based on the Group's experience of disposal of aircraft in previous years, the directors are confident that the disposal will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 31 December 2020.

- The Group is closely monitoring the impact of COVID-19 on its airline customers and communicated with those airline customers with liquidity issue to work out mutually agreeable deferral lease rent schedule. The Group will closely monitor the collection and is confident that these airline customers will settle the deferral lease rent according to the schedule upon market recovery. The directors are of the view that although the negative impact of COVID-19 to the aviation industry will prevail for a short period of time before the full recovery of international passengers travel, but given the operations of many of the Group's customers are in the PRC with normal domestic operations, the Group expects there will not be any further deterioration in the operating cashflow in the next twelve months from 31 December 2020.

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, continued availability of existing banking facilities for working capital and PDP payments, the cash flows generated from its business operations, the successful rescheduling of delivery schedules for new aircraft, the successful execution of its plans in obtaining the aircraft project loans from the banks and the ECA, the successful issuance of debt instruments and the successful disposal of aircraft as planned, the Group has sufficient working capital for its present requirements in the next twelve months from 31 December 2020. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and hence 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 2020:

- Definition of Material – amendments to HKAS 1 and HKAS 8
- Definition of a Business – amendments to HKFRS 3
- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform Phase 1 – amendments to HKFRS 9, HKAS 39 and HKFRS 7

The 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 2021 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2020.

	Effective Date
Covid-19-related Rent Concessions – Amendments to HKFRS 16	1 June 2020
Interest Rate Benchmark Reform – Phase 2	1 January 2021
HKFRS 17 Insurance Contracts	Originally 1 January 2021, but extended to 1 January 2023 by the HKICPA
Classification of Liabilities as Current or Non-current – Amendments to HKAS 1	Originally 1 January 2022, but extended to 1 January 2023 by the HKICPA
Property, Plant and Equipment: Proceeds before intended use – Amendments to HKAS 16	1 January 2022
Reference to the Conceptual Framework – Amendments to HKFRS 3	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37	1 January 2022
Annual Improvements to HKFRS Standards 2018 – 2020	1 January 2022

The Group is in the process of making an assessment of the impact of Interest Rate Benchmark Reform – Phase 2 upon initial application. Other new and revised HKFRSs are not expected to have a material impact on the Group's financial performance and position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

A business is defined in HKFRS 3 as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income or generating other income from ordinary activities.

The three components of a business are: inputs; processes; and outputs. An input is an economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it, such as non-current assets, intellectual property, the ability to access necessary materials or rights, employees and so on. A process is a system, standard, protocol, convention or rule that, when it is applied to an input or inputs creates outputs, or has the ability to contribute to the creation of outputs. Outputs are the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income (such as interest or dividends) or generate other income from ordinary activities. A business consists of inputs and processes applied to the inputs that have the ability to contribute to the creation of outputs.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

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

(i) Business combinations (continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

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

(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.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates and joint ventures *(continued)*

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.

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 long-term receivables that, in substance, form part of the investor's net investment in the associate or joint ventures, 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 in profit or loss.

Profits and losses resulting from upstream and downstream transactions involving assets that do not constitute a business 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. The profits or loss resulting from a downstream transaction involving assets that constitute a business, as defined in HKFRS 3, between the Group and its associate or joint venture is recognised in full in the consolidated financial statements. 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)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

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

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The estimated useful lives and estimated residual value rate are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft 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 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Gains and losses on disposal of aircraft are recognised within net income from aircraft transactions and aircraft trading in the consolidated statement of income. Gains and losses on disposal of other property, plant and equipment are recognised within other operating income/expenses in the consolidated statement of income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 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.

2.8 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. The debt instruments shall be classified as financial asset not at fair value through profit or loss ("FVPL") if the cash flow characteristics cannot pass the test on solely payments of principal and interest on the principal amount. Otherwise, the classification of debt instruments will depend on the business model provided the fair value option is not elected.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. The equity instruments are classified as FVPL in general. 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.

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

(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. Finance lease receivables are regarded as financial assets for the purpose of derecognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 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 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.

Debt instruments
Subsequent measurement of debt instruments depends on the classification 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 other operating 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 or losses, together with foreign exchange gains and losses.

- 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 or losses. Interest income from these financial assets is included in other operating income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment losses 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 or losses in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 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 operating 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 or losses 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 operating lease receivables and 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.

2.9 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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 or losses in the consolidated statement of income.

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains or losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Aircraft trading assets

Aircraft trading assets consist primarily of airframe parts. Aircraft trading assets are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing the aircraft trading assets to their present location and condition.

2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in liabilities, if any.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are recognised in equity as a deduction from the proceeds.

2.14 Equity instruments

Financial instruments issued by the Group are classified as equity instruments when both of the following conditions are satisfied:

(a) The financial instruments have no contractual obligation to pay in cash or other financial assets to other parties nor to exchange financial assets or liabilities under potential adverse condition with other parties;

(b) The financial instruments should and can be settled via equity instruments of the Group. For non-derivative instruments, the instruments have no contractual obligation to be settled by delivering fixed number of equity instruments of the Group. For derivative instruments, they can only be settled through the exchange of fixed number of the Group's equity instruments with fixed amount of cash or other financial assets.

Perpetual capital securities issued by the subsidiaries of the Company with no contractual obligation to repay the principal or to pay any distribution are classified as perpetual capital securities in equity of the Group.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Borrowings and borrowing costs *(continued)*

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.20 Leases

(a) Where the Group is lessee

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.

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

(a) *Where the Group is lessee* *(continued)*

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, e.g. 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

(b) Where the Group is lessor

Finance lease

A finance lease is a lease that the Group as the lessor uses to transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. The Group recognises assets held under a finance lease as finance lease receivable at an amount equal to net investment in the lease, which is the gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the leases is the sum of the lease payments receivable and any unguaranteed residual value accruing to the lessor. At the commencement of the lease term, the lease payments included in the measurement of the net investment in the lease mainly comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date: (a) fixed payments less any lease incentives payable; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

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

A lessor shall account for a modification to a finance lease as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

(b) Where the Group is lessor *(continued)*

Finance lease (continued)

For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows: (a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall: (i) account for the lease modification as a new lease from the effective date of the modification; and (ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. (b) otherwise, the lessor shall apply the requirements of HKFRS 9.

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

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. 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.

A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

See Note 2.8 for accounting policies for derecognition and impairment of operating lease receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Revenue and income recognition

(a) Finance lease income

The finance income under a finance lease is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Variable lease payments that do not depend on an index or a rate is recognised as income in the period in which the event or condition that triggers those payments occurs.

(b) Operating lease income

The lease payments under operating lease is recognised as income on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate is recognised as income in the period in which the event or condition that triggers those payments occurs.

(c) Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised within other operating income (Note 23).

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 been transferred to the buyer.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Government grants

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

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

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

2.23 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are mainly 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 mainly engaged in the provision of aircraft leasing services to airline companies 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 currency 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 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

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, medium-term notes, bonds and debentures, 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$. The management of the Group closely monitor currency exchange risks and hedge the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group used the currency swaps and currency forwards to hedge its exposure to currency exchange risk. The foreign currency swaps and foreign currency forwards do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains or losses, please refer to Note 19 and Note 27.

The following table is the breakdown of financial assets and liabilities denominated in RMB held by companies whose functional currency is US$:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Cash and cash equivalents	**595,809**	489,707
Other financial assets	**131,959**	111,352
Total financial assets	**727,768**	601,059
Bank borrowings	**(581,924)**	(883,141)
Medium-term notes	**(1,338,308)**	(1,636,499)
Bonds and debentures	**(2,728,930)**	(1,114,502)
Other financial liabilities	**(778,200)**	(687,363)
Total financial liabilities	**(5,427,362)**	(4,321,505)
Notional amount of foreign currency forwards	**475,040**	–
Net exposure	**(4,224,554)**	(3,720,446)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk (continued)

(a) Currency exchange risk (continued)

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US$ as at 31 December 2020 and 2019.

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Profit before tax		
– 5% appreciation of RMB against US$	**(216,681)**	(190,976)
– 5% depreciation of RMB against US$	**216,681**	190,976

(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 debentures 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 2020, the Group had 26 outstanding floating-to-fixed interest rate swaps (2019: 25 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. All the floating rates were referenced to US$ LIBORs that will be affected by the IBOR reforms. For the remaining unhedged exposure, the Group closely monitors the interest rate exposure and will consider hedging the exposure where necessary and appropriate.

The reform and replacement of benchmark interest rates such as US$ LIBOR has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. Please refer to Note 4.2(d) for the detailed information.

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 2020	2019
Interest rate swaps		
Carrying amount liabilities (HK$'000)	**(336,640)**	(120,641)
Notional amount – LIBOR based swaps (HK$'000)	**6,726,294**	6,671,310
Maturity date	**2021 – 2025**	2020 – 2024
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January (HK$'000)	**(214,948)**	(190,690)
Change in value of hedged item used to determine hedge effectiveness (HK$'000)	**210,914**	190,690
Weighted average hedged rate for the year	**2.1%**	2.2%

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2019 and 2020. 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$6,215,000 (2019: HK$45,631,000); and would also have increased/decreased the Group's reserves by approximately HK$91,127,000 (2019: HK$104,331,000), because of the impact of cash flow hedge interest derivatives.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk

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

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

(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.

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

(b) Risk limit control and mitigation policies
The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

Credit risk on aircraft lease service (continued)

(c) Impairment allowance policies

The Group applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for 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 of credit risk are estimated according to net exposure analysis and assumptions about risk of default and expected loss rates. The net exposure is determined based on the finance lease receivable or operating lease receivable balance, net of the unguaranteed residual value in the case of a finance lease, and other cash collaterals such as security deposits over the contractual term. 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.

The Group assesses the business performance and credit risks of the airline companies on a regular basis. Due to the COVID-19 pandemic, some of the airline customers have curtailed their commercial operations, which could result in lease defaults. The Group have agreed with some of the lessees to defer upcoming rent obligations. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management provided expected credit loss of HK$7,069,000 for finance lease receivables (Note 7) and HK$75,795,000 for operating lease receivables (Note 9) as at 31 December 2020.

Credit risk exposure on operating leases receivables:

	As at 31 December			
	2020		2019	
	Gross carrying amount HK$'000	**Expected credit losses allowance HK$'000**	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	**249,550**	**43,402**	25,908	–
Europe	**51,214**	**10,751**	–	–
Americas	**75,913**	**21,642**	–	–
	376,677	**75,795**	25,908	–

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

Credit risk on aircraft lease service (continued)

(c) Impairment allowance policies *(continued)*

Credit risk exposure on finance lease receivables (excluding the unguaranteed residual value):

	As at 31 December			
	2020		2019	
	Gross carrying amount HK$'000	**Expected credit losses allowance HK$'000**	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	**3,849,388**	**7,069**	4,292,029	12,301

(d) *Concentration of credit risk*

During the year ended 31 December 2020, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 7, Note 9 and Note 21 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables and operating 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.

Credit risk on loans to associates and joint ventures and other financial assets

The Group is also exposed to credit risk associated with loans and loan commitments to associates and joint ventures. Please refer to Note 4.1(e), Note 6 and Note 34 for details.

In addition, the Group is exposed to credit risk associated with cash in bank. Management consider that these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term.

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	
	2020	2019
	HK$'000	HK$'000
Current assets		
Loans to associates and joint ventures	**6,311**	1,117,419
Finance lease receivables – net	**139,305**	218,422
Financial asset at fair value through profit or loss	**136,393**	154,372
Derivative financial assets	**–**	4,624
Aircraft trading assets	**19,486**	–
Prepayments and other assets	**476,055**	581,447
Restricted cash	**142,413**	–
Cash and cash equivalents	**4,877,557**	4,352,327
	5,797,520	6,428,611
Current liabilities		
Deferred income tax liabilities	**146,794**	116,559
Borrowings	**8,216,812**	6,194,009
Medium-term notes	**391,941**	379,516
Bonds and debentures	**3,807,197**	–
Derivative financial liabilities	**137,197**	27,465
Income tax payables	**24,897**	7,386
Interest payables	**276,113**	269,280
Other liabilities and accruals	**1,735,259**	2,329,924
	14,736,210	9,324,139
Net current liabilities	**(8,938,690)**	(2,895,528)

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.

As at 31 December 2020, borrowings of HK$8.2 billion under current liabilities mainly comprised of bank borrowings of HK$1.6 billion from aircraft acquisition financing ("aircraft loans") and HK$3.9 billion from PDP financing. The above aircraft loans will be partially funded by the collection of operating lease receivables (which has not been included under current assets above) that is expected to be received from airlines in the next twelve months from 31 December 2020. 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 working capital and PDP financing, aircraft loans, debt 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 as of 31 December 2020 and those capital commitments in the next twelve months from 31 December 2020.

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 loan commitments and 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 2020					
Financial liabilities					
Borrowings	**9,030,156**	**4,328,600**	**9,084,684**	**7,855,971**	**30,299,411**
Medium-term notes	**448,175**	**989,972**	**–**	**–**	**1,438,147**
Bonds and debentures	**4,244,713**	**3,661,950**	**1,994,424**	**–**	**9,901,087**
Other liabilities and accruals (i)	**1,081,955**	**144,373**	**81,664**	**146,714**	**1,454,706**
Derivate financial instruments	**137,355**	**107,594**	**111,712**	**–**	**356,661**
Off-balance sheet – loan commitments	**115,163**	**14,040**	**–**	**–**	**129,203**
Off-balance sheet – operating lease commitments	**87**	**–**	**–**	**–**	**87**

	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 and debentures	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
Derivate financial instruments	27,748	35,552	70,988	–	134,288
Off-balance sheet – loan commitments	113,801	51,560	–	–	165,361
Off-balance sheet – operating lease commitments	334	–	–	–	334

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

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 lease payments arising from finance leases 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 mainly include maintaining relationship with the airline companies, collecting of rental on behalf the trust plan. CALC SPCs recognised service fee income over the lease servicing period. For the year ended 31 December 2020, service fee income of HK$1,210,000 (2019: HK$1,158,000) was included in Group's other operating 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:

	Size HK$'000	The trust plan Funding provided by the Group (Note (i)) HK$'000	Group's maximum exposure (Note (ii)) HK$'000
As at 31 December 2020	**10,762,609**	**3,622**	**121,593**
As at 31 December 2019	10,810,782	3,403	122,137

Note:

(i) The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of HK$3,622,000 (2019: HK$3,403,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2020 (Note 10).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4 Disposal of finance lease receivables *(continued)*

Note: *(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$121,593,000). As at 31 December 2020, the fair value of this currency swap contract amounted to HK$16,927,000 (2019: HK$19,045,000) and the fair value loss of HK$2,035,000 was recognised in other gains or losses for the year ended 31 December 2020 (2019: gain of HK$3,033,000) (Note 19(a)).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plans or asset-backed securities programme as at 31 December 2020. 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 2020.

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

	As at 31 December 2020 HK$'000	As at 1 January 2020 HK$'000
Interest-bearing debts included in total liabilities	**37,156,101**	35,763,060
Total liabilities	**40,976,750**	39,681,611
Total assets	**46,392,519**	43,651,325
Total equity	**5,415,769**	3,969,714
Gearing ratio	**80.1%**	81.9%
Asset-liability ratio	**88.3%**	90.9%
Interest-bearing debt to equity ratio	**7:1**	9:1

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Group estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques.
The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Financial assets and financial liabilities measured at fair values

The following table presents the Group's financial assets and financial 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 2020				
Assets				
Currency swaps and forward contracts	–	17,720	–	17,720
Financial assets at fair value through profit or loss	–	–	797,888	797,888
	–	17,720	797,888	815,608
Liability				
Interest rate swaps	–	355,566	–	355,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2019				
Assets				
Currency swaps	–	19,045	–	19,045
Interest rate swaps	–	7,292	–	7,292
Financial assets 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

The fair values of the interest rate swaps for hedging and the currency swap and currency forwards 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 significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, 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 Group accessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease or increase HK$17,000,000 of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase or decrease the fair value by HK$125,000,000 and HK$159,000,000 respectively.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

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

The following table presents the change in level 3 instrument for the year ended 31 December 2020.

	Financial asset at fair value through profit or loss HK$'000
As at 1 January 2020	**752,913**
Investment to financial asset at fair value through profit or loss	**41,814**
Proceeds from financial asset at fair value through profit or loss and fair value gains	**6,537**
Currency translation difference	**(3,376)**
As at 31 December 2020	**797,888**

	Financial asset at fair value through profit or loss HK$'000
As at 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 fair value gains	(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 associates and joint ventures, 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 or with floating rate, are not sensitive to changes in inputs to valuation techniques.

The carrying amounts and fair values of the finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures are as follows:

	As at 31 December 2020		As at 31 December 2019	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables (excluding the unguaranteed residual value)	3,849,388	4,208,436	4,292,029	4,745,855
Borrowings	26,763,014	26,690,742	26,881,194	26,950,714
Medium-term notes	1,338,308	1,370,678	1,636,499	1,677,286
Bonds and debentures	9,054,779	8,511,404	7,245,367	7,274,165

The fair values of the above finance lease receivables, borrowings, medium-term notes and bonds and debentures (which are not traded in the active market) 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 other bonds and debentures which are traded in the active market are determined based on the quoted prices in the respective markets. 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 is subject to inherent uncertainty. Please refer to Note 15 and Note 28 for the detailed information of deferred tax liabilities and income taxes.

(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 2020.

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 49 (2019: 53) finance leases as at 31 December 2020 were approximately HK$5,213,233,000 (2019: HK$5,742,735,000). 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 2020 by approximately HK$9,763,000 (2019: HK$11,767,000).

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

4.1 Critical accounting estimates and assumptions *(continued)*

(c) Impairment of non-financial assets

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

Factors that may contribute to impairment of aircraft include, but are not limited to, unfavorable airline industry trends affecting the residual values of certain aircraft types, high fuel prices and development of more fuel-efficient aircraft shortening the useful lives of certain aircraft, and new technological developments. 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 and industry trends. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft based on the key assumptions mainly including lease rents of current leases; subsequent re-lease rates based on current marketing information and residual values, and discounted at a rate commensurate with the associated risk to calculate the present value.

(d) Impairment of finance lease receivables and operating lease receivables

The Group calculates expected credit losses through estimating the risk exposure of default and expected credit loss rate. The expected credit loss rate is determined based on estimation of probability of default and loss given default. In determining the expected credit loss rate, the Group considers the Group's past history, existing market conditions as well as forward looking estimates. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses. Please refer to Note 7 and Note 9(b) for detailed information.

(e) Impairment of investments in and loans to associates and joint ventures

The Group assesses whether there are any indicators of impairment for investments in associates and joint ventures at the end of each reporting period. Investments in associates and joint ventures are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in associates or joint ventures exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose a discount rate commensurate with the associated risk in order to calculate the present values of those cash flows.

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

4.1 Critical accounting estimates and assumptions *(continued)*

(e) Impairment of investments in and loans to associates and joint ventures *(continued)*

The Group evaluates expected credit losses of loans to associates and joint ventures at the end of each reporting period. Management considers a number of factors in expected credit loss assessment including but not limited to associates and joint ventures' current and expected financial positions, business environment and industry performance, current and forward-looking economic factors, collection history and past experience. For loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, the expected credit loss is likely to be immaterial. If the borrower could not repay the loan if demanded at the reporting date, the Group considers the expected manner of recovery, including a 'repay over time' strategy or a fire sale of less liquid assets, to measure expected credit losses.

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.

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

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

(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 but has a significant influence over CAG Group. The determination of the Group's level of involvement with another entity will require exercise of judgement under certain circumstances. The Company 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.

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

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

(d) Interest rate benchmark reform

To transition existing contracts and agreements that reference US$ LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition due to IBOR reforms.

Group treasury is managing the Group's US$ LIBOR transition plan, which includes amendments to the contractual terms of the US$ LIBOR-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

The Group has incorporated the following assumptions when applying the hedging accounting:

- When considering the 'highly probable' requirement, the Group has assumed that the US$ LIBOR interest rate on which the Group's hedged borrowing is based does not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the US$ LIBOR interest rate on which the cash flows of the hedged borrowing and the interest rate swap that hedges it are based is not altered by IBOR reform.
- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

In calculating the change in fair value attributable to the hedged risk of floating-rate borrowing, the Group has made the following assumptions that reflect its current expectations:

- The floating-rate borrowing will move to SOFR during 2022 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument.
- No other changes to the terms of the floating-rate borrowing are anticipated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
As at 1 January 2019							
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	–	–	–	–	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
Year ended 31 December 2020							
Opening net book amount	19,515,819	93	7,219	43,637	33,780	10,936	19,611,484
Additions	4,193,189	4,807	–	–	25,551	395	4,223,942
Transfer from finance lease receivables	572,064	–	–	–	–	–	572,064
Depreciation	(835,222)	(584)	(3,371)	(904)	(17,558)	(1,710)	(859,349)
Disposals/write off	(5,008,729)	(42)	–	–	(1,226)	(23)	(5,010,020)
Currency translation difference	(88,702)	(1)	(14)	(194)	1,434	(3)	(87,480)
Closing net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
As at 31 December 2020							
Cost	20,269,024	8,570	15,789	45,158	54,209	15,509	20,408,259
Accumulated depreciation	(1,920,605)	(4,297)	(11,955)	(2,619)	(12,228)	(5,914)	(1,957,618)
Net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641

Lease rental income amounting to HK$1,945,545,000 relating to the leasing of aircraft and engine for the year ended 31 December 2020 are included in operating lease income in the consolidated statement of income (2019: HK$1,796,218,000).

As at 31 December 2020, the net book value of aircraft amounted to HK$18,180,560,000 (2019: HK$19,424,240,000).

As at 31 December 2020, the net book value of aircraft amounting to HK$12,858,739,000 (2019: HK$14,707,462,000) were pledged as collateral for bank borrowings for aircraft acquisition financing and borrowings from trust plans (Note 16).

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Investments in and loans to associates and joint ventures – gross carrying amount	**1,353,943**	1,120,921
Share of losses and expected credit loss on investment in and loans to associates and joint ventures	**(219,039)**	(3,315)
	1,134,904	1,117,606

As at 31 December 2020, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Measurement method
Aircraft Recycling International Limited ("ARI") (a, Note 8)	Cayman Islands	Investment holding	48%	Equity
CAG (Notes 4.2(c) and 8)	Bermuda	Aircraft leasing	20%	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	PRC	Line maintenance, base maintenance, technical training.	34.52%	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") (c)	PRC	Aircraft leasing	49%	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)") (c)	PRC	Aircraft leasing	49%	Equity
PT Transnusa Aviation Mandiri ("TAM") (d)	Indonesia	Commercial air transportation services	49%	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 2020, the net liabilities of ARI was HK$352,195,000 (2019: net liabilities of HK$164,160,000), and as a result, the Group's interests in ARI was reduced to zero (2019: Zero). No further losses were recorded unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate. As at 31 December 2020, the Group's carrying amount of outstanding loans to ARI amounted to HK$1,069,771,000 (2019: HK$1,114,409,000).

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 31 December 2020, the Group's outstanding loans balance receivable from FLARI amounted to HK$6,311,000 (2019: HK$3,010,000). For details, please refer to Note 33(b)(iii).

As the result of FLARI is not material to the Group, no summarised financial information of FLARI is disclosed.

(c) HNCA One (Tianjin) and HNCA Two (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 31 December 2020, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK$34,467,000 (2019: Nil) and HK$34,423,000 (2019: Nil), respectively. For details, please refer to Note 33(e).

As the result of HNCA One (Tianjin) and HNCA Two (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin) and HNCA Two (Tianjin) are disclosed.

(d) On 4 March 2020, CALC IDN Limited ("CALC IDN"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with Aviation Synergy Limited ("Aviation Synergy"), which was owned as to 52% by Equal Honour Holding Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive Director and chief executive officer of the Company) and 48% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive Director and deputy chief executive officer of the Company).

Pursuant to the subscription agreement, 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), representing approximately 72.82% of the enlarged share capital in Aviation Synergy. Aviation Synergy indirectly (i) holds 49% equity interest in TAM and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in TAM. The principal activity of TAM is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined.

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(d) *(continued)*

An analysis of the movements of investment in and loan to TAM is as follows:

	Year ended 31 December 2020 HK$'000
As at 1 January 2020	–
Add: Investment in TAM	98,868
Add: Loans to TAM	106,469
Total	205,337
Less: Share of losses and provisions on interest in TAM	(205,424)
Add: Currency translation difference	87
As at 31 December 2020	–

The loans to TAM was fully impaired according to assessment under HKFRS 9 Financial Instruments in 2020.

The financial information summary of TAM for the year 2020 is as follows:

Name of entity	Total assets as at 31 December HK$'000	Total liabilities as at 31 December HK$'000	Total revenue from the acquisition date to 31 December 2020 HK$'000	Net losses from the acquisition date to 31 December 2020 HK$'000
TAM	72,152	487,406	30,402	318,614

Save as those disclosed elsewhere in other notes, the above transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

Besides the contingent liabilities disclosed in Note 34(a), there are no other contingent liabilities relating to the Group's interests in associates and joint ventures.

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Lease payments receivables		
– Not later than 1 year	**129,578**	263,813
– Later than 1 year but not later than 2 years	**128,181**	259,902
– Later than 2 years but not later than 3 years	**126,328**	228,450
– Later than 3 years but not later than 4 years	**203,191**	196,997
– Later than 4 years but not later than 5 years	**1,079,669**	274,906
– Later than 5 years	**4,019,729**	5,365,283
Total	**5,686,676**	6,589,351
Less: Unearned finance lease income relating to lease payment receivables	**(1,837,288)**	(2,297,322)
Present value of lease payment receivables	**3,849,388**	4,292,029
Add: Present value of unguaranteed residual value	**3,421,378**	3,510,782
Net investment in the lease	**7,270,766**	7,802,811
Less: Accumulated expected credit losses allowance	**(7,069)**	(12,301)
Finance lease receivables – net	**7,263,697**	7,790,510

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

	As at 31 December			
	2020		2019	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**5,332,181**	**73%**	5,889,902	76%
Others	**1,931,516**	**27%**	1,900,608	24%
Finance lease receivables – net	**7,263,697**	**100%**	7,790,510	100%

8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Long-term debt investments – CAG (a)	**701,959**	648,940
Long-term debt investments – ARG (b)	**95,929**	103,973
	797,888	752,913

(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 shareholders' loan agreement, all investors of CAG committed to invest in CAG through shareholders' loan according to the mezzanine financing proportion.

(b) ARG Cayman 1 Limited ("ARG") is a subsidiary of ARI. 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 shareholders' loan agreement, all investors of ARG committed to invest in ARG through shareholders' loan according to the mezzanine financing proportion.

9 PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
PDP (a)	**11,294,698**	8,405,090
Operating lease receivables (b)	**376,677**	25,908
Assets classified as held for sale	**–**	299,119
Interest capitalised (Note 24(a))	**804,675**	563,964
Prepayments and receivables relating to aircraft acquisition	**562,896**	372,492
Deposits paid	**49,399**	51,610
Prepayments and amounts due from related parties (Note 33(g))	**311,860**	706
Others (c)	**94,430**	46,158
	13,494,635	9,765,047
Less: Expected credit losses allowance (b)	**(75,795)**	–
	13,418,840	9,765,047

9 PREPAYMENTS AND OTHER ASSETS *(continued)*

(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 January 2020, the Group entered into supplemental agreement to the aircraft purchase agreements in December 2014 to purchase additional 40 aircraft from Airbus.

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 2027.

(b) As at 31 December 2020, the aging of the operating lease receivables based on due date was as follows:

	Current/ Deferral HK$'000	Less than 30 days past due HK$'000	30 to 90 days past due HK$'000	More than 90 days past due HK$'000	Total HK$'000
Gross carrying amount	**163,370**	**15,128**	**70,529**	**127,650**	**376,677**

As at 31 December 2020, the expected credit losses amounted to HK$75,795,000 (2019: Nil) and the net operating lease receivables amounted to HK$300,882,000 (2019: HK$25,908,000).

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

10 RESTRICTED CASH

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Pledged for bank borrowings for aircraft acquisition financing	**51,495**	56,123
Pledged for long-term borrowings (Note 16)	**43,879**	44,068
Pledged for interest rate swap contracts (Note 19(c))	**312,790**	131,507
Pledged for a currency swap contract (Note 19(a))	**3,622**	3,403
	411,786	235,101

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
US$	**369,662**	188,515
RMB	**42,124**	46,586
	411,786	235,101

The average effective interest rate as at 31 December 2020 was 0.77% (2019: 1.65%).

11 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Cash at bank and on hand	**4,877,557**	4,352,327

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
US$	**4,258,528**	3,849,477
RMB	**595,809**	489,707
HK$	**18,231**	8,626
Other currencies	**4,989**	4,517
	4,877,557	4,352,327

The average effective interest rate as at 31 December 2020 was 0.76% (2019: 1.79%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2019, 31 December 2019 and 1 January 2020	HK$0.1	677,269,380	67,726,938
Buy-back of shares (a)	HK$0.1	(3,000,000)	(300,000)
Payment of script dividend (Note 30)	HK$0.1	45,735,457	4,573,546
As at 31 December 2019, 1 January 2020 and 31 December 2020		**720,004,837**	**72,000,484**

(a) The Company acquired 3,000,000 of its own shares through purchases on the Stock Exchange and those purchased shares were subsequently cancelled during the year ended 31 December 2020. The total amount paid to acquire the shares was HK$19,172,000, including transaction costs.

13 RESERVES

	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 19)	–	–	–	–	(201,055)	–	(201,055)
Currency translation differences	–	–	–	–	–	(51,665)	(51,665)
Share option scheme (a):							
– 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

	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 2020	**1,092,091**	**623,720**	**(39)**	**23,746**	**(120,641)**	**(59,405)**	**1,559,472**
Buy-back of shares	**(18,803)**	**–**	**(69)**	**–**	**–**	**–**	**(18,872)**
Cash flow hedges (Note 19)	**–**	**–**	**–**	**–**	**(203,011)**	**–**	**(203,011)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(37,848)**	**(37,848)**
Share option scheme (a):							
– Value of services	**–**	**–**	**–**	**330**	**–**	**–**	**330**
– Share options lapsed	**–**	**–**	**–**	**(23,746)**	**–**	**–**	**(23,746)**
Script dividends	**309,153**	**–**	**–**	**–**	**–**	**–**	**309,153**
Balance as at 31 December 2020	**1,382,441**	**623,720**	**(108)**	**330**	**(323,652)**	**(97,253)**	**1,585,478**

13 RESERVES *(continued)*

(a) On 22 July 2016 and 2 January 2020, the Company adopted a share option scheme (2016 Post-IPO Share Option Scheme) and (2020 Post-IPO Share Option Scheme), respectively for the purpose of recognizing the contribution participants including certain directors of the Company and selected employees of the Group in relation to the growth of the Group.

Movement of outstanding share options granted by the Group on 22 July 2016 (2016 Post-IPO Share Option Scheme) and 2 January 2020 (2020 Post-IPO Share Option Scheme) is as follows:

	Number of share options
As at 1 January 2019	25,474,000
Lapsed	(10,500,000)
As at 31 December 2019	14,974,000
As at 1 January 2020	**14,974,000**
Granted	**10,000,000**
Lapsed	**(14,974,000)**
As at 31 December 2020	**10,000,000**

As at 31 December 2020, there was no outstanding share options of 2016 Post-IPO Share Option Scheme. For share options outstanding as at 31 December 2020, the adjusted exercise price per share of 2020 Post-IPO Share Option Scheme was HK$8.46.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the year ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Directors and employees	**330**	339

14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Perpetual capital securities (a)	**1,548,332**	–
Other non-controlling interests of ordinary shares	**(25,601)**	–
	1,522,731	–

14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS *(continued)*

(a) Perpetual capital securities

On 16 December 2020, a subsidiary of the Group (the "Issuer") issued US$200 million floating rate guaranteed perpetual capital securities with the aggregate net proceeds (after transaction cost of HK$5.0 million) of HK$1,545.5 million. The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of the Issuer. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the Company elects to declare dividends to ordinary shareholders, the Issuer shall make distribution to the holders of perpetual capital securities at the distribution rate as defined in the subscription agreements.

15 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Deferred tax liabilities:		
– To be settled within 12 months	**146,794**	116,559
– To be settled after 12 months	**641,922**	629,815
	788,716	746,374

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 2019	670,401
Charged to profit or loss (Note 28)	80,844
Currency translation difference	(4,871)
As at 31 December 2019	746,374
As at 1 January 2020	**746,374**
Charged to profit or loss (Note 28)	**40,461**
Currency translation difference	**1,881**
As at 31 December 2020	**788,716**

15 DEFERRED INCOME TAX LIABILITIES *(continued)*

As at 31 December 2020, certain subsidiaries of the Group had unused tax losses of approximately HK$998,924,000 (2019: HK$909,704,000) available to offset against future profits, for which deferred tax asset of HK$154,527,000 (2019: HK$138,366,000) 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	
	2020	2019
	HK$'000	HK$'000
Year		
2020	**–**	14,953
2021	**–**	49,672
2022	**18,350**	52,381
2023	**62,165**	62,165
2024	**91,383**	91,383
2025	**129,165**	–
No expiry date	**697,861**	639,150
	998,924	909,704

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$909,324,000 as at 31 December 2020 (2019: HK$1,885,384,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

16 BORROWINGS

	As at 31 December 2020 HK$'000	2019 HK$'000
Bank borrowings		
Bank borrowings for aircraft acquisition financing (a)	**10,541,963**	14,818,861
PDP financing (b)	**8,456,588**	5,327,145
Other unsecured bank borrowings (c)	**2,595,060**	1,427,624
	21,593,611	21,573,630
Long-term borrowings		
Borrowings from trust plans (d)	**4,818,500**	4,971,585
Other borrowings (e)	**350,903**	335,979
	5,169,403	5,307,564
	26,763,014	26,881,194

Bank borrowings

(a) Bank borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 31 December 2020, 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$45,380,000 (2019: HK$56,123,000).

(b) As at 31 December 2020, PDP financing of HK$8,085,286,000 (2019: HK$5,137,170,000) 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 2020, the Group had aggregate unsecured bank borrowings of HK$2,595,060,000 (2019: HK$1,427,624,000) which were guaranteed by certain companies of the Group.

The bank borrowings are repayable as follows:

	As at 31 December 2020 HK$'000	2019 HK$'000
Within 1 year	**8,075,496**	6,078,900
Between 1 and 2 years	**3,472,990**	3,493,766
Between 2 and 5 years	**6,177,909**	5,023,091
Over 5 years	**3,867,216**	6,977,873
	21,593,611	21,573,630

16 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	
	2020	2019
	HK$'000	HK$'000
Fixed-interest rate	**2,539,977**	4,713,749
Floating-interest rate	**19,053,634**	16,859,881
	21,593,611	21,573,630

The average effective interest rate as at 31 December 2020 of bank borrowings was 3.34% (2019: 4.64%). The carrying amounts of borrowings are principally denominated in US$.

The Group has the following undrawn bank borrowings facilities:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Floating rate:		
– Expiring within one year	**239,888**	77,872
– Expiring beyond one year	**1,901,206**	4,359,323
	2,141,094	4,437,195

Long-term borrowings

(d) As at 31 December 2020, 46 borrowings (2019: 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% (2019: 3.5% to 7.8%) per annum for remaining terms of three to nine years (2019: four to ten 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$43,879,000 (2019: HK$44,068,000).

(e) As at 31 December 2020, four borrowings (2019: four borrowings) were obtained through a structured financing arrangement for four aircraft (2019: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2019: 3.9% to 5.7%) per annum for their remaining terms of four to five years (2019: five to six years) and are guaranteed by the Company.

17 MEDIUM-TERM NOTES

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

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 2020, after deducting the issuing cost, the total carrying amount of these notes was HK$1,338,308,000 (2019: HK$1,636,499,000).

18 BONDS AND DEBENTURES

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 the wholly owned subsidiaries in the 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.

In March 2020, one of the wholly owned subsidiaries in the PRC issued one-year RMB1.0 billion unsecured debentures at the coupon rate of 3.65% and were listed on the Inter-Bank Bond Market of China.

In June 2020, one of the wholly owned subsidiaries in the PRC issued one-year RMB300 million unsecured debentures at the coupon rate of 4% and were listed on the Inter-Bank Bond Market of China.

In November 2020, the Group entered into a subscription agreement with an independent third party in relation to the issuance of five-year US$70 million senior unsecured bonds, of which US$35 million are issued in November 2020 and due in 2025. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

From October to December 2020, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US$6,992,000. The principal amount of bonds was US$7,200,000. A net gain of US$190,000 (equivalent to approximately HK$1,474,000) was recognised after deducting the transaction cost. As at 31 December 2020, the total carrying amount of these bonds was HK$9,054,779,000 (2019: HK$7,245,367,000).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Derivative financial assets		
– Currency swap (a)	**16,927**	19,045
– Currency forward contract (b)	**793**	–
– Interest rate swaps (c)	**–**	7,292
	17,720	26,337
Derivative financial liabilities		
– Interest rate swaps (c)	**355,566**	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 2020, the fair value of this currency swap contract amounted to HK$16,927,000 (2019: HK$19,045,000) and the fair value loss of HK$2,035,000 was recognised in "other losses" for the year ended 31 December 2020 (2019: gain of HK$3,033,000). As at 31 December 2020, this arrangement was secured by a pledged deposit of HK$3,622,000 (2019: HK$3,403,000).

(b) As at 31 December 2020, the Group had 4 outstanding currency forward contracts with notional amount of RMB400,000,000 (equivalent to approximately HK$475,040,000) (2019: Nil) which will expire at various dates from 20 December 2022 to 30 December 2022 (2019: Nil), to mitigate RMB exchange rate risks. These forward contracts did not satisfy the requirements for hedge accounting, the fair value changes of which were recognised in other gains or losses.

(c) As at 31 December 2020, the Group had 31 outstanding interest rate swap contracts (2019: 29 contracts) which will expire at various dates from 25 April 2021 to 3 April 2025 (2019: 3 August 2020 to 21 December 2024), to exchange floating interest rates into fixed interest rates in a range of 0.9% to 2.6% (2019: 1.3% to 2.6%). As at 31 December 2020, these arrangements were secured by margin deposit of HK$312,790,000 (2019: HK$131,507,000).

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

	Year ended 31 December 2020 HK$'000	2019 HK$'000
Recognised in other comprehensive income		
– Change in fair value of interest rate swaps	**(217,912)**	(206,398)
– Reclassified from other comprehensive income to profit or loss	**14,901**	5,343
	(203,011)	(201,055)
Recognised in other losses of profit or loss		
– Fair value losses on interest rate swaps	**(21,300)**	(14,327)
– Fair value gains on currency forward contracts	**793**	–
– Unrealised (loss)/gain on currency swap	**(2,035)**	3,033
– Realised losses on interest rate swaps	**–**	(10,055)
	(22,542)	(21,349)

20 OTHER LIABILITIES AND ACCRUALS

	As at 31 December 2020 HK$'000	2019 HK$'000
Deposits and fund received for lease and aircraft projects	**1,571,029**	1,722,574
Consultant and insurance premium payable	**104,232**	85,593
Value-added tax and other taxes	**295,154**	526,641
Operating lease rentals received in advance	**75,272**	144,195
Amounts due to related parties (Note 33(h))	**16**	101
Amount due to non-controlling interest of a subsidiary (Note 33(i))	**76,164**	–
Lease liabilities	**45,252**	36,862
Others (including salary and bonus payable)	**208,238**	249,935
	2,375,357	2,765,901

The leasing income of the subsidiaries in the Mainland China is subject to VAT at 13% from 1 April 2019.

21 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2020, 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			
	2020		2019	
	HK$'000	%	HK$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	422,568	17%	452,815	18%
Airline Company – B	339,192	14%	297,608	12%
Airline Company – C	192,545	8%	156,799	6%
Airline Company – D	162,690	6%	164,343	7%
Airline Company – E	116,243	5%	86,815	4%
Others	1,253,550	50%	1,302,136	53%
Total finance and operating lease income	2,486,788	100%	2,460,516	100%

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT TRADING

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Aircraft transactions (a)	514,275	585,280
Aircraft trading (b)	–	9,657
	514,275	594,937

(a) The net gain from aircraft transactions for the year ended 31 December 2019 included the gain from disposal of 15 aircraft, including one aircraft to ARI Group, the disposal of seven aircraft and related businesses to CAG Group and the disposal of seven aircraft to third parties.

The net gain from aircraft transactions for the year ended 31 December 2020 included the gain from disposal of 18 aircraft, including four aircraft and related businesses to ARI Group, the disposal of two aircraft with related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin) (Note 33(f)), respectively, the disposal of seven aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (Note 33(a)(iii)) and the disposal of five aircraft to third parties.

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT TRADING *(continued)*

(b) Aircraft trading

	Year ended 31 December	
	2020	2019
	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

23 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Government grants (a)	**251,526**	265,119
Interest income from loans to associates and joint ventures (Note 33(b))	**92,852**	74,353
Forfeiture of deposit received	**84,627**	–
Bank interest income	**9,998**	24,217
Servicer fees income from CAG Group (Note 33(c))	**12,212**	33,209
Operating lease income on other assets from a related party (Note 33(a))	**1,320**	2,640
Others	**32,184**	68,206
	484,719	467,744

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

24 INTEREST EXPENSES

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Interest expense on borrowings	**1,056,338**	1,374,701
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive loss/(income)	**90,897**	(31,726)
Interest expense on medium-term notes	**76,978**	59,001
Interest expense on bonds and debentures	**418,477**	406,932
	1,642,690	1,808,908
Less: Interest capitalised on qualifying assets (a)	**(313,908)**	(386,096)
	1,328,782	1,422,812

(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.

25 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Employee benefit expenses (Note 26)	**135,692**	182,464
Value-added tax and other taxes	**28,769**	78,749
Professional service expenses	**52,760**	54,375
Rental and utilities expenses	**5,439**	5,346
Office and meeting expenses	**9,956**	12,618
Travelling and training expenses	**5,554**	11,944
Auditor's remuneration		
– Audit service	**4,176**	4,476
– Non-audit service	**585**	1,774
Others	**25,368**	27,694
	268,299	379,440

26 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Wages, salaries and bonuses	**122,317**	167,002
Share-based compensation (Note 13(a))	**330**	339
Welfare, medical and other expenses	**13,045**	15,123
	135,692	182,464

27 OTHER LOSSES/(GAINS)

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Unrealised loss/(gain) on currency swap	**2,035**	(3,033)
Fair value gains on currency forward contracts	**(793)**	–
Realised losses on interest rate swaps	**–**	10,055
Fair value losses on interest rate swaps and futures	**66,791**	14,327
Currency exchange losses/(gains) (a)	**277,677**	(52,653)
Fair value gains on financial asset at fair value through profit or loss	**(38,960)**	(44,960)
	306,750	(76,264)

(a) The currency exchange losses of HK$277.7 million (2019: currency exchange gains of HK$52.7 million) represents currency exchange losses of HK$306.5 million (2019: currency exchange gains of HK$23.5 million) arising from borrowings denominated in RMB and currency exchange gains of HK$28.8 million (2019: currency exchange gains of HK$29.2 million) arising from borrowings denominated in US$.

28 INCOME TAX EXPENSES

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	**124,597**	63,692
Deferred income tax (Note 15)	**40,461**	80,844
	165,058	144,536

Mainland China

The subsidiaries incorporated in the Mainland China are subject to the PRC corporate income tax ("CIT") at 25% (2019: 25%).

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%.

Others

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

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

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

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

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

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

The subsidiary incorporated in Malta is subject to income tax at 35%.

The subsidiaries incorporated in Labuan are subject to income tax at 3%.

28 INCOME TAX EXPENSES *(continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% during the year ended 31 December 2020. The difference is analysed as follows:

	Year ended 31 December 2020 HK$'000	2019 HK$'000
Profit before income tax	**433,001**	1,040,543
Tax calculated at a tax rate of 25%	**108,250**	260,136
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	**(16,490)**	(30,122)
– Income not subject to tax	**(101,183)**	(184,921)
– Non-deductible expenses	**154,543**	64,457
– Utilisation of previously unrecognised tax losses	**(23,375)**	(6,164)
– Tax losses for which no deferred income tax assets were recognised	**43,313**	41,150
Tax charge	**165,058**	144,536

29 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 2019 and 2020.

	Year ended 31 December 2020	2019
Profit attributable to shareholders of the Company (HK$'000)	**334,143**	896,007
Weighted average number of ordinary shares in issue (number of shares in thousands)	**693,411**	677,269
Basic earnings per share (HK$ per share)	**0.482**	1.323

29 EARNINGS PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the financial period. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2020	2019
Earnings		
Profit attributable to shareholders of the Company (HK$'000)	**334,143**	896,007
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	**693,411**	677,269
Adjustment for:		
– Share options (number of shares in thousands)	**–**	–
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	**693,411**	677,269
Diluted earnings per share (HK$ per share)	**0.482**	1.323

30 DIVIDENDS

A final dividend of HK$0.48 per ordinary share totalling HK$323.6 million for the year ended 31 December 2019, which was paid by cash of HK$105.6 million and by share issuance of HK$218.0 million in June 2020. The payment of the final dividend was calculated based on 674,269,380 issued shares after deducting 3,000,000 issued shares buy back by the Company in 2020. The proposed final dividend payment was calculated based on 677,269,380 issued shares.

An interim dividend of HK$0.20 per ordinary share totalling HK$141.2 million was paid by cash of HK$45.5 million and by share issuance of HK$95.7 million in October 2020.

30 DIVIDENDS *(continued)*

On 15 March 2021, the Board recommended a final dividend of HK$0.2 per ordinary share totalling HK$144.0 million and proposed a scrip dividend option to be offered, which is calculated based on 720,004,837 issued shares as at 15 March 2021. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2020, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2021.

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Interim dividend paid of HK$0.20 (2019: HK$0.23) per ordinary share	**141,194**	155,772
Proposed final dividend of HK$0.20 (2019: HK$0.48) per ordinary share	**140,001**	325,089
Total	**281,195**	480,861

31 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	
	2020	2019
	HK$'000	HK$'000
Cash and cash equivalents	**4,877,557**	4,352,327
Restricted cash	**411,786**	235,101
Borrowings	**(26,763,014)**	(26,881,194)
Medium-term notes	**(1,338,308)**	(1,636,499)
Bonds and debentures	**(9,054,779)**	(7,245,367)
Derivative financial instruments	**(337,846)**	(103,273)
Other liabilities and accruals – lease liabilities	**(45,252)**	(36,862)
Net debt	**(32,249,856)**	(31,315,767)
Cash and cash equivalents	**4,877,557**	4,352,327
Restricted cash	**411,786**	235,101
Derivative financial instruments	**(337,846)**	(103,273)
Gross debt – fixed interest rates	**(18,147,719)**	(18,940,041)
Gross debt – variable interest rates	**(19,053,634)**	(16,859,881)
Net debt	**(32,249,856)**	(31,315,767)

31 NET DEBT RECONCILIATION *(continued)*

	Cash and cash equivalents HK$'000	Restricted cash HK$'000	Liabilities from financing activities: Borrowings HK$'000	Lease liabilities HK$'000	Medium-term notes HK$'000	Bonds and Debentures HK$'000	Financial instruments HK$'000	Total HK$'000
Net debt as at 1 January 2019	3,990,107	176,451	(24,603,195)	(29,386)	(758,831)	(8,580,407)	123,174	(29,682,087)
Cash flows	395,759	60,973	(2,349,415)	25,385	(905,705)	1,272,149	31,250	(1,469,604)
Acquisition – leases	–	–	–	(31,592)	–	–	–	(31,592)
Currency exchange adjustments	(33,539)	(2,323)	160,640	86	(12,719)	71,794	(83)	183,856
Other non-cash movements (a)	–	–	(89,224)	(1,355)	40,756	(8,903)	(257,614)	(316,340)
Net debt as at 31 December 2019	4,352,327	235,101	(26,881,194)	(36,862)	(1,636,499)	(7,245,367)	(103,273)	(31,315,767)
Net debt as at 1 January 2020	**4,352,327**	**235,101**	**(26,881,194)**	**(36,862)**	**(1,636,499)**	**(7,245,367)**	**(103,273)**	**(31,315,767)**
Cash flows	**507,604**	**177,036**	**(81,907)**	**21,044**	**377,524**	**(1,641,821)**	**(74,896)**	**(715,416)**
Acquisition – leases	**–**	**–**	**–**	**(28,661)**	**–**	**–**	**–**	**(28,661)**
Currency exchange adjustments	**17,626**	**(351)**	**48,084**	**703**	**(79,333)**	**(156,196)**	**558**	**(168,909)**
Other non-cash movements (a)	**–**	**–**	**152,003**	**(1,476)**	**–**	**(11,395)**	**(160,235)**	**(21,103)**
Net debt as at 31 December 2020	**4,877,557**	**411,786**	**(26,763,014)**	**(45,252)**	**(1,338,308)**	**(9,054,779)**	**(337,846)**	**(32,249,856)**

(a) Other non-cash movements mainly represent disposal of borrowings, fair value change of financial instruments and amortisation of upfront fees and issuing cost of borrowings, medium-term notes and bonds and debentures.

32 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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							
Dr. 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

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

(a) Directors' emoluments *(continued)*

Year ended 31 December 2020

	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							
Dr. Zhao Wei (i)	–	–	–	–	330	–	330
Executive directors							
Mr. Poon Ho Man	–	1,748	4,551	–	–	18	6,317
Ms. Liu Wanting	–	3,024	4,251	–	–	18	7,293
Non-executive directors							
Mr. Tang Chi Chun	200	35	–	–	–	–	235
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	200	250	–	–	–	–	450
Mr. Nien Van Jin, Robert	200	240	–	–	–	–	440
Mr. Cheok Albert Saychuan	200	252	–	–	–	–	452
Mr. Chow Kwong Fai, Edward (iii)	83	104	–	–	–	–	187
Dr. Tse Hiu Tung, Sheldon (iv)	57	5	–	–	–	–	62
	940	5,658	8,802	–	330	36	15,766

Note:

(i) Appointed on 10 May 2019

(ii) Resigned on 10 May 2019

(iii) Passed away on 1 June 2020

(iv) Appointed on 18 September 2020

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2020 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 2020 (2019: Nil).

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

(b) Five highest paid individuals:

During the year ended 31 December 2020, the five individuals whose emoluments were the highest in the Group include two directors and three individuals (2019: two directors and three individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2020, the emoluments paid to three (2019: three) remaining individuals are as follows:

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Basic salaries and allowances	**8,736**	8,769
Discretionary bonuses	**1,597**	5,272
Share-based payments	**–**	69
Other benefits	**333**	354
	10,666	14,464

The emoluments of the above three (2019: three) individuals fell within the following bands:

	Year ended 31 December	
	2020	2019
HK$3,000,001 to HK$4,000,000	**2**	1
HK$4,000,001 to HK$5,000,000	**1**	1
HK$6,000,001 to HK$7,000,000	**–**	1

During the years ended 31 December 2020 and 2019, 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.

33 RELATED PARTY TRANSACTIONS

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

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries

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 37.11% equity interest in the Company as at 31 December 2020.

(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 may 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 may 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 may assign the finance lease receivables to the trustee.

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Interest income from CE Group	**3,889**	8,764
Interest expenses to CE Group	**237,658**	278,110
Loans upfront and arrangement fee to CE Group	**1,357**	2,744
Transactions handling charges to CE Group	**8,266**	12,570

	As at 31 December	
	2020	2019
	HK$'million	HK$'million
Bank deposits placed in CE Group	**2,472.5**	1,730.4
Borrowings due to CE Group	**4,964.5**	4,243.5
Undrawn facilities provided by CE Group	**737.6**	370.7

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

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Operating lease income on other assets earned from:		
CEL Management	**1,320**	2,640

33 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries *(continued)*

(iii) Disposals of seven aircraft to Everbright Financial Leasing Co., Ltd.

During the year ended 31 December 2020, the Group disposed seven aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (2019: Nil). The total consideration from the disposals of aircraft is HK$2,501.6 million (2019: Nil) and recorded net income from aircraft transactions in the consolidated statement of income.

(b) Transactions with ARI Group and FLARI

(i) Service provided by ARI Group

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Service fee charged by:		
ARI Group (Note)	**45,272**	17,194
FLARI	**430**	5,956

Note: The amount included aircraft inspection, consultancy, aircraft technical related services charged by ARI Group amounting to RMB29,675,000 (equivalent to approximately HK$33,160,000) (2019: Nil), which related to the disposal of nine aircraft in 2020.

(ii) Transactions with ARI Group

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, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. 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) Limited with effect from 28 November 2018. As at 31 December 2020, the outstanding balance receivable from ARI was amounted to HK$1,069,771,000 (2019: HK$1,114,409,000) (Note 6) and the interest income for the year ended 31 December 2020 was HK$92,608,000 (2019: HK$74,342,000) (Note 23).

During the current year, the Group acquired three aircraft (with lease arrangements) from ARI Group with total consideration of US$97,800,000 (equivalent to approximately HK$758,996,000) (2019: The Group acquired two aircraft from ARI Group with total consideration of US$73,000,000 (equivalent to approximately HK$571,926,000)).

During the current year, the Group entered a letter of intent with ARI Group relating to the purchase of five engines with total consideration of US$55,000,000 (equivalent to approximately HK$426,388,000) (2019: Nil). As at 31 December 2020, the Group had placed deposit amounted to HK$232,575,000 (2019: Nil).

33 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with ARI Group and FLARI *(continued)*

(iii) Transaction with FLARI

Pursuant to the shareholders' credit line agreement dated 30 October 2019, 25 August 2020 and 25 November 2020, the Group granted loans to FLARI, interest bearing at 6.6% per annum, 6.7% per annum and 6.7% per annum, respectively, which is calculated on quarterly basis on the actual amount of the shareholders' loan drawn down.

As at 31 December 2020, the outstanding balance receivable from FLARI was amounted to HK$6,311,000 (2019: HK$3,010,000) (Note 6) and the interest income for the year ended 31 December 2020 was HK$244,000 (2019: HK$11,000) (Note 23).

(c) Transactions with CAG Group

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Fair value gains of long-term debt investments in CAG Group	**33,095**	44,960
Servicer fees income from CAG Group	**12,212**	33,209

(d) Transaction with ARG and its subsidiaries (collectively as "ARG Group")

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Fair value gains of long-term debt investments in ARG Group	**5,865**	–

ARG is a subsidiary of ARI.

(e) Transaction with HNCA One (Tianjin) and HNCA Two (Tianjin)

Pursuant to the shareholder's loan agreement signed in December 2020, the Group granted loans to HNCA One (Tianjin) and HNCA Two (Tianjin), unsecured and interest bearing at 4% per annum.

As at 31 December 2020, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK$34,467,000 (2019: Nil) (Note 6) and HK$34,423,000 (2019: Nil) (Note 6), respectively.

33 RELATED PARTY TRANSACTIONS *(continued)*

(f) Disposal of aircraft and related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin), CAG Group and ARI Group

During the year ended 31 December 2020, the Group disposed two aircraft and related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin) (2019: Nil), four aircraft and related business to ARI Group (including two aircraft disposed by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in the aircraft) (2019: one aircraft). During the year ended 31 December 2019, the Group disposed seven aircraft and related business by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in the aircraft to CAG Group. No disposal of aircraft to CAG Group was made for the year ended 31 December 2020.

During the year ended 31 December 2020, the total consideration from aforementioned disposals is HK$1,132.9 million (2019: HK$3,724.9 million) and recorded net income from aircraft transactions in the consolidated statement of income.

(g) Prepayments and amounts due from related parties:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Prepayments to ARI Group (Note 33(b)(ii))	**232,575**	–
Amount due from ARI Group (i)	**79,279**	537
FPAM Group	**6**	83
	311,860	620

(i) Balance included dividend receivables from two wholly-owned subsidiaries of the Company amounted to HK$78,846,000 (2019: Nil). The entire equity interest of these wholly-owned subsidiaries of the Company were disposed to ARI Group during the year (Note 33(f)).

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

(h) Amounts due to related parties:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
ARI Group	**16**	15

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

33 RELATED PARTY TRANSACTIONS *(continued)*

(i) Amount due to non-controlling interest of a subsidiary:

As at 31 December 2020, the outstanding balance due to Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) was HK$76,164,000 (2019: Nil). The amount was unsecured, interest-free and repayable on demand.

(j) 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	
	2020	2019
	HK$'000	HK$'000
Director fee, salaries, bonus and other short-term employee benefits	**26,102**	48,882
Share-based payments	**330**	248
	26,432	49,130

34 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 31 December 2020, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK$729,000,000 (2019: 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	
	2020	2019
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft	**98,048,611**	86,133,642

The capital commitments were mainly related to acquisition of Airbus aircraft and Boeing aircraft in their order book, which will be delivered in stages by the end of 2027.

34 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(c) Loan commitments

Loan commitments contracted but not provided for at the end of the reporting period are as follows:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Contracted but not provided for:		
Shareholder loan commitment to CAG	**–**	35,580
Shareholder loan commitment to ARG	**129,203**	129,781
	129,203	165,361

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

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Not later than 1 year	**87**	334

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

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Not later than 1 year	**1,808,356**	1,782,259
Later than 1 year but not later than 2 years	**1,820,478**	1,757,715
Later than 2 year but not later than 3 years	**1,830,698**	1,757,349
Later than 3 year but not later than 4 years	**1,702,756**	1,757,507
Later than 4 year but not later than 5 years	**1,471,792**	1,663,068
Later than 5 years	**4,846,172**	6,471,011
	13,480,252	15,188,909

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Not later than 1 year	**190**	175
Later than 1 year but not later than 2 years	**48**	175
Later than 2 year but not later than 3 years	**–**	44
	238	394

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	**2,364,862**	1,675,005
Loans and interest receivables from subsidiaries	**520,066**	238,486
Amounts due from subsidiaries	**1,598,706**	1,018,899
Prepayments and other receivables	**813**	1,958
Cash and cash equivalents	**3,722**	3,637
Total assets	**4,488,169**	2,937,985
EQUITY		
Share capital	**72,000**	67,727
Reserves	**2,078,679**	1,811,814
Retained earnings	**689,442**	651,419
Total equity	**2,840,121**	2,530,960
LIABILITIES		
Amounts due to subsidiaries	**693,200**	2,428
Interest payables	**11,057**	460
Bank borrowings	**672,297**	392,536
Bonds and debentures	**268,999**	–
Other liabilities and accruals	**2,495**	11,601
Total liabilities	**1,648,048**	407,025
Total equity and liabilities	**4,488,169**	2,937,985

The balances sheet of the Company was approved by the Board of Directors on 15 March 2021 and was signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

35 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 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
Balance as at 1 January 2020	**1,811,814**	**651,419**
Comprehensive income		
Profit for the year	**–**	**479,121**
Total comprehensive income	**–**	**479,121**
Transactions with shareholders		
Buy-back of shares	**(18,872)**	**–**
Share option scheme:		
– Value of services	**330**	**–**
– Share options lapsed	**(23,746)**	**23,746**
Dividends	**309,153**	**(464,844)**
Total transactions with shareholders	**266,865**	**(441,098)**
Balance as at 31 December 2020	**2,078,679**	**689,442**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES

As at 31 December 2020, 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
CALC Perpetual Bond Cayman 1 Limited	Cayman Islands 5 November 2020	US$890,001	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

36 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC 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 Perpetual Bond Ireland 1 Limited	Ireland 23 September 2019	EUR1	100%	Provision of financing	Limited liability entity
CALC Perpetual Bond Malta 1 Limited	Malta 27 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
CALC PDP 3 Limited	BVI 15 May 2017	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 5 Limited	BVI 2 August 2018	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 8 Limited	Cayman Islands 12 June 2018	US$1	100%	Provision of financing	Limited liability entity
China Aircraft Assets Limited	Hong Kong 3 May 2013	HK$1	100%	Provision of financing	Limited liability entity
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HK$1	100%	Provision of management services	Limited liability entity
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
ZF Ireland Aircraft 87 Limited	Ireland 10 September 2018	EUR100	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 70 Limited	Ireland 9 January 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 71 Limited	Ireland 9 January 2018	EUR10	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 76 Limited	Ireland 20 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 83 Limited	Ireland 10 September 2018	EUR10	100%	Aircraft leasing	Limited liability entity
ZF Oriental 3 Limited	Hong Kong 6 July 2017	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 4 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 5 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 6 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 13 Limited	Hong Kong 9 October 2019	HK$10	100%	Aircraft leasing	Limited liability entity
ZF Oriental Assets Limited	Hong Kong 3 January 2019	HK$1	100%	Aircraft trading	Limited liability entity
CALC Aircraft Assets Limited	Labuan 18 November 2015	US$10,000	100%	Aircraft trading	Limited liability entity
ZF Finance Limited	Malta 11 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
Aviation Synergy Ltd	Cayman Islands 3 August 2016	US$38,451,000	72.82%	Investment holding	Limited liability entity
中永順融資租賃(上海)有限公司 (China Aircraft Leasing Company Limited (Shanghai))	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

36 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
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US$900,000,000	100%	Investment holding	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 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
中機皇慶租賃(天津)有限公司 (ZJ Huangqing Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機證聖租賃(天津)有限公司 (ZJ Zhengsheng Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity

36 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
中機天慶租賃(天津)有限公司 (ZJ Tianqing Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機宣德租賃(天津)有限公司 (ZJ Xuande Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機延載租賃(天津)有限公司 (ZJ Yanzai Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機神功租賃(天津)有限公司 (ZJ Shengong 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.

37 EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) On 8 January 2021, the Group entered into the aircraft sale and purchase agreement with Commercial Aircraft Corporation of China., Ltd, pursuant to which the Group agreed to place order for purchasing 30 ARJ21 series aircraft, which will be delivered in stages up to 2026. Pursuant to the aircraft sale and purchase agreement, the Group were granted the option to place order for purchasing 30 additional ARJ21 series aircraft with terms and conditions similar to the sale and purchase under the aircraft sale and purchase agreement.

(b) To manage and mitigate the foreign exchange exposure arising from various liabilities denominated in RMB, the Group entered into various currency forward contracts with notional amount of RMB400 million (equivalent to approximately HK$475 million) in 2020 and RMB1.6 billion (equivalent to approximately HK$1.9 billion) subsequent to 31 December 2020 period and up to the date of this report.

(c) In view of the continued development of the ARI business, ARI and the shareholders of ARI entered into a supplemental shareholders' loan and guarantee agreement on 26 January 2021 to extend the term of the shareholders' loan and guarantee agreement to 31 December 2023 and increase the annual cap for the years ending 31 December 2021, 2022 and 2023 from HK$1.3 billion to HK$1.5 billion. The above transaction was approved at the extraordinary general meeting of the Company held on 10 March 2021.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Dr. 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
Dr. TSE Hiu Tung, Sheldon

COMPOSITION OF COMMITTEES

Audit Committee
Mr. CHEOK Albert Saychuan *(Chairman)*
Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert

Remuneration Committee
Mr. FAN Yan Hok, Philip *(Chairman)*
Dr. ZHAO Wei
Mr. POON Ho Man
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan

Nomination Committee
Mr. CHEOK Albert Saychuan *(Chairman)*
Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert

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
32nd Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office
Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 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 Bank
Cathay United Bank Co., Ltd.
Chang Hwa Commercial Bank 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) LLC
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
Korea Development Bank
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.
Société Générale
Tai Fung Bank Limited
Taishin International Bank Co., Ltd.
Taiwan Cooperative Bank Limited
TIAA Bank
Toronto-Dominion Bank

COMPANY'S WEBSITE
www.calc.com.hk

INVESTOR RELATIONS CONTACT
ir@calc.com.hk

STOCK CODE
01848

CALC

WWW.CALC.COM.HK

FULL VALUE CHAIN AIRCRAFT SOLUTIONS PROVIDER

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC™ C134852