CALC

China Aircraft Leasing Group Holdings Limited

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

Flying for
Sustainable excellence

2021
ANNUAL REPORT

CONTENTS

ABOUT CALC

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

CALC's unique full-value-chain strengths have injected a strong impetus to the Group for shouldering its corporate social responsibilities. As one of the few companies in the world providing one-stop fleet upgrade solutions, CALC proactively pursues and facilitates sustainable green aviation practices, and is proud of its ongoing efforts in building a green future. Leveraging strong support and leadership from China Everbright Group, CALC strives to achieve sustainable growth towards its goal of becoming a world-leading aircraft asset manager.

At a Glance

As of 31 December 2021

152
Aircraft
(127 owned aircraft + 25 managed aircraft)

244
Aircraft on order

HK$121.6b
Total value of fleet*

39
Airline clients spanning

17
Countries and regions

HK$50b
Total assets

*The figure represents CALC's owned fleet and order book value as at 31 Dec 2021 (Source: ICF)

Aircraft leasing and sourcing

Aircraft trading and portfolio sales

Maintenance, repair & overhaul ("MRO")

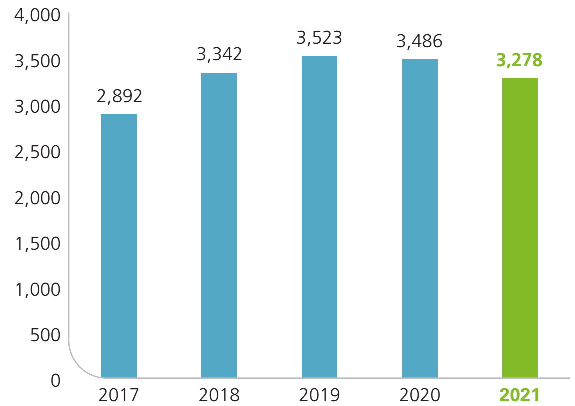
Aircraft disassembly and component sales

Aircraft investment vehicles and asset management

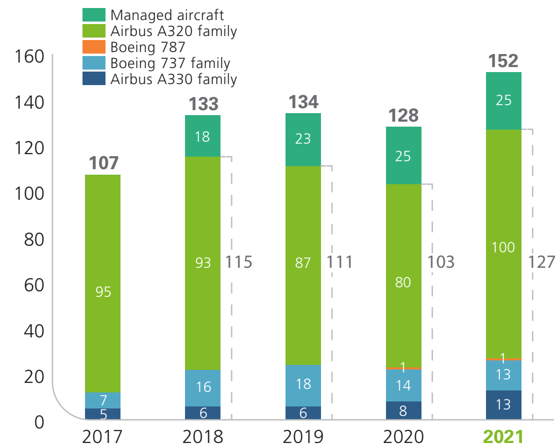
FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

TOTAL REVENUE

(HK$ million)

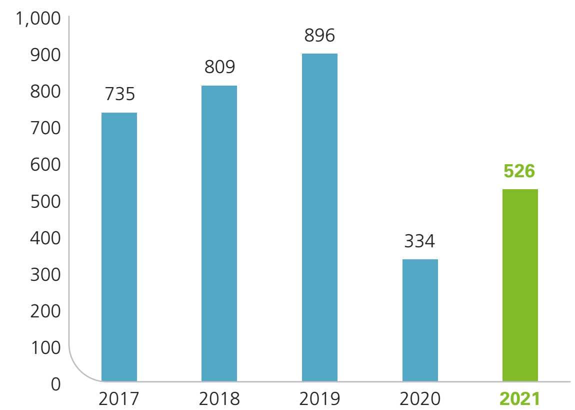


AIRCRAFT OWNED & MANAGED



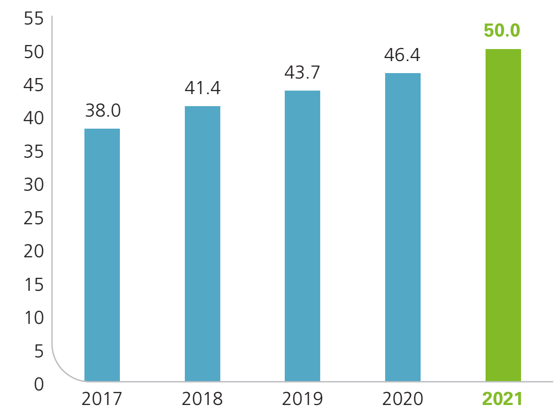
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK$ million)

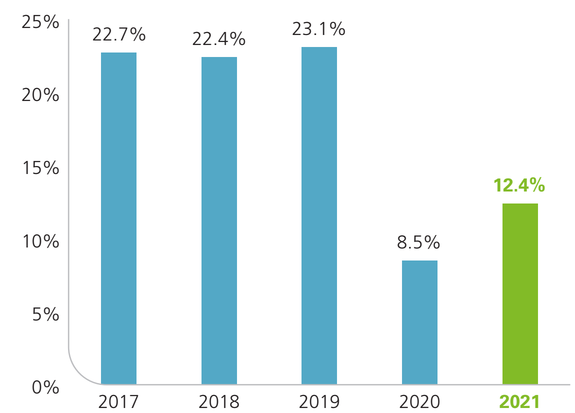


TOTAL ASSETS

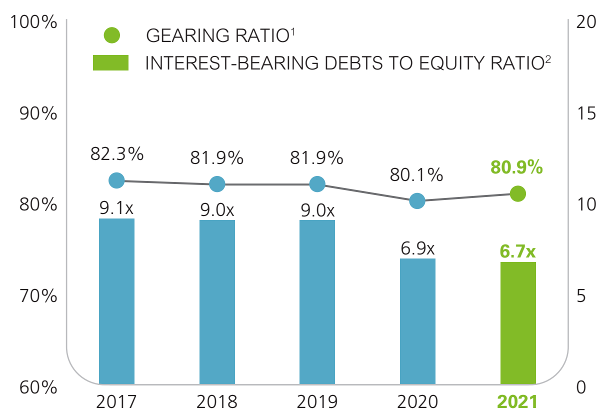
(HK$ billion)



RETURN ON EQUITY



GEARING RATIO & INTEREST-BEARING DEBTS TO EQUITY RATIO



1. Gearing ratio = Interest-bearing debts/Total assets
2. Interest-bearing debts to equity ratio = Interest-bearing debts/Total equity

FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2017 HK$'m	2018 HK$'m	2019 HK$'m	2020 HK$'m	**2021 HK$'m**
Total revenue	2,892	3,342	3,523	3,486	**3,278**
Profit attributable to shareholders of the Company	735	809	896	334	**526**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2017 HK$'m	2018 HK$'m	2019 HK$'m	2020 HK$'m	**2021 HK$'m**
ASSETS					
Property, plant and equipment and right-of-use assets	13,059	18,886	19,611	18,451	**23,244**
Interests in and loans to associates and joint ventures	870	959	1,118	1,135	**1,273**
Finance lease receivables – net	12,556	10,021	7,791	7,264	**7,714**
Derivative financial assets	91	123	26	18	**115**
Financial asset at fair value through profit or loss	–	499	753	798	**751**
Prepayments and other assets and others	4,022	6,772	9,765	13,438	**11,918**
Cash and bank balances	7,396	4,167	4,587	5,289	**5,014**
Total assets	37,994	41,427	43,651	46,393	**50,029**
LIABILITIES					
Total interest-bearing debts	31,278	33,942	35,763	37,156	**40,480**
Other liabilities	3,289	3,705	3,918	3,821	**3,532**
Total liabilities	34,567	37,647	39,681	40,977	**44,012**
Net assets	3,427	3,780	3,970	5,416	**6,017**

Per-Share-Basis	2017	2018	2019	2020	**2021**
Basic earnings per share (HK cents)	108.8	119.4	132.3	48.2	**72.2**
Net asset value per share (HK$) (note 1)	5.1	5.6	5.9	7.5	**8.0**

Financial Ratios	2017	2018	2019	2020	**2021**
Gearing ratio (interest-bearing debts vs total assets)	82.3%	81.9%	81.9%	80.1%	**80.9%**
Return on average shareholders' equity	22.7%	22.4%	23.1%	8.5%	**12.4%**
Interest coverage (note 2)	207.9%	210.5%	226.2%	197.3%	**236.5%**
Interest-bearing debts to equity ratio	9.1	9.0	9.0	6.9	**6.7**

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

Dr. ZHAO Wei

Chairman of the Board of Directors

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 2021 (the "**Review Year**").

RESULTS AND DIVIDEND

In 2021, CALC ushered in a key milestone at its fifteenth anniversary. As an important industrial platform under China Everbright Limited ("**CEL**"), CALC has always been upholding its corporate mission of "integrating industries and financing, and contributing to China's rising aviation strength" by fostering innovations with determination and proactivity, which won its wide recognition in the market. While the aviation industry is recovering gradually despite continuous challenges from the COVID-19 pandemic (the "**Pandemic**"), CALC adhered to a steady, consistent and sustainable development strategy and promoted stable development of the business, thus achieved solid performance and revealed its strong resilience alongside high-quality growth.

During the Review Year, the Group's total revenue amounted to HK$3,278.1 million (2020: HK$3,485.8 million). Profit attributable to shareholders increased significantly by 57.4% to HK$525.8 million (2020: HK$334.1 million). Earnings per share were HK$0.722 (2020: HK$0.482).

The Board has recommended payment of a final dividend of HK$0.26 per ordinary share. Together with the 2021 interim dividend of HK$0.15 per share already paid, total dividend payout for the year 2021 amount to HK$0.41 (2020: HK$0.40). The Company has continued its scrip dividend scheme for the final dividend for 2021.

CHAIRMAN'S STATEMENT

ADHERING TO THE INDUSTRIAL DEVELOPMENT PATH AND DEEPENING INDUSTRY CHAIN FOOTHOLD

As an important platform of CEL's "One-Four-Three" strategy under the "Four-Three-Three" development architecture of China Everbright Group, with strategic guidance and collaborative support from China Everbright Group, CALC proactively tapped new opportunities brought by the changing market landscape and unleashed its full-value-chain operational strength to thrive amidst adversity. The Group's total owned and managed fleet surpassed 150 aircraft for the first time, with aircraft deliveries regaining steady growth during the Review Year. By the end of 2021, CALC ranked 8th among global lessors by ICF International in terms of the combined asset value of owned fleet and order book.

During the Review Year, CALC further strengthened its aftermarket service capabilities. FL ARI Aircraft Maintenance & Engineering Company Ltd. ("**FL ARI**"), the aircraft maintenance, repair and overhaul ("**MRO**") joint venture between CALC, its associate company Aircraft Recycling International ("**ARI**") and FL Technics, was granted Part 145 approval certification by Civil Aviation Administration of China for regular inspection and maintenance of A320 series aircraft. At the same time, ARI's aircraft recycling facility in Harbin was approved to be included in the flight zone of Harbin Taiping International Airport, further enhancing its capability in servicing aircraft for domestic routes.

In January 2021, CALC placed a firm order for 30 ARJ21 series aircraft from Commercial Aircraft Corporation of China., Ltd ("**COMAC**"), and signed a tripartite project investment cooperation memorandum with CEL and COMAC which put the strategic cooperation spirit of China Everbright Group into practice further. The deepened partnership proactively facilitates the globalization strategy for China's homemade aircraft, under which the Group is striving to become its first overseas operator. Meanwhile, this order will also add a leading regional jet model to CALC's fleet, and gradually enriching its fleet mix with long-haul, mid-haul and short-haul aircraft as well as regional jets, satisfying various demands of different markets and customers.

CHAIRMAN'S STATEMENT

FIRST-EVER INTERNATIONAL CREDIT RATINGS

During the Review Year, CALC received a first-time corporate family rating (CFR) of Ba1 from Moody's, with a stable outlook. This was followed by assignment by Fitch Ratings to the Company for the first time a Long-Term Issuer Default Rating (IDR) of 'BB+' with a stable long term outlook. Both agencies recognized CALC's asset quality and caliber of its clients – CALC's fleet comprises mainly young and highly liquid narrow-body aircraft, and a Chinese-heavy clientele, mitigating effectively the Company's operational risks. At the same time, they recognized the strategic importance of CALC to China Everbright Group and the deep synergies between the two entities, prescribing the continuing support the Company can receive from China Everbright Group.

China Asset Leasing Company Limited ("**CALC (TJ)**"), a China-domiciled wholly-owned subsidiary of the Group principally engaged in its PRC businesses, received an AA+ credit rating with a stable outlook for the first time by Dagong Global Credit Rating Co., Ltd in 2021, subsequent to an AA+ corporate credit rating assigned by China Cheng Xin International Credit Rating Co., Ltd earlier on. These reflect major rating agencies' recognition of CALC (TJ) as a high-quality issuer in the PRC bond market.

WORKING TOWARDS NEW "GREEN AVIATION" FOR SUSTAINABLE DEVELOPMENT

Against a backdrop of the "carbon neutrality" global trend and the "carbon dioxide peaking and carbon neutrality" targets by the Chinese Government, sustainable development of the aviation industry has become the focus of attention. In addition, the Pandemic has accelerated retirement of old age aircraft and promoted airlines to replace the aged with brand-new ones. Demand for more fuel-efficient new-generation aircraft has increased significantly.

CALC has been proactively implementing its aircraft full-value-chain business model. On the one hand, the Group has been investing in the most popular new-generation energy-saving aircraft models, and its large order book has been helping airlines upgrade their fleets, save energy and reduce emissions. In parallel, the Group continued to roll out its footprint along the downstream industry chain in the field of low-carbon and circular economy and dived deep into it through the two major fully-licensed domestic and overseas aircraft recycling facilities, proactively providing global customers with green fleet upgrade solutions, and promoting sustainable development for the global aviation industry.

During the Review Year, CALC received the "Social Innovation Contribution Award" in 2021 Yicai Corporate Social Responsibility Ranking in China, a recognition for its ESG practices. In January 2022, CALC, as one of the initiators, collaborated with delegates of Aircraft Leasing Ireland (ALI) members, using their influence as owners of more than half of the global fleet, jointly launched an ESG narrative "Aviation Sustainability: Our Future", aiming at developing an ESG charter for aircraft leasing and dedicating efforts to accelerate technology development in the aviation industry to achieve Net Zero by 2050.

PROSPECTS

The Pandemic has accelerated restructuring of the aviation industry while catalyzing industry consolidation during the past two years. Aircraft lessors' share in the global commercial aviation market surpassed 50% for the first time in 2021, and is expected to continue to climb in 2022. Meanwhile, the smaller and weaker players will quit the market while more competent players with strong operating capabilities and better shareholder backings will capture better development opportunities, making survivor to thrive, the strong get stronger.

The Central Government of China released the "14th Five-Year Plan for Civil Aviation Development" in early 2022, clearly pinpointing the necessity to kick-start a new development cycle of establishing a civil aviation powerhouse in multiple areas and facilitate recovery of the industry. Among them, the years between 2023 and 2025 will constitute a period of growth and unleashing of potential. The focus will be expansion of the domestic market and revival of the international markets.

CALC will build on strengths aligning with the national strategy, strengthen its competitive advantages during the 14th Five-Year Plan period, and tap the coming growth window for the industry. The Group will uncover its brand equity in aircraft leasing and aircraft full value chain business, its international market presences and its capacity as a listed company to cooperate and collaborate more closely with China Everbright Group and its member units, including establishment of more aviation fund platforms, deepening collaborations in aircraft leasing and trading businesses, and actively promoting cooperation with COMAC in Aircraft Aviation Industry Fund, striving to debut overseas flight of China-made aircraft as soon as practical; and actively develop into an ambassador of aircraft industry chain platform globally for the leasing segment under China Everbright Group. CALC is striving to become a world's leading aircraft full value chain service provider with outstanding core business, diversified operations and a green and low-carbon footprint.

ACKNOWLEDGEMENTS

I would like to express my heartfelt gratitude to my fellow Board members and the management for their fearless stance in tackling challenges brought about by the Pandemic, overcoming difficulties, and leading the Company forward. 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.

Dr. Zhao Wei
Chairman of the Board of Directors
Hong Kong, 16 March 2022

CEO'S STATEMENT

Mr. POON Ho Man

Executive Director
and Chief Executive Officer

INDUSTRY OVERVIEW

In 2021, although new Covid-19 variants still inflicted repeated outbreaks, with vaccines became increasingly popular, many countries and regions relaxed border control policies one after another, global air traffic and load capacity continued to improve steadily, with domestic routes taking the lead in recovery. Data from CIRIUM showed that China domestic market had been leading the global aviation recovery process, followed by those in the United States of America, Europe, and South America. Operations of many airlines had been steadily improving with various liquidity support from governments and aircraft lessors.

Data published this January by the International Aviation Transport Association ("**IATA**") also showed that in 2021, the global air travel (measured by revenue passenger kilometres, "**RPK**") increased by over 20% compared with 2020, and global domestic routes had recovered to over 70% of 2019 levels.

During the Review Year, leveraging in full its aviation full-value-chain operation strengths, CALC continued to provide strong support to industry partners with its highly liquid fleet assets, flexible and diverse solutions, diversified financing channels and professional asset management capabilities while delivering solid performances.

ANNUAL RESULTS 2021 REVIEW

1. Growing fleet

The Group proactively supports our customers through purchase and leaseback arrangements. During the Review Year, it successfully completed purchase and leaseback transactions for 17 aircraft with top airline customers. While expanding sources of income, these arrangements expanded and deepened the long-term cooperative relationships with high-quality customers further, and provided the pipelines of aircraft assets for the Group's aviation aftermarket platform.

During the Review Year, the Group delivered a total of 34 aircraft through its order book placement as well as purchase and leaseback arrangements, and disposed of 9 aircraft. As at 31 December 2021, CALC's fleet had expanded to 152 aircraft, including 127 owned and 25 managed aircraft.

CALC has been maintaining a modern fleet consisting of the most popular aircraft models. As of 31 December 2021, by number of aircraft, 89% of CALC's owned fleet were narrow-body aircraft, a highly liquid asset class and the most popular aircraft type. The utilization rate of CALC's owned fleet reached 100% during the Review Year. According to CIRIUM data, in December 2021, CALC ranked first among the world's major lessors with 93% of its fleet in service.

CALC has been adhering to a prudent and selective aircraft selection strategy. Its abundant order book comprising the most popular fuel efficient models is able to meet the huge demand along with the recovery, restructuring and upgrading of aviation industry in the post Pandemic era. As at 31 December 2021, CALC had 244 aircraft on its order book, including 148 Airbus, 66 Boeing and 30 COMAC aircraft.

As at 31 December 2021, the average age of CALC's owned fleet was 7.8 years, and the average remaining lease term was 7.0 years. The leases expiring in the next 12 months have all been renewed, and all the aircraft to be delivered in the next 18 months have been mandated for lease, alleviating the pressure for remarketing in the volatile market.

During the Review Year, CALC continued to dive deep in the PRC market and proactively expanded high-quality clientele in regions where growth kept accelerating, adding four new airlines to its client mix. As at 31 December 2021, by number of aircraft, 76% of CALC's owned fleet were leased to Chinese airline customers (including Hong Kong, Macau and Taiwan), majority of which are state-owned airlines with strong financial strength and abundant liquidity. Most of the Group's overseas customers are flag carriers or backed by financially sound shareholders. As at 31 December 2021, CALC's owned and managed aircraft were on lease to 39 airlines in 17 countries and regions.

2. Diversified financing channels

With its diversified onshore and offshore dual-market financing channels, CALC secured more flexible high-quality funding sources to persistently optimizing its debt structure while providing sufficient liquidity during the Review Year.

The Group strengthened cooperation with financial institutions. During the Review Year, a total of US$2.1 billion borrowing facilities were newly granted or renewed from 18 financial institutions, among which 10 were the first time lenders of the Group, reflecting broader recognition it received from the banking community.

During the Review Year, the Group had been active in both onshore and offshore capital markets. In July 2021, it completed the issuance of a RMB1 billion super short-term debenture in PRC market, and then raised RMB100 million through a three-year corporate bond issue in August 2021. The Group also struck breakthroughs in offshore bond markets. Following the completion of a US$35 million five-year unsecured private bond issued in January 2021, CALC successfully issued another US$100 million three-year public bonds in December 2021. This was the first rated US dollar notes issued by CALC since it received international credit ratings. With a rate of 4.85%, the issue reflected investors' confidence in CALC's operating strengths and future prospects.

As a result, the Group received a total of US$2.4 billion debt financing commitment during the Review Year, providing strong liquidity support to its business expansion.

CALC will continue to stay vigilant to changes in both onshore and offshore markets, remain flexible and selective in funding sources. It will actively explore innovative aviation finance products and capital market instruments such as asset-backed securities and sustainability-linked bonds as part of its efforts in further diversifying financing channels, and increasing the proportion of unsecured financing so as to optimize its debt structure, enhance financial flexibility and capital efficiency, and reduce the overall interest costs.

3. Improving aircraft full-value chain asset management strength

In recent years, CALC has been enhancing its aircraft full-value chain operation capability persistently and its member companies have gradually extended its business scope along aviation industry chain into major segments of aviation aftermarket services (MRO, aircraft disassembly and recycling, components trading, etc.), enhancing its overall capability in managing mid-to-old age aircraft.

During the Review Year, the Group's MRO joint venture FL ARI further improved its maintenance and repair business capabilities, and provided line maintenance and support services to 6 top Chinese airlines in total. Another associate company in US, Universal Asset Management, Inc. struck another breakthrough in aircraft recycling innovation. In January 2022, the unit announced that it had successfully developed an over-wing emergency exit trainer and an entry-door trainer using components from an Airbus A320 which was undergoing disassembly.

The Group's dedicated end-of-life aircraft management capabilities have been recognized by investors. During the Review Year, ARG Cayman 1 Limited ("**ARG**"), the aircraft investment vehicle under ARI, which focuses on old aircraft portfolios and trading of parts and components, successfully introduced two new renowned investors Everbright Absolute Return Fund and China Chengtong Investment Company Ltd. to its investor profile. Total project size of the investment vehicle is US$350 million.

PROSPECTS

Looking ahead in 2022, it is clear that large-scale vaccination in various countries, authorization of oral treatments for Covid-19 granted one after another, and announcements by governments in the United Kingdom, the United States of America, Canada, Australia, the European Union and other countries to relax their border restrictions, will help recovery of the global aviation market. CIRIUM forecasts earlier that global GDP growth will be around 4% in 2022, global RPK to increase by nearly 50%, with all major domestic aviation markets reaching 2019 levels by the end of the year. It expects China will continue to take the lead in passenger traffic growth and aircraft deliveries. From an operational perspective, CIRIUM predicts the number of single-aisle aircraft in service will exceed 2019 levels in the first half of 2022.

As production capacities of aircraft manufacturers are still limited in the short term, airlines are expected to rely more on lessors to meet their needs for passenger capacity expansion and fleet renewal while continue to improve their balance sheets. The penetration rate of aircraft leasing is expected to trend up further. Meanwhile, with recovery of the aviation industry and increasing fleet utilization, demand for MRO business and end-of-life aircraft disposal solutions, aftermarket components and spare engines will increase. CALC will take opportunities along the market trend and reinforce its leadership in the PRC market. At the same time, we will proactively expand high-quality airline clientele and deepen long-term partnerships with industry participants in other regions of the world with huge domestic demand or accelerating growth. With our abundant order book comprised of new-generation fuel efficient narrowbody aircraft as well as strengthened professional expertise in aircraft full value chain operations, we shall continue to provide aviation partners with best-in-class, flexible and comprehensive aircraft full life-cycle solutions, explore new business opportunities such as "Passenger to Freighter Conversion", disassembling and recycling, etc. to maximize the value of aircraft assets. We are also striving to dive deeper into aircraft asset management segment by setting up more aircraft investment platforms and joint ventures to steadily expand our managed fleet size, improve capital efficiency, and gradually groom them into another revenue growth driver.

At the same time, the Group is persistently exploring best practices in green and sustainable development, and will endeavor to fulfil market demand for green fleet with our one-stop fleet upgrade services capability, and facilitate restructuring and upgrading of the aviation industry and contribute to the ultimate goal of carbon neutrality while continue to create value for our shareholders, bond investors, investors in aircraft assets under our management, airline clients, aircraft manufacturers, financiers and other stakeholders to achieve mutually beneficial cooperation.

Mr. POON Ho Man
Executive Director and Chief Executive Officer
Hong Kong, 16 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

Total revenue of the Group was HK$3,278.1 million in 2021, a decrease of HK$207.7 million or 6.0% from HK$3,485.8 million in 2020. Operating profit for the year in 2021 amounted to HK$819.9 million, a decrease of HK$128.8 million or 13.6% compared with HK$948.7 million in 2020. Profit attributable to shareholders of the Company in 2021 amounted to HK$525.8 million, an increase of HK$191.7 million or 57.4% compared with HK$334.1 million in 2020.

Total assets amounted to HK$50,029.1 million as at 31 December 2021, compared with HK$46,392.5 million as at 31 December 2020, an increase of HK$3,636.6 million or 7.8%. The increase in assets was mainly due to the increase in the total fleet size of the Group from 103 aircraft as at 31 December 2020 to 127 aircraft as at 31 December 2021.

Total liabilities amounted to HK$44,011.9 million, an increment of HK$3,035.1 million or 7.4% compared with HK$40,976.8 million as at 31 December 2020, which was in line with the increment of the total assets. The increase in liabilities was mainly due to the increase in total interest-bearing debt. As at 31 December 2021, the interest-bearing debt of the Group amounted to HK$40,480.4 million (2020: HK$37,156.1 million).

2. ANALYSIS OF INCOME AND EXPENSES

	Year ended 31 December 2021 HK$'Million	2020 HK$'Million	Change
Finance lease income	**540.6**	541.2	-0.1%
Operating lease income	**1,959.8**	1,945.6	0.7%
Total lease income	**2,500.4**	2,486.8	0.5%
Other operating income			
Net income from aircraft transactions and aircraft component trading	**301.7**	514.3	-41.3%
Government grants	**215.5**	251.5	-14.3%
Interest income from loans to associates and joint ventures	**105.4**	92.9	13.5%
Forfeiture of deposit received	**–**	84.6	N/A
Bank interest income	**8.2**	10.0	-18.0%
Asset management service fees income from CAG Group	**12.1**	12.2	-0.8%
Incidental income and others	**134.8**	33.5	302.4%
	777.7	999.0	-22.2%
Total revenue	**3,278.1**	3,485.8	-6.0%
Total operating expenses	**(2,458.2)**	(2,537.1)	-3.1%
Operating profit	**819.9**	948.7	-13.6%
Share of losses and provision on investment in associates and joint ventures	**(1.3)**	(209.0)	-99.4%
Other gains/(losses)	**13.6**	(306.7)	N/A
Profit before income tax	**832.2**	433.0	92.2%
Income tax expenses	**(204.9)**	(165.1)	24.1%
Profit for the year	**627.3**	267.9	134.2%
Profit/(loss) attributable to			
Shareholders of the Company	**525.8**	334.1	57.4%
Holders of perpetual capital securities and other non-controlling interests	**101.5**	(66.2)	N/A
	627.3	267.9	134.2%

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Total Revenue

For the year ended 31 December 2021, the total revenue amounted to HK$3,278.1 million, compared with HK$3,485.8 million in 2020, a decrease of HK$207.7 million or 6.0%.

Total lease income from finance leases and operating leases for the year 2021 amounted to HK$2,500.4 million, compared with HK$2,486.8 million in 2020, an increase of HK$13.6 million or 0.5%.

For the year ended 31 December 2021, the Group's average lease rental yield of the finance leases and operating leases was 12.9% (2020: 11.8%) and 11.5% (2020: 10.2%), respectively. The average lease rental yield of the finance leases and operating leases were increased in the current year. Average lease rental yield for finance leases and operating leases is calculated by expected annualised gross lease receipt divided by net book value of aircraft. Weighted average lease rental yield of the Group was 11.6% (2020: 10.4%).

In 2021, the Group recognised net gain from disposal of nine aircraft and aircraft components trading amounted to HK$301.7 million (2020: net gain from disposal of 18 aircraft amounted to HK$514.3 million) with aggregate net book value of HK$3,103.2 million (2020: aggregate net book value of HK$5,579.5 million).

Government grants for the year amounted to HK$215.5 million, compared with HK$251.5 million in 2020, a decrease of HK$36.0 million or 14.3%. The decrease in government grants in the current year was mainly due to the decrease in aircraft to be entitled to government grants from 96 aircraft during the year of 2020 to 82 aircraft during the year of 2021. The Group is continued to be entitled to the government grant from the Mainland China government.

Incidental income and others mainly related to amounts received from a manufacturer, suppliers and lessees incidental to aircraft purchases, net gains from bonds repurchase and government wage subsidies under a job support scheme. There is no such item of incidental income related to the amounts received from a manufacturer in 2020.

2.2 Total Operating Expenses

During the year ended 31 December 2021, the Group had the following operating expenses.

	Year ended 31 December		
	2021	2020	Change
	HK$'Million	HK$'Million	
Interest expenses	**1,211.3**	1,328.8	-8.8%
Depreciation	**820.7**	859.4	-4.5%
Expected credit losses	**144.2**	80.6	78.9%
Other operating expenses	**282.0**	268.3	5.1%
Total operating expenses	**2,458.2**	2,537.1	-3.1%

(a) *Interest Expenses*

For the year ended 31 December 2021, interest expenses incurred by the Group amounted to HK$1,211.3 million compared with HK$1,328.8 million in 2020, a decrease of HK$117.5 million or 8.8%. The total interest-bearing debts as at 31 December 2021 amounted to HK$40,480.4 million (2020: HK$37,156.1 million). The decrease in interest expenses was mainly due to the decrease in US$ LIBOR rate during the current year. The average effective interest rate of bank and other borrowings during the year was 2.96% (2020: 3.34%).

(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 2021 was HK$820.7 million compared with HK$859.4 million in 2020, a decrease of HK$38.7 million or 4.5%. During the current year, the Group had delivered 34 aircraft, in which 22 aircraft were delivered in the fourth quarter of 2021, resulted in no material changes in depreciation during the current year.

(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 Group had implemented cost control to maintain other operating expenses at stable level, despite the Group had delivered 34 aircraft in the current year. The Group has full capabilities to manage and execute such huge volume of aircraft delivery transactions.

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

Last year amount mainly represented 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). 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. In view of the Group had provided full provision on the investment in TAM in last year, no further provision was considered necessary to be made in the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

2.4 Other Gains/(Losses)

	Year ended 31 December 2021 HK$'Million	2020 HK$'Million	Change
Currency exchange losses in RMB (note)	**(113.1)**	(306.5)	-63.1%
Fair value gains on currency forward contracts in RMB (note)	**99.6**	0.8	12,350.0%
Net exchange losses in RMB (note)	**(13.5)**	(305.7)	-95.6%
Currency exchange (losses)/gains in US$	**(21.9)**	28.8	N/A
Fair value gains on financial asset at fair value through profit or loss	**39.0**	39.0	–
Fair value gains/(losses) on interest rate swaps and futures	**16.3**	(66.8)	N/A
Unrealised losses on currency swap	**(6.3)**	(2.0)	215.0%
Total	**13.6**	(306.7)	N/A

Note: The exchange losses arising from borrowings denominated in RMB was mainly due to the depreciation of US$ exchange rate against RMB from 6.53 as at 31 December 2020 to 6.36 as at 31 December 2021. As at 31 December 2021, the carrying amount of RMB debt exposed to currency exchange risk amounted to RMB3.0 billion (2020: RMB3.9 billion). To manage and mitigate the foreign exchange exposure arising from various liabilities denominated in RMB, the Group entered into various currency exchange forward contracts with total notional amount of RMB2.4 billion as at 31 December 2021 (2020: RMB0.4 billion).

The unhedged currency exposure on RMB has been decreased by around RMB2.9 billion, or 83% (2021: RMB0.6 billion; 2020: RMB3.5 billion), resulted to a decrease in net exchange losses in RMB during the current year.

2.5 Income Tax Expenses

Income tax for the year ended 31 December 2021 was HK$204.9 million (2020: HK$165.1 million). The effective tax rate for the year ended 31 December 2021 was 24.6% (2020: 38.1%). In view of the Group was mainly engaged in PRC operation, the effective tax rate was closed to 25%, which is the corporate income tax rate in PRC. In last year, the Group had recorded several exception items such as currency exchange losses and share of losses and provisions on TAM, which are not tax deductible, resulted in an effective tax rate higher than 25%.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 31 December 2021, the Group's total assets amounted to HK$50,029.1 million compared with HK$46,392.5 million as at 31 December 2020, an increase of HK$3,636.6 million or 7.8%.

The majority of total assets as at 31 December 2021 represented property, plant and equipment and right-of-use assets of HK$23,243.8 million (2020: HK$18,450.6 million), finance lease receivables of HK$7,714.4 million (2020: HK$7,263.7 million) and Pre-Delivery Payments ("**PDP**") (included in prepayments and other assets and others) of HK$8,598.1 million (2020: HK$11,294.7 million).

	As at 31 December		
	2021	2020	Change
	HK$'Million	HK$'Million	
Property, plant and equipment and right-of-use assets	**23,243.8**	18,450.6	26.0%
Finance lease receivables - net	**7,714.4**	7,263.7	6.2%
Prepayments and other assets and others	**11,918.2**	13,438.3	-11.3%
Investments in and loans to associates and joint ventures	**1,273.4**	1,134.9	12.2%
Financial asset at fair value through profit or loss	**750.8**	797.9	-5.9%
Derivative financial assets	**114.9**	17.7	549.2%
Cash and bank balances	**5,013.6**	5,289.4	-5.2%
Total assets	**50,029.1**	46,392.5	7.8%

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

Property, plant and equipment and right-of-use assets mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. The increase in property, plant and equipment and right-of-use assets was mainly due to increase in the fleet size of the Group under operating lease from 54 aircraft as at 31 December 2020 to 78 aircraft as at 31 December 2021.

Net finance lease receivables represented the present value of minimum lease payments receivable from aircraft classified as finance leases and their residual values. No material movement in net finance lease receivables as the fleet size of the Group under finance lease remain unchanged at 49 aircraft in the current year. No delivery and disposal of aircraft under finance lease in the current year.

The total fleet size of the Group under operating lease and finance lease was increased from 103 aircraft as at 31 December 2020 to 127 aircraft as at 31 December 2021.

3.1.2 Aircraft Portfolio

Aircraft portfolio by number of aircraft is as follows:

	As at 31 December	
	2021	2020
Aircraft Type	**Owned Aircraft**	Owned Aircraft
Airbus A320 CEO family	**80**	74
Airbus A320 NEO family	**20**	6
Airbus A330 CEO family	**13**	8
Boeing B737 NG family	**13**	14
Boeing B787	**1**	1
Total	**127**	103

3.1.3 Prepayments and other Assets and others

Prepayments mainly represented Pre-Delivery Payments ("**PDP**") made to aircraft manufacturers for aircraft acquisition from order book. The decrease in prepayments and the other assets was mainly due to the decrease in PDP made to aircraft manufacturers by HK$2,696.6 million (PDP as at 31 December 2021: HK$8,598.1 million; 31 December 2020: HK$11,294.7 million). The decrease in PDP was mainly due to the delivery of 13 aircraft under order book was completed during the current year.

3.2 Liabilities

As at 31 December 2021, the Group's total liabilities amounted to HK$44,011.9 million, compared with HK$40,976.8 million as at 31 December 2020, an increase of HK$3,035.1 million or 7.4%.

An analysis is given as follows:

	As at 31 December		
	2021	2020	Change
	HK$'Million	HK$'Million	
Borrowings	**32,477.9**	26,763.0	21.4%
Bonds and debentures	**7,022.7**	9,054.8	-22.4%
Medium-term notes	**979.8**	1,338.3	-26.8%
Total interest-bearing debts	**40,480.4**	37,156.1	8.9%
Deferred income tax liabilities	**898.2**	788.7	13.9%
Interest payables	**210.3**	276.1	-23.8%
Income tax payables	**40.3**	24.9	61.8%
Derivative financial liabilities	**143.2**	355.6	-59.7%
Other liabilities and accruals	**2,239.5**	2,375.4	-5.7%
Total liabilities	**44,011.9**	40,976.8	7.4%

3.2.1 Borrowings

The analysis of borrowings is as follows:

	As at 31 December 2021 HK$'Million	2020 HK$'Million	Change
Bank and other borrowings			
Bank and other borrowings for aircraft acquisition financing	**15,514.8**	10,542.0	47.2%
PDP financing	**6,303.4**	8,456.6	-25.5%
Other unsecured bank borrowings	**5,600.2**	2,595.0	115.8%
	27,418.4	21,593.6	27.0%
Long-term borrowings			
Borrowings from trust plans	**4,689.3**	4,818.5	-2.7%
Other borrowings	**370.2**	350.9	5.5%
	5,059.5	5,169.4	-2.1%
Total borrowings	**32,477.9**	26,763.0	21.4%

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	Original principal amount (Million)	Carrying amount (HK$ Million)	Note
March 2017	Five years	March 2022	4.70%	US$300.0	1,588.4	*(a)&(b)*
March 2017	Seven years	March 2024	5.50%	US$200.0	1,552.6	*(a)&(b)*
November 2020	Five years	November 2025	5.90%	US$35.0	271.0	*(c)*
January 2021	Five years	January 2026	5.90%	US$35.0	271.8	*(c)*
December 2021	Three years	December 2024	4.85%	US$100.0	765.2	*(a)*
				US$670.0	4,449.0	
June 2019	Three years	June 2022	5.20%	RMB1,000.0	1,225.6	*(d)*
July 2021	270 days	April 2022	3.98%	RMB1,000.0	1,225.8	*(c)*
August 2021	Three years	August 2024	4.20%	RMB100.0	122.3	*(d)*
				RMB2,100.0	2,573.7	
Total bonds and debentures as at 31 December 2021					7,022.7	*(e)&(f)*
Total bonds and debentures as at 31 December 2020					9,054.8	

MANAGEMENT DISCUSSION AND ANALYSIS

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

(b) During the year ended 31 December 2021, the Group completed bonds repurchase on the Stock Exchange for an aggregate amount of US$122,306,000 with net gain of HK$4.3 million was recognised after deducting the transaction cost.

(c) The bonds and debentures are unlisted and subscribed by an independent third party.

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

(e) Upon maturity in August 2021, the Group fully repaid the five-year senior unsecured bonds with original principal amount of US$300.0 million, bearing coupon interest at 4.9% per annum.

(f) Upon maturity in March 2021 and June 2021, the Group fully repaid the one-year debentures and the one-year debentures with original principal amount of RMB1,000.0 million and RMB300.0 million, respectively, bearing coupon interest at 3.65% and 4.00% per annum.

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	Original principal amount (RMB Million)	Carrying amount (HK$ Million)	
August 2019	Three years	August 2022	4.93%	800.0	979.8	
Total medium-term notes as at 31 December 2021				800.0	979.8	Note
Total medium-term notes as at 31 December 2020					1,338.3	

Note*:* Upon maturity in November 2021, the Group fully repaid the five-year medium-term notes with original principal amount of RMB330.0 million, bearing coupon interest at 4.19% per annum on maturity date.

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, establishment of various aircraft investment platform like CAG and other joint ventures.

For the year ended 31 December 2021, 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		
	2021 **HK$'Million**	2020 HK$'Million	Change
Interest-bearing debts included in total liabilities	**40,480.4**	37,156.1	8.9%
Total liabilities	**44,011.9**	40,976.8	7.4%
Total assets	**50,029.1**	46,392.5	7.8%
Total equity	**6,017.3**	5,415.8	11.1%
Gearing ratio	**80.9%**	80.1%	0.8p.p.
Asset-liability ratio	**88.0%**	88.3%	-0.3p.p.
Interest-bearing debts to equity ratio	**6.7:1**	6.9:1	-2.9%

5. HUMAN RESOURCES

As at 31 December 2021, staff of the Group numbered 159 (2020: 162). Total remuneration of employees for 2021 amounted to HK$144.7 million (2020: HK$135.7 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 2021, the Group provided guarantee to certain bank borrowings of associates and joint ventures amounted to HK$681.5 million.

6.2 Capital Commitments for Aircraft Acquisition and Qualified Aircraft Leasing Activity

The Board confirms that the Company is a listed company actively engaged in aircraft leasing with aircraft operators as 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 on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") (the "**Listing Rules**")). 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$93.9 billion as at 31 December 2021 (2020: HK$98.0 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 31 December 2021, the Group had 244 aircraft in its order book, comprising 148 Airbus A320 aircraft family and 66 Boeing B737 aircraft family and 30 ARJ21 series aircraft.

During the year under review, the Group completed the delivery of 34 aircraft.

During the year under review, the Group completed the disposal of 9 aircraft.

7. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Pursuant to the announcement made on 18 February 2022, the Group successfully completed the issuance of RMB1.2 billion (approximately equivalent to HK$1.5 billion) private bonds with a term of 3 years at the coupon rate of 4.4% on 18 February 2022.

(b) While the industry is assessing the impact brought by the Russia-Ukraine situation, it is in common view that it would not affect the long-term growth of the aviation sector proven by its strong resilience to withstand shocks in history. Two of the Group's owned aircraft with the total carrying amount of HK$635.5 million are being leased to two Russian carriers (one to each). The relatively small exposure to Russia is further protected by the security deposit and maintenance reserves held by the Group under the two leases. The Group will continue to monitor and assess the situation as it evolves.

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 2021 together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

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 AND PRINCIPAL RISKS

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 and up to the date of this report. 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 to be published in due course.

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 2021 are set out in the consolidated statement of income on page 77 of this annual report.

The Board has declared an interim dividend of HK$0.15 per share for the six months ended 30 June 2021, totaling approximately HK$110 million which was paid by cash of approximately HK$34 million and by share issuance (equivalent to approximately HK$76 million) on 4 November 2021.

The Board has recommended the payment of a final dividend of HK$0.26 per share (2020: HK$0.20 per share) in respect of the year ended 31 December 2021 to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company (the "Register of Members") on 7 June 2022. Shareholders will be given the option to receive the proposed 2021 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 2021 final dividend at the annual general meeting of the Company to be held on 23 May 2022 (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 2022. Cheques for cash dividend and/or definitive certificates for the scrip shares in respect of the proposed 2021 final dividend are expected to be despatched to the Shareholders on or about 28 July 2022.

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 17 May 2022
(b)	Closure of Register of Members	18 May 2022 to 23 May 2022 *(both dates inclusive)*

(ii) For determining entitlement to the final dividend:

(a)	Latest time to lodge transfer documents for registration	4:30 pm on 31 May 2022
(b)	Closure of Register of Members	1 June 2022 to 7 June 2022 *(both dates inclusive)*
(c)	Record date	7 June 2022

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 13 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings as at 31 December 2021 are set out in Note 17 to the consolidated financial statements.

BONDS AND DEBENTURES ISSUE, AND BONDS REPURCHASE

Particulars of the Group's issued bonds and debentures as at 31 December 2021 and bonds repurchase during the year are set out in Note 19 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 EQUITY SECURITIES

The Company repurchased a total of 6,604,000 ordinary shares of the Company at the highest price and the lowest price per share of HK$6.44 and HK$5.07 respectively on the Stock Exchange for the year ended 31 December 2021 at an aggregate consideration of approximately HK$38,327,000 (before expense). All the repurchased shares were subsequently cancelled by the Company on 11 June 2021 and 14 January 2022.

Save as disclosed above, during the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed equity 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 79 and 80 of this annual report and Notes 14 and 36 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2021, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$2,685,236,000 are set out in Note 36 to the consolidated financial statements.

CONTINGENT LIABILITIES

Other than corporate guarantees for certain bank borrowings extended to the Group's associates and joint ventures by the banks as set out in Note 35(a) to the consolidated financial statements, the Company had no material contingent liabilities as at 31 December 2021.

CHARITABLE DONATIONS

The Group's external charitable donations for the year amounted to approximately HK$394,000.

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 Directors

Mr. WANG Hongyang (appointed on 24 December 2021)
Mr. TANG Chi Chun (resigned on 24 December 2021)

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon

According to Article 16.18 of the Company's articles of association, not less than one-third of the Directors (including those appointed for a specific term) shall retire from office by rotation provided that each director shall be subject to retirement by rotation at the annual general meeting at least once every three years. Accordingly, Mr. POON Ho Man, Mr. CHEOK Albert Saychuan and Mr. NIEN Van Jin, Robert shall retire by rotation. Mr. POON and Mr. CHEOK, being eligible, will offer themselves for re-election at the AGM. Mr. NIEN has decided to retire from office with effect from the conclusion of the AGM and accordingly, he will not offer himself for re-election.

In addition, according to Article 16.2 of the Company's articles of association, the Board shall have power from time to time to appoint any person as a Director either to fill a 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, Mr. WANG Hongyang, being a Director appointed by the Board on 24 December 2021, shall retire from office and, being eligible, will offer himself for re-election at the AGM.

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

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

Mr. CHEOK Albert Saychuan is the independent non-executive chairman of 5G Networks Limited which was listed in Australia and was privatized in November 2021.

Mr. TANG Chi Chun resigned as the non-executive director of the Company with effect from the conclusion of the extraordinary general meeting held on 24 December 2021. Mr. TANG also ceased to be a member of the Strategy Committee of the Company and resigned as a director of Aircraft Recycling International Limited ("ARI"), a commonly held entity of the Company, with effect from 24 December 2021.

Mr. WANG Hongyang was appointed as the non-executive director of the Company with effect from 24 December 2021. Mr. WANG was also appointed as a member of the Strategy Committee of the Company and a director of ARI with effect from 24 December 2021.

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 2021.

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.

REPORT OF THE DIRECTORS

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Profile of the Directors and Senior Management are set out on pages 61 to 66 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 2021 are set out in Note 33 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 2021, 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]	1.34%
POON Ho Man	Interest of controlled corporation	222,534,554[4]	29.77%
LIU Wanting	Interest of controlled corporation	11,678,914[5]	1.56%
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	0.001%

Notes:

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

(2) Based on 747,619,737 Shares in issue as at 31 December 2021.

(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 222,534,554 Shares in the following manner:

    (a) 213,203,965 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) 9,330,589 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 2021, 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 2021 (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 2021, 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]
CEL Aviation Investment Holdings Limited (Formerly known as China Everbright Aerospace Holdings Limited) ("CEL Aviation")	Beneficial owner	244,065,373[3]	244,065,373	32.65%
China Everbright Limited ("CEL")	Interest of controlled corporation	283,417,693[3]	283,417,693	37.91%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	283,417,693[4]	283,417,693	37.91%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	283,417,693[5]	283,417,693	37.91%
Central Huijin Investment Limited ("Central Huijin")	Interest of controlled corporation	283,417,693[5]	283,417,693	37.91%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	213,203,965[6]	213,203,965[6]	28.52%
Capella Capital Limited ("Capella")	Interest of controlled corporation	213,203,965[6]	213,203,965	28.52%
POON Ho Man	Interest of controlled corporation	222,534,554[7]&[8]	222,534,554	29.77%
Christina NG	Interest of controlled corporation	213,203,965[7]	–	–
	Beneficial owner	7,500,000	220,703,965	29.52%

Notes:

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

(2) Based on 747,619,737 Shares in issue as at 31 December 2021.

(3) CEL was deemed to be interested in 244,065,373 and 39,352,350 Shares held by CEL Aviation 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 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

Save as disclosed above, as at 31 December 2021, 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 (2020 annual report: 10,000,000 Shares) which represented approximately 1.34% (2020 annual report: 1.4%) of the Shares in issue.

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:

		Number of Shares under options			
Name of grantee	**Date of grant**	**At 1 January 2021**	**At 31 December 2021**	**Adjusted exercise price per Share HK$** *(Note 1)*	**Exercise period**
Director					
ZHAO Wei	2 Jan 2020	10,000,000	10,000,000	8.13	17 Apr 2020 to 17 Apr 2022 *(Note 2)*
Total		**10,000,000**	**10,000,000**		

Notes:

(1) On 29 October 2020, the original exercise price of each outstanding share option has been adjusted from HK$9.00 to HK$8.46 as a result of capitalization issues. On 4 November 2021, the exercise price of each outstanding share option has been further adjusted from HK$8.46 to HK$8.13 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) The closing price of the shares of the Company immediately before the date on which the options were granted to Dr. ZHAO Wei was HK$8.29.

(4) During the year, no option was granted, exercised, cancelled or lapsed.

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$3,890,000.

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 2021. 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 2021.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the lease income of the Group accounted for 76.3% of the total revenue, and the information of the customers of the lease segment is as follows:

	For the year ended 31 December 2021 Percentage of the total lease income (before business taxes and surcharges) (%)
Top five customers	46.8%
The largest customer	13.3%

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 the first supplemental agreements dated 14 November 2016 to the above framework agreements, collectively, the "2015 Agreements")

On 15 October 2018, the Company and CE Group entered into three second supplemental agreements to the 2015 Agreements to extend the duration of each of the 2015 Agreements to 31 December 2021, namely:

(1) Second Supplemental Deposit Services Framework Agreement;

(2) Second Supplemental Loan Services Framework Agreement; and

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

(collectively, the "Second Supplemental Agreements")

Details of the transactions contemplated under the Second 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.

As the Second Supplemental Agreements expired on 31 December 2021, on 11 November 2021, the Company and CE Group entered into three new framework agreements for a term of three years, commencing from 1 January 2022 to 31 December 2024, which will further strengthen and broaden the mutually beneficial business cooperation between the Group and CE Group, and satisfy the Group's needs for diversified financial services provided by CE Group to facilitate the Group's business operation and future development:

(1) The 2021 Deposit Services Framework Agreement, pursuant to which CE Group will provide deposit services to the Group through CE Group's associate, CE Bank;

(2) The 2021 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; and

(3) The 2021 Assignment of Finance Lease Receivables Framework Agreement, pursuant to which the Group will assign the finance lease receivables to the Trustee.

(collectively, the "2021 Agreements")

Details of the transactions to be contemplated under the 2021 Agreements are set out in the Company's announcement dated 11 November 2021 and the Company's circular dated 9 December 2021, which were proposed to and passed by the independent Shareholders by way of ordinary resolutions at the Company's extraordinary general meeting held on 24 December 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:

Agreements between the Group and CE Group	**Actual Maximum Daily Closing Balance/ Total Consideration (HK$'Million) for the year ended 31 December**	**Annual Caps (HK$'Million) for the year ended/ending 31 December**			
	2021	**2021**	**2022**	**2023**	**2024**
Second Supplemental Deposit Services Framework Agreement	2,460 (Actual Maximum Daily Closing Balance of Deposits including interests accrued thereon)	3,843	N/A	N/A	N/A
2021 Deposit Services Framework Agreement	N/A	N/A	9,360	10,920	12,480
Second Supplemental Loan Services Framework Agreement	4,575 (Actual Maximum Daily Closing Balance of Loans including guarantees)	18,214	N/A	N/A	N/A
2021 Loan Services Framework Agreement	N/A	N/A	18,214	21,060	24,960
Second Supplemental Assignment of Finance Lease Receivables Framework Agreement	Nil (Total Consideration)	7,020	N/A	N/A	N/A
2021 Assignment of Finance Lease Receivables Framework Agreement	N/A	N/A	7,020	7,020	7,020

CE Group is the sole shareholder of CE Hong Kong. CE Hong Kong is the indirect controlling shareholder of CEL. CEL is one of substantial shareholders of the Company. Accordingly, CE Group is a substantial 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 (i) the Second Supplemental Agreements and the 2015 Agreements; and (ii) the 2021 Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

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, which was supplemental by the first supplemental agreement dated 14 November 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 31 December 2019, 2020 and 2021 to be HK$1,300 million respectively.

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 ended/ending 31 December 2021, 2022 and 2023 to be HK$1,500 million respectively.

(the Shareholders' Loan and Guarantee Agreement together with all subsequent supplemental agreements, collectively, the "ARI Agreement")

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 eded/ending 31 December		
	2021	2021	2022	2023
Third ARI Supplemental Agreement	1,465	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.

Connected Transactions

3. *Transactions contemplated under the Aircraft Sale and Purchase Agreements*

On 9 April 2021, two aircraft sale and purchase agreements were entered into between the Company, through its two wholly-owned special purpose vehicles (as vendors), and Guangrong No.9 (Tianjin) Aviation Leasing Co., Limited and Guangrong No.10 (Tianjin) Aviation Leasing Co., Limited (as purchasers) respectively, both of which are wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (光大金融租賃股份有限公司) ("CEB Leasing"), pursuant to which the vendors agreed to sell and the purchasers agreed to purchase one Airbus A320ceo aircraft and one Airbus A320neo aircraft respectively (together with the rights and obligations of the underlying leases) at the total market appraised value of US$102.4 million (equivalent to HK$799 million) (the "Transactions"). Details of abovementioned Transaction is set out in the Company's announcements dated 9 April 2021, 30 April 2021 and the Company's circular dated 17 May 2021, 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 7 June 2021.

CEB Leasing is a non-wholly-owned subsidiary of CE Bank. As disclosed in paragraph above of this section, CE Group is a substantial shareholder of the Company, and thus CE Group and its associates, including CE Bank and CEB Leasing are connected persons of the Company. Accordingly, the Transaction constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

4. *Transactions contemplated under the Share Purchase Agreement for Disposal of Interests in ARG*

On 13 July 2021, a share purchase agreement (the "Share Purchase Agreement") were entered into between the Company, through its wholly-owned subsidiary, and Everbright Absolute Return Fund ("EAR Fund"), pursuant to which (a) the Company (as seller) agreed to sell and EAR Fund (as purchaser) agreed to acquire 13 ordinary shares of ARG Cayman 1 Limited ("ARG") with par value of US$0.10 each (the "Sale Shares"), representing 1.3% of the issued share capital of ARG; and (b) the Company (as assignor) agreed to assign and EAR Fund (as assignee) agreed to take a shareholder loan in the sum of US$2,051,713.48 outstanding and owed by ARG to the Company as at the date of the Share Purchase Agreement (the "Shareholder Loan"). The total consideration for the disposal of the Sale Shares and the assignment of the Shareholder Loan was US$2,051,714.78 (equivalent to approximately HK$15,949,000). The above transaction was completed in July 2021. ARG is a non-wholly-owned subsidiary of Aircraft Recycling International Limited which is a commonly held entity of the Company. Details of abovementioned transaction is set out in the Company's announcement dated 13 July 2021.

As disclosed in paragraph 1 above of this section, CEL is one of the substantial shareholders of the Company. EAR Fund is an indirect wholly-owned subsidiary of CEL. Accordingly, EAR Fund is a connected person of the Company and the Transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

5. ***Transactions contemplated under the Engagement in the Subscription Agreement for the Issuance of Notes under the Medium Term Note Programme***

   On 16 December 2021, a subscription agreement was entered into amongst CALC Bonds Limited, a wholly-owned subsidiary of the Company, (the "Issuer"), the Company (as guarantor) and CE Bank, Hong Kong Branch ("CEBHK"), BNP Paribas, China CITIC Bank International Limited, China Zheshang Bank Co., Ltd. (Hong Kong Branch), China Everbright Securities International Limited ("EBSI") and Shenwan Hongyuan Securities (H.K.) Limited (collectively, the "Managers"), pursuant to which, inter alia, the Company engaged CEBHK and EBSI to act as two of the Managers in order to facilitate the issuance of US$100,000,000 4.85% guaranteed notes due 2024 (the "Notes") (the "Engagement"). The total actual amount of the Managers remuneration paid to CEBHK and EBSI is approximately US$250,000 (equivalent to approximately HK$1,950,000). The Notes were listed on the Stock Exchange on 24 December 2021. Details of abovementioned Engagement is set out in the Company's announcements dated 17 December 2021, 23 December 2021 and 24 December 2021.

   CEBHK and EBSI are associates of CE Group. As disclosed in paragraph above in this section, CE Group is a substantial shareholder of the Company, and thus CE Group and its associates, including CEBHK and EBSI are connected persons of the Company. Therefore, the Engagement (in aggregate with the previous engagement pursuant to Rule 14A.81 of the Listing Rules as set out in the Company's announcement dated 17 December 2021) constituted a connected transaction of the Company.

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.

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 2021.

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.

RELATED PARTY TRANSACTIONS

A summary of all material related party transactions, in accordance with the Hong Kong Financial Reporting Standards, entered into by the Group during the year ended 31 December 2021 is contained in Note 34 to the consolidated financial statements. Those transactions reported in Note 34 fell under the definition of "connected transactions" or "continuing connected transactions" have been disclosed above in the paragraph headed "CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS".

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 2021.

The consolidated financial statements of the Group for the year ended 31 December 2021 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, 16 March 2022

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 2021 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 2021.

In respect of environmental, social and governance ("ESG") aspect, the Company's first ESG report for the year of 2014 was published in 2015. The 2021 ESG report is the 8th report the Company has produced focusing on its social and environmental efforts.

The 2021 ESG report, setting out the Group's ESG performance, will be available on the Company's website at www.calc.com.hk. The Group has applied the principles and complied with all applicable requirements and provisions of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules in preparation of its ESG report.

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. WANG Hongyang	Mr. FAN Yan Hok, Philip Mr. NIEN Van Jin, Robert Mr. CHEOK Albert Saychuan Dr. TSE Hiu Tung, Sheldon

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

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

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

After annual assessment by the Nomination Committee during the year, the Board considers the current structure, size and composition of the Board is performing a balanced and independent monitoring function on management practices to complement the Company's corporate strategy. The profile of Directors is set out in the "Profile of the Directors and Senior Management" on pages 61 to 66 of this annual report.

Changes in Composition of the Board and Board Committees

During the year ended 31 December 2021, the changes in composition of the Board and Board Committees set up under the Listing Rules are listed below:

Director	Change	
TANG Chi Chun	–	resigned as the non-executive director (the "NED") with effect from the conclusion of the extraordinary general meeting of the Company held on 24 December 2021
WANG Hongyang	–	appointed as the NED on 24 December 2021

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 2021.

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, appointment of Directors and oversight of the Company's ESG strategy and reporting.

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 A.2.1 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 NEDs (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 two of them, 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 28 of this annual report.

In accordance with provision B.2.2 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 24 December 2021, shall retire from office and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Board Meetings and General Meetings

An annual general meeting and three 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:

Directors	Nature of Trainings Type 1	Type 2
Executive Directors		
ZHAO Wei	✓	✓
POON Ho Man	✓	✓
LIU Wanting	✓	✓
Non-executive Director		
WANG Hongyang (appointed on 24 December 2021)	✓	✓
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 Chief Executive Officer ("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.

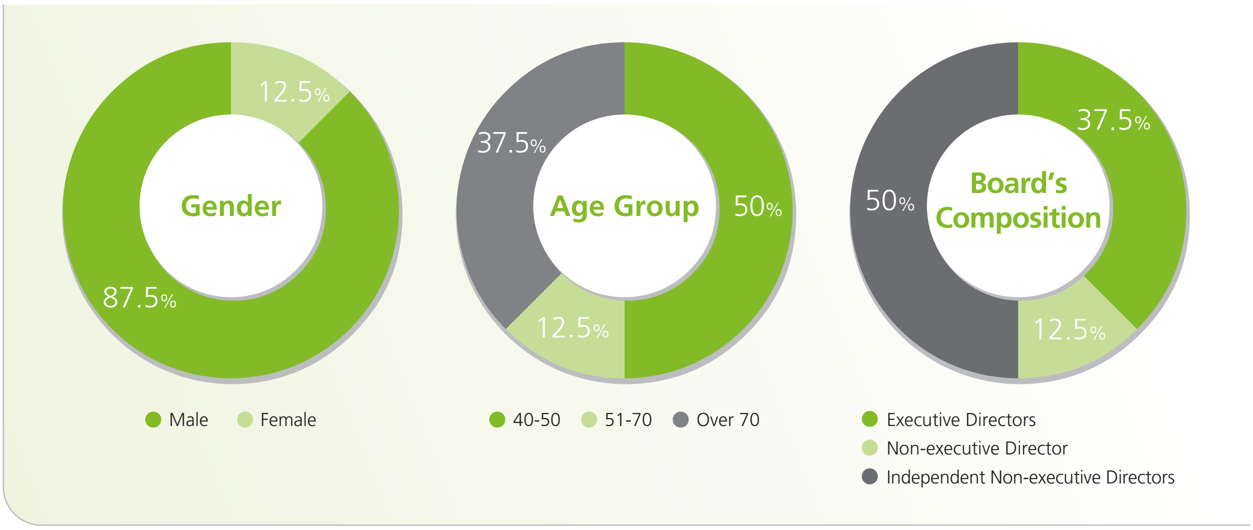
The Chairman is focusing on determination of strategy, direction and goal of the Group by chairing the Strategy Committee. The Chairman is also responsible for leading the Board to effective management of the Company by, among others, ensuring good corporate governance practices and procedures, encouraging 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.

CORPORATE GOVERNANCE POLICIES

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 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.

Anti-Corruption Policy

The Company has its code of conduct with the updated anti-corruption policy according to the corporate governance code D.2.7, that is provided to all employees, and all employees are required to review the code of conduct, and affirm their compliance with it. Regular training in compliance and ethical standards is provided to all employees.

Whistleblowing Policy

The Company has adopted a whistleblowing policy and amended from time to time according to the corporate governance code D.2.6 (the "Policy"). It aims to be enacted to encourage the employees or the related stakeholders to provide feedback or report serious concerns related to any suspected misconduct, malpractice or irregularity within the Group; including those that have been occurred or were under suspicion of having been committed or being about to be committed, in order to maintain good corporate governance, accountability and transparency of the Group. The Policy is designed to provide the employees or the related stakeholders with the confidential whistleblowing channel to report to the Group and the Audit Committee the actual or suspected illegal activities and misconducts in corporate financial reporting, internal control or other areas in which the Group's attention should be drawn and investigation should be initiated.

REMUNERATION OF DIRECTORS

The remuneration paid to and/or entitled by each of the Directors for the year ended 31 December 2021 is set out in Note 33 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)*
		Dr. ZHAO Wei
Mr. FAN Yan Hok, Philip	Mr. FAN Yan Hok, Philip	Mr. POON Ho Man
Mr. NIEN Van Jin, Robert	Mr. NIEN Van Jin, Robert	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 D.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 2021, 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 2020;

- 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 E.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. Two Remuneration Committee meetings were held during the year. The attendances of each Remuneration Committee member during the year are set out below under section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Remuneration Committee 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 B.3 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. Two Nomination Committee meetings were 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 Mr. WANG Hongyang as the NED 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 2021.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of HK$7,667,000. The relevant fee paid or payable for audit services amounted to approximately HK$4,326,000 and the balancing of the remuneration related to the non-audit services of approximately HK$3,341,000.

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 2021 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 67 to 75 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 2021 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).

Climate Risks Management

In order to better understand the impacts of climate risks on our daily operations, initial climate reviews were conducted in 2019. We have commenced a preliminary climate risk mapping exercise at the Group level, in which we outlined the physical and transitional risks of climate change, both long-term and short-term, that are relevant to our business, associated with the potential consequences of those risks. As we aimed to further understand the relevant risks and possible mitigating processes, we continued on with the exercise in 2020. The assessment result expanded the Group's insight on climate risks, therefore compelling us to set our own Climate Risk Policy this year in order to guide our actions in mitigating climate risks more effectively.

Multiple resources are employed when identifying and assessing climate-related risks, including:

- Stakeholder meetings
- Sustainability reporting frameworks, such as the task force on Climate-related Financial Disclosures
- Market screening and benchmarking

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 56 to 60 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 2021.

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	0/2	n/a	0/1	0/3
POON Ho Man	4/4	n/a	2/2	n/a	1/1	3/3
LIU Wanting	4/4	n/a	n/a	n/a	0/1	0/3
Non-executive Directors						
TANG Chi Chun *(note 1)*	3/3	n/a	n/a	n/a	1/1	3/3
WANG Hongyang *(note 2)*	1/1	n/a	n/a	n/a	n/a	n/a
Independent Non-executive Directors						
FAN Yan Hok, Philip	4/4	5/5	2/2	2/2	1/1	3/3
NIEN Van Jin, Robert	4/4	5/5	2/2	2/2	1/1	3/3
CHEOK Albert Saychuan	4/4	5/5	2/2	2/2	1/1	3/3
TSE Hiu Tung, Sheldon	4/4	n/a	n/a	n/a	1/1	3/3
Total number of meetings	4	5	2	2	1	3
Dates of Meetings	15/3/2021 30/6/2021 24/8/2021 28/12/2021	12/3/2021 23/4/2021 20/8/2021 27/10/2021 8/12/2021	26/2/2021 14/9/2021	26/2/2021 16/12/2021	7/5/2021	10/3/2021 7/6/2021 24/12/2021

Notes:

(1) Mr. TANG Chi Chun resigned as the NED with effect from the conclusion of the extraordinary general meeting of the Company held on 24 December 2021.

(2) Mr. WANG Hongyang was appointed as the NED with effect from 24 December 2021.

RISK MANAGEMENT REPORT

1 MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the company's strategic objectives and ensuring that the company establishes and maintains appropriate and effective risk management and internal control systems. Such risks include, amongst others, material risks relating to ESG. The Board oversees the company's risk management and internal control systems on an ongoing basis, 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, as well as those relating to the company's ESG performance and reporting.

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:

(i) 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;

(ii) 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

(iii) Continue to cultivate a strong risk management corporate culture throughout the organization.

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

Business model dimension

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

Strategic dimension

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

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

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

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

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

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

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

Line management is supported and monitored by middle and back office functions like, Transaction Support, Finance and Accounting, Legal, Compliance, Company Secretarial, Human Resources, Information Technology and Risk Management, which constitute the second line of defense. This line of defense monitors and facilitates implementation of effective risk management practices by risk owners and reports risk related information throughout the organization.

Risk Management team reports to our Audit Committee on an ad-hoc basis. 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 The Board's annual review considers:

(i) the changes, since the last annual review, in the nature and extent of significant risks (including ESG risks), and the company's ability to respond to changes in its business and the external environment;

(ii) the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;

(iii) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the company and the effectiveness of risk management;

(iv) Significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the company's financial performance or condition; and

(v) The effectiveness of the company's processes for financial reporting and Exchange Listing Rule compliance.

2.2 Ongoing Monitoring of Risk and Internal Control

2.2.1 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.

2.2.2 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.

Risk and risk events are captured by the business and reported to the second line of defense. Specific reports and periodic updates are 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.

2.3 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.

2.4 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 carries 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.

2.5 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 material in previous periods. However, the impact of the COVID-19 pandemic continues to be felt acutely by the worlds' airlines, including the Company's customers. The impact on the Company has been cushioned to a significant extent by the Company's large presence in China. As of December 31, 2021, by number of aircraft, 76% of the owned aircraft leased to Chinese Lessees (including Hong Kong, Macao and Taiwan), most of which were state-owned airlines with strong financial strength and abundant working capital. China has achieved remarkable results in the fight against the pandemic and the domestic aviation market has remained one of the best performers globally, with traffic has recovered to more than 75.6% of the level in 2019. And extensive Government financial support made available. 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 and have invariably been obliged to seek accommodations with major suppliers including banks and lessors. The company has sought to consider each such request on its individual merits. 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.

RISK MANAGEMENT REPORT

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

(i) Took new delivery of 34 aircraft and disposed of 9 aircraft to make the risk diversification more better;

(ii) The company have increase significantly on unsecured working capital facilities and trade finance facilities in 2021 on top of issuing RMB MTN, SCP and USD bonds etc.

The diversity of funding channels helped the Company access various banks, financial institutions and investors with multiple financing products. During the year, the Company have also obtained international credit ratings from Moody's (Ba1) and Fitch (BB+) which may help in further diversifying our funding channels and/or reducing our funding costs.

(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 unhedged exposure on RMB has been decreased by around 80% for the financial year ended 31 December 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 50, is the Chairman and an Executive Director. Dr. ZHAO is also the chairman of Strategy Committee and a member of 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. He joined the Board in May 2019.

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).

As at the date of this report, Dr. ZHAO was interested in share option with rights to subscribe for 10,000,000 shares of the Company pursuant to the post-IPO share option scheme of the Company.

Mr. POON Ho Man

Executive Director and Chief Executive Officer

Mr. POON Ho Man, aged 49, is an Executive Director and the Chief Executive Officer of the Company re-appointed in January 2017. 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 (formerly known as Aviation Synergy Ltd), 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 15 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 222,534,554 shares (representing approximately 29.9% of the issued share capital of 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

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議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 40, is an Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer of the Company. Within the Group, Ms. LIU is also a director of certain subsidiaries of the Company and is interested in 13.05% equity interest in Linkasia Airlines Group Limited (formerly known as Aviation Synergy Ltd). 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 the People's Republic of China (the "PRC"). 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 11,678,914 shares of the Company (representing approximately 1.6% of the issued share capital of the Company).

Mr. WANG Hongyang

Non-executive Director

Mr. WANG Hongyang, aged 44, is a Non-executive Director appointed on 24 December 2021 and is also a member of the Strategy Committee of the Company. He is the chairman of the board of directors of China Asset Leasing Company Limited, a company incorporated in the PRC and a wholly-owned subsidiary of the Company. Mr. WANG is also one of the supervisors of a joint venture incorporated in Harbin, the PRC, which is indirectly held by the Company, ARI and an independent third party as to 11%, 49% and 40% respectively. Mr. WANG is also a director of ARI.

Mr. WANG is an executive director and the Vice President of CEL in charge of finance and a non-executive and non-independent director of Ying Li International Real Estate Limited (stock code: 5DM.SGX). Mr. WANG is a supervisor of Everbright Securities Company Limited, a company listed on the Shanghai Stock Exchange (stock code: SH 601788) and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 6178). Prior to joining CEL Group, Mr. WANG had worked in KPMG Huazhen for over 15 years and served as a partner. He holds a Bachelor's degree of Arts in English literature and a Certificate of Second Major in International Economics and Trade from Beijing Foreign Studies University. He is also a non-practicing member of the Chinese Institute of Certified Public Accountants and a member of the Institute of Internal Auditors.

Mr. FAN Yan Hok, Philip

Independent Non-executive Director

Mr. FAN Yan Hok, Philip, aged 72, is an Independent Non-executive Director of the Company 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. As at the date of this report, Mr. FAN is an independent non-executive director of the following companies listed on the Stock Exchange:

Name of listed company	Stock code of Stock Exchange
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 in industrial engineering and the degree of master in operations research from Stanford University in the United States and the degree of master in management science from Massachusetts Institute of Technology in the United States.

As at the date of this report, Mr. FAN has personal interest in 200,000 shares of the Company (representing approximately 0.03% of the issued share capital of the Company).

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. NIEN Van Jin, Robert

Independent Non-executive Director

Mr. NIEN Van Jin, Robert, aged 74, 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.

As at the date of this report, Mr. NIEN has personal interest in 234,000 shares of the Company (representing approximately 0.03% of the issued share capital of the Company).

Mr. CHEOK Albert Saychuan

Independent Non-executive Director

Mr. CHEOK Albert Saychuan, aged 71, 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 as well as 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. He is 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 the vice president of the board of governors of the Malaysian Institute of Corporate Governance until end 2020. Mr. CHEOK was a non-executive director of Peppermint Innovation Limited, listed in Australia (resigned on 31 March 2020). Mr. CHEOK was also the independent non-executive chairman of International Standard Resources Holdings Limited, listed on the Stock Exchange (resigned on 3 September 2019) and MC Payment Limited, listed in Singapore (resigned on 30 June 2021).

Mr. CHEOK is the independent non-executive chairman of Amplefield Limited, listed in Singapore, and Supermax Corporation Berhad, listed in Malaysia. Mr. CHEOK is also the independent non-executive chairman of 5G Networks Limited which was listed in Australia and was privatized in November 2021.

Outside his various board capacities, Mr. CHEOK is a well accomplished personal investment banker and financial adviser to select clients in Hong Kong, the PRC 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.

As at the date of this report, Mr. CHEOK has personal interest in 5,000 shares of the Company (representing approximately 0.001% of the issued share capital of the Company).

Dr. TSE Hiu Tung, Sheldon

Independent Non-executive Director

Dr. TSE Hiu Tung, Sheldon, aged 57, 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, 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 63, the Deputy Chief Executive Officer and Chief Financial Officer, 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 an executive director of Hopewell Holdings Limited. 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. TANG Yu Ping, Pitney

Chief Operating Officer

Mr. TANG Yu Ping, aged 52, the Chief Operating Officer, oversees all aspects of transaction-related functions including legal and risk, 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 in 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 an 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 25 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 the 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"), which are set out on pages 76 to 171, comprise:

- the consolidated balance sheet as at 31 December 2021;
- 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 significant accounting policies and other explanatory information.

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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

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

KEY AUDIT MATTERS *(continued)*

Key audit matter

Assessment on working capital sufficiency

Refer to Note 2.1(a) to the consolidated financial statements.

As at 31 December 2021, the Group's current liabilities exceeded its current assets by HK$9,228.2 million (Note 3.1.3). The Group had capital commitments amounting to HK$93,930.6 million (Note 35) mainly relating to aircraft purchase, of which HK$13,777.0 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 2021 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.

How our audit addressed the key audit matter

We obtained the Group's cash flow forecasts, which covered a period of not less than twelve months from 31 December 2021.

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.

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 2021 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.

INDEPENDENT AUDITOR'S REPORT

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 16 to the consolidated financial statements. As at 31 December 2021, current income tax liabilities were HK$40.3 million and deferred income tax liabilities were HK$898.2 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 provision 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.

INDEPENDENT AUDITOR'S REPORT

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), Note 7 and Note 9 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 2021, the finance lease receivables and operating lease receivables are HK$7,724.5 million and HK$553.8 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$10.1 million (Note 7) and impairment provisions of operating lease receivables of HK$174.3 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 loss given default, 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 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 THE 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.

The 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.

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

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

We also provide the 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 the 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, 16 March 2022

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2021 HK$'000	2020 HK$'000
ASSETS			
Property, plant and equipment and right-of-use assets	5	**23,243,760**	18,450,641
Investments in and loans to associates and joint ventures	6	**1,273,350**	1,134,904
Finance lease receivables – net	7	**7,714,408**	7,263,697
Financial asset at fair value through profit or loss	8	**750,841**	797,888
Derivative financial assets	20	**114,937**	17,720
Prepayments and other assets	9	**11,232,542**	13,418,840
Assets classified as held for sale	10	**675,569**	–
Aircraft components trading assets		**10,136**	19,486
Restricted cash	11	**237,187**	411,786
Cash and cash equivalents	12	**4,776,389**	4,877,557
Total assets		**50,029,119**	46,392,519
EQUITY			
Share capital	13	**74,762**	72,000
Reserves	14	**1,987,850**	1,585,478
Retained earnings		**2,507,621**	2,235,560
Equity attributable to shareholders of the Company		**4,570,233**	3,893,038
Perpetual capital securities and other non-controlling interests	15	**1,447,022**	1,522,731
Total equity		**6,017,255**	5,415,769
LIABILITIES			
Deferred income tax liabilities	16	**898,240**	788,716
Borrowings	17	**32,477,860**	26,763,014
Medium-term notes	18	**979,816**	1,338,308
Bonds and debentures	19	**7,022,708**	9,054,779
Derivative financial liabilities	20	**143,226**	355,566
Income tax payables		**40,274**	24,897
Interest payables		**210,268**	276,113
Other liabilities and accruals	21	**2,239,472**	2,375,357
Total liabilities		**44,011,864**	40,976,750
Total equity and liabilities		**50,029,119**	46,392,519

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

The financial statements on pages 76 to 171 were approved by the Board of Directors on 16 March 2022 and were signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Total revenue			
Lease income			
Finance lease income	22	**540,634**	541,243
Operating lease income	22	**1,959,809**	1,945,545
		2,500,443	2,486,788
Other operating income			
Net income from aircraft transactions and aircraft components trading	23	**301,741**	514,275
Other income	24	**475,882**	484,719
		3,278,066	3,485,782
Expenses			
Interest expenses	25	**(1,211,254)**	(1,328,782)
Depreciation	5	**(820,663)**	(859,349)
Expected credit losses		**(144,213)**	(80,630)
Other operating expenses	26	**(282,018)**	(268,299)
		(2,458,148)	(2,537,060)
Operating profit		**819,918**	948,722
Other gains/(losses)	28	**13,578**	(306,750)
Share of losses and provisions on investment in associates and joint ventures	6	**(1,290)**	(208,971)
Profit before income tax		**832,206**	433,001
Income tax expenses	29	**(204,936)**	(165,058)
Profit for the year		**627,270**	267,943
Profit/(loss) attributable to			
Shareholders of the Company		**525,780**	334,143
Holders of perpetual capital securities and other non-controlling interests		**101,490**	(66,200)
		627,270	267,943
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	30(a)	**0.722**	0.482
– Diluted earnings per share	30(b)	**0.722**	0.482

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Profit for the year		**627,270**	267,943
Other comprehensive income/(loss) for the year:			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	20	**195,810**	(203,011)
Currency translation differences		**71,237**	(37,848)
		267,047	(240,859)
Items that will not be reclassified subsequently to profit or loss			
Currency translation differences attributed to the non-controlling interests		**(957)**	(689)
Total other comprehensive income/(loss) for the year, net of tax		**266,090**	(241,548)
Total comprehensive income for the year		**893,360**	26,395
Total comprehensive income/(loss) for the year attributable to			
Shareholders of the Company		**792,827**	93,284
Holders of perpetual capital securities and other non-controlling interests		**100,533**	(66,889)
		893,360	26,395

The notes on pages 83 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 2021	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769
Comprehensive income						
Profit for the year	–	–	525,780	525,780	101,490	627,270
Other comprehensive income						
Cash flow hedges (Note 20)	–	195,810	–	195,810	–	195,810
Currency translation differences	–	71,237	–	71,237	(957)	70,280
Total comprehensive income	–	267,047	525,780	792,827	100,533	893,360
Transactions with shareholders and non-controlling interests						
Buy-back of shares (Note 13(a))	(251)	(38,220)	–	(38,471)	–	(38,471)
Dividends (Note 31)	3,013	173,545	(253,719)	(77,161)	–	(77,161)
Dividend distributed to perpetual capital securities (Note 15)	–	–	–	–	(176,242)	(176,242)
Total transactions with shareholders and non-controlling interests	2,762	135,325	(253,719)	(115,632)	(176,242)	(291,874)
Balance as at 31 December 2021	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255

The notes on pages 83 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/(losses) for the year	–	–	334,143	334,143	(66,200)	267,943
Other comprehensive loss						
Cash flow hedges (Note 20)	–	(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 and non-controlling interests						
Issuance of perpetual capital securities (Note 15)	–	–	–	–	1,545,501	1,545,501
Transactions with non-controlling interests	–	–	–	–	44,119	44,119
Buy-back of shares (Note 13(a))	(300)	(18,872)	–	(19,172)	–	(19,172)
Share option scheme:						
– Value of services (Note 14(a))	–	330	–	330	–	330
– Share options lapsed	–	(23,746)	23,746	–	–	–
Dividends (Note 31)	4,573	309,153	(464,844)	(151,118)	–	(151,118)
Total transactions with shareholders and non-controlling interests	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 83 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Profit before income tax		832,206	433,001
Adjustments for:			
– Depreciation	5	820,663	859,349
– Net income from aircraft transactions	23	(297,128)	(514,275)
– Expected credit losses		144,213	80,630
– Interest expenses	25	1,211,254	1,328,782
– Share-based payments	14(a)	–	330
– Unrealised currency exchange losses		93,035	279,366
– Fair value (gains)/losses on interest rate, currency swaps and currency forwards	20	(109,509)	22,542
– Share of losses and provisions on investment in associates and joint ventures	6	1,290	208,971
– Gain on repurchase of bonds	19	(4,314)	(1,474)
– Interest income		(113,571)	(102,850)
– Fair value gains on financial asset at fair value through profit or loss		(39,041)	(38,960)
		2,539,098	2,555,412
Changes in working capital:			
– Finance lease receivables – net		(408,238)	(433,449)
– Prepayments and other assets		33,547	(686,340)
– Aircraft components trading assets		9,350	(19,486)
– Other liabilities and accruals		79,149	(338,678)
Cash generated from operations		2,252,906	1,077,459
Income taxes paid		(78,087)	(92,104)
Net cash flows generated from operating activities		2,174,819	985,355
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,819,940)	(2,900,017)
Proceeds from disposal of aircraft		2,055,341	5,534,659
Pre-Delivery Payments ("PDP") paid for acquisition of aircraft		(172,028)	(4,422,512)
PDP refunded for acquisition of aircraft		561,451	378,213
Interest received		108,713	113,517
Payments relating to financial asset at fair value through profit or loss		(8,833)	(41,814)
Proceeds from distribution of financial asset at fair value through profit or loss		3,938	21,569
Proceeds from disposal of financial asset at fair value through profit or loss		95,685	–
Investment in associates and joint ventures		(1,290)	(3,447)
Payments relating to loans to associates and joint ventures		(295,484)	(275,559)
Repayments of the loans to associates and joint ventures		130,006	213,563
Net cash flows used in investing activities		(3,342,441)	(1,381,828)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Cash flows from financing activities			
Proceeds from borrowings		**19,613,538**	9,771,604
Issue of bonds and debentures, net of transaction costs		**2,370,300**	1,696,189
Issue of perpetual capital securities, net of transaction costs		**–**	1,545,501
Repayments of borrowings		**(14,347,250)**	(9,689,697)
Repurchase and repayment of bonds and debentures, including transaction costs		**(4,513,480)**	(54,368)
Repayment of medium-term notes		**(397,650)**	(377,524)
Repayment of lease liabilities		**(15,714)**	(21,044)
Repayment of amount due to non-controlling interests		**(38,612)**	(38,950)
Interest paid in respect of derivative financial instruments		**(139,127)**	(74,896)
Interest paid in respect of borrowings, notes, bonds and debentures		**(1,483,767)**	(1,505,411)
Decrease in deposits pledged in respect of borrowings		**9,667**	4,910
Decrease/(Increase) in deposits pledged in respect of derivative financial instruments		**167,499**	(181,946)
Buy-back of shares, including transaction costs		**(38,471)**	(19,172)
Dividends paid to holder of perpetual capital securities	15	**(87,235)**	–
Dividends paid to shareholders		**(77,161)**	(151,118)
Net cash flows generated from financing activities		**1,022,537**	904,078
Net (decrease)/increase in cash and cash equivalents		**(145,085)**	507,605
Cash and cash equivalents at beginning of the year		**4,877,557**	4,352,327
Currency exchange difference on cash and cash equivalents		**43,917**	17,625
Cash and cash equivalents at end of the year		**4,776,389**	4,877,557

The notes on pages 83 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 2021 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 2021, the Group's current liabilities exceeded its current assets by HK$9,228.2 million. The Group had total capital commitments of HK$93,930.6 million as at 31 December 2021, 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$13,777.0 million is forecasted to be incurred and payable within one year based on the current delivery schedule and forecasted delivery schedule with the Original Equipment Manufacturers ("OEMs"). In addition, according to the relevant aircraft purchase agreements, Pre-Delivery Payments ("PDP") scheduled and forecasted to be paid in the next twelve months from 31 December 2021 amounted to HK$6,945.9 million. 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 2021, the Group has bank and cash balances of HK$5,013.6 million and undrawn borrowing facilities of HK$3,117.0 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Going concern (continued)

During the years 2020 and 2021, COVID-19 and responsive travel restrictions imposed by the governments have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, which have a negative effect on the business operation and financial condition of certain airline customers of the Group. The Group experienced delay in lease payments from a few airline customers during the year ended 31 December 2021. Moreover, the Group also adjusted the delivery schedules of new aircraft and agreed 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 2021. 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 adjust the delivery schedules in the past and during COVID-19 pandemic. 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. 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 2021 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 finances the new aircraft with internal resources or short-term financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the year ended 31 December 2021, the Group has obtained 41 aircraft project loan facilities of US$1,153.4 million (approximately equivalent to HK$8,993.2 million) from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time and has concluded one aircraft project loan facility subsequent to 31 December 2021. Based on these aircraft project loan arrangements, 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 2021.

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 approvals 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 banks to provide financing up to HK$3,689.2 million to the Group to satisfy part of the forecasted committed PDP payments of HK$6,945.9 million in the next twelve months from 31 December 2021. The Group has also initiated the process to obtain new PDP loan facilities with certain banks and has received commitment of new PDP loan facilities with facility amount of US$260.0 million (approximately equivalent to HK$2,027.2 million) subsequent to 31 December 2021. The remaining balances of PDP scheduled to be paid in the next twelve months from 31 December 2021 are expected to be funded by internal resources of the Group.

– As at 31 December 2021, the Group had working capital loan and revolving loan facilities of HK$7,758.1 million out of which HK$6,690.0 million has been utilised. The directors are confident that the Group can draw down the remaining unutilised loan facilities of HK$1,068.1 million as and when required and will be able to renew substantially all the existing revolving facilities. The Group has also initiated the process to obtain new working capital loan and revolving loan facilities with certain banks and has currently concluded two new working capital loan and revolving loan facilities with facility amount of US$75.0 million (approximately equivalent to HK$584.8 million) subsequent to 31 December 2021.

– 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 obtained the official registration acceptance notification from the National Association of Financial Market Institutional Investors for issuance of super short-term debenture up to a principal amount of RMB3.0 billion in the PRC within two years from June 2021. In July and August 2021, the Group completed the issuance of RMB1.0 billion senior unsecured super short-term debentures and unsecured bond of RMB100 million in the PRC. The Group has obtained Ba1 corporate credit rating from Moody's and BB+ corporate credit rating from Fitch, and updated US$3.0 billion guaranteed Medium Term Note ("MTN") programme in Hong Kong in July 2021. In December 2021, the Group completed the issuance of three-year US$100 million MTN in Hong Kong. The Group will review the market conditions and consider to issue the super short-term debntures and US$ bond under the MTN programme if appropriate. In February 2022, the Group completed the issuance of three-year RMB1.2 billion private bonds in the PRC. Based on above updates and 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 buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled certain aircraft to be disposed of in the next twelve months from 31 December 2021, of which the Group has signed letter of intent or sale and purchase agreements up to March 2022 for the disposals of six aircraft. During the year ended 31 December 2021, the Group completed nine aircraft disposals and received net proceeds from disposals after loan repayment of HK$735.1 million. Based on the Group's experience in aircraft portfolio trading in previous years, the directors are confident that the scheduled disposal of aircraft in the next twelve months from 31 December 2021 will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 31 December 2021.

- The Group is closely monitoring the impact of COVID-19 on its airline customers and communicated with those airline customers to work out mutually agreeable solution if required. The Group will closely monitor the collection and urge these airline customers to 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 while before the full recovery of international passengers' travel, 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 material deterioration in the operating cashflow in the next twelve months from 31 December 2021.

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 financial institutions, 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 2021. 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 2021:

- COVID-19-related Rent Concessions – Amendments to HKFRS 16
- Interest Rate Benchmark Reform – Phase 2

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 2022 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2021.

	Effective Date
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
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)	1 January 2022
Annual Improvements to HKFRS Standards 2018 – 2020	1 January 2022
Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates – Amendments to HKAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12	1 January 2023
HKFRS 17 Insurance Contracts	1 January 2023 (deferred from 1 January 2021)
Classification of Liabilities as Current or Non-current – Amendments to HKAS 1	1 January 2023 (deferred from 1 January 2022)
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	Applied when an entity applies "Classification of Liabilities as Current or Non-current – Amendments to HKAS 1"
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to HKFRS 10 and HKAS 28	N/A

The 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

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

(i) Business combinations (continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates and joint ventures *(continued)*

Joint arrangements *(continued)*

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.

2.4 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.

2.7 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale.

2.9 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(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.

(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)*

2.9 Investments and other financial assets *(continued)*

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

Equity instruments

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

2.10 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)*

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of exposures to variability in cash flows (cash flow hedges) that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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

The fair values of derivative financial instruments designated in hedge relationships are disclosed in notes to the consolidated financial statements. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

Cash flow hedges that qualify for hedge accounting

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

2.12 Aircraft components trading assets

Aircraft components trading assets consist primarily of airframe parts. Aircraft components 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 components trading assets to their present location and condition.

2.13 Cash and cash equivalents

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

2.14 Share capital and treasury share

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.

Where any group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to shareholders of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to shareholders of the Company.

2.15 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value, and less any repaid principal is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

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

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

Other borrowing costs are expensed as incurred.

2.17 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)*

2.17 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.

2.18 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)*

2.19 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)*

2.20 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.

2.21 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

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

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)*

2.21 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.

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 Note 2.9 for accounting policies for derecognition and impairment of finance lease receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(b) Where the Group is lessor (continued)

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 2.9 for accounting policies for impairment of operating lease receivables.

2.22 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 are 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 income (Note 24).

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 components trading

Net income from aircraft components 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue and income recognition *(continued)*

(e) Service income

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

2.23 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.

2.24 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.

2.25 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.

2.26 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

3.1.1 Market risk

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.

(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 certain borrowings used to finance the leases are denominated in US$, while some borrowings are denominated in RMB. The management of the Group closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group uses 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 20 and Note 28.

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	
	2021	2020
	HK$'000	HK$'000
Cash and cash equivalents	**697,006**	595,809
Other financial assets	**269,513**	131,959
Total financial assets	**966,519**	727,768
Bank borrowings	**(95,794)**	(581,924)
Medium-term notes	**(979,816)**	(1,338,308)
Bonds and debentures	**(2,573,699)**	(2,728,930)
Other financial liabilities	**(378,201)**	(778,200)
Total financial liabilities	**(4,027,510)**	(5,427,362)
Notional amount of foreign currency forwards	**2,942,880**	475,040
Net exposure	**(118,111)**	(4,224,554)

As at 31 December 2021, the Group had one outstanding currency swap contract with notional principal of US$15,684,000 (equivalent to approximately HK$122,290,000) (2020: US$15,684,000(equivalent to approximately HK$121,593,000)). For details, please refer to Note 20.

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 2021 and 2020.

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Profit before tax		
– 5% appreciation of RMB against US$	**(11,616)**	(216,681)
– 5% depreciation of RMB against US$	**11,616**	216,681

(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. The following table indicates the amount of bank borrowings exposed to interest rate risk as at 31 December 2021 and 2020.

	As at 31 December 2021 HK$'000	2020 HK$'000
Borrowings exposed to US$ London Interbank Offered Rate ("LIBOR")	**19,220,602**	19,053,634
Borrowings exposed to US$ Secured Overnight Financing Rate ("SOFR")	**222,982**	–
Borrowings exposed to RMB Loan Prime Rate	**922,499**	–
	20,366,083	19,053,634

Interest rate swaps are used to manage the variability in future interest cash flows of bank borrowings, arising due to changes in market interest rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for bank borrowings on the basis of their contractual terms and other relevant factors, including estimates of prepayments. The cash flows are used to determine the effectiveness and ineffectiveness.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

As at 31 December 2021, the Group had 31 outstanding floating-to-fixed interest rate swaps (2020: 26 swaps) to manage its unmatched interest rates exposure. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts.For the remaining unhedged exposure, the Group closely monitors the interest rate exposure and will consider hedging the exposure where necessary and appropriate.

	As at 31 December			
	2021		2020	
	Notional amount HK$'000	Carrying Value HK$'000	Notional amount HK$'000	Carrying Value HK$'000
Interest rate swaps				
Exposed to US$ LIBOR	6,639,160	(132,923)	6,726,294	(336,640)
Exposed to US$ SOFR	227,484	(1,769)	–	–
	6,866,644	(134,692)	6,726,294	(336,640)

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

	Year ended 31 December	
	2021	2020
Interest rate swaps		
Carrying amount, net (HK$'000)	(134,692)	(336,640)
Notional amount (HK$'000)	6,866,644	6,726,294
Maturity date	2022 – 2025	2021 – 2025
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January (HK$'000)	203,237	(214,948)
Change in value of hedged item used to determine hedge effectiveness (HK$'000)	(201,002)	210,914
Weighted average hedged rate for the year	1.9%	2.1%

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2021 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 increased/decreased the Group's profit before tax by approximately HK$2,663,000 (2020: decreased/increased the Group's profit before tax by approximately HK$6,215,000); and would also have increased/decreased the Group's reserves by approximately HK$39,317,000 (2020: HK$91,127,000), because of the impact of cash flow hedge interest derivatives.

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 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.

As at 31 December 2021, the bank borrowings and interest rate swaps relating to hedge accounting as below referenced to US$ LIBORs will be affected by the IBOR reforms.

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY LIBOR settings and the one-week and two-month US$ LIBOR settings had discontinued after 31 December 2021. The remaining US$ LIBOR settings will discontinue after 30 June 2023. The detailed transition plan of interest benchmark rate is still under negotiation. There is currently uncertainty around the timing and precise nature of these change. Please refer to Note 4.2(d) for the detailed information.

The Group has applied both the first set of amendments ("Phase 1") and the second set of amendments ("Phase 2") to HKFRS 9 and HKAS 39 applicable to hedge accounting, which has no material impact to the Group. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

Such reform has no impact on the Group's risk management strategy. The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to processes, risk management procedures and valuation models that may arise as a consequence of the reform.

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 21). 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.

(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.

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)*

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$10,118,000 (2020: HK$7,069,000) for finance lease receivables (Note 7) and HK$174,313,000 (2020: HK$75,795,000) for operating lease receivables (Note 9) as at 31 December 2021.

Credit risk exposure on operating leases receivables:

	As at 31 December			
	2021		2020	
	Gross carrying amount HK$'000	**Expected credit losses allowance HK$'000**	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	**362,027**	**173,964**	249,550	43,402
Europe	**22,259**	**333**	51,214	10,751
Americas	**169,484**	**16**	75,913	21,642
	553,770	**174,313**	376,677	75,795

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

	As at 31 December			
	2021		2020	
	Gross carrying amount HK$'000	**Expected credit losses allowance HK$'000**	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	**4,020,082**	**10,118**	3,849,388	7,069

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

Credit risk on aircraft lease service (continued)

(d) Concentration of credit risk

During the year ended 31 December 2021, 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 22 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables 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, and financial guarantees to associates and joint ventures. Please refer to Note 4.1(e), Note 6, Note 34 and Note 35 for details.

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

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	
	2021	2020
	HK$'000	HK$'000
Current assets		
Loans to associates and joint ventures	**6,763**	6,311
Finance lease receivables – net	**143,753**	139,305
Financial asset at fair value through profit or loss	**114,827**	136,393
Derivative financial assets	**19,428**	–
Aircraft components trading assets	**10,136**	19,486
Prepayments and other assets	**1,742,647**	476,055
Assets classified as held for sale	**675,569**	–
Restricted cash	**127,918**	142,413
Cash and cash equivalents	**4,776,389**	4,877,557
	7,617,430	5,797,520
Current liabilities		
Deferred income tax liabilities	**173,938**	146,794
Borrowings	**9,499,333**	8,216,812
Medium-term notes	**979,816**	391,941
Bonds and debentures	**4,039,787**	3,807,197
Derivative financial liabilities	**94,688**	137,197
Income tax payables	**40,274**	24,897
Interest payables	**210,268**	276,113
Other liabilities and accruals	**1,807,538**	1,735,259
	16,845,642	14,736,210
Net current liabilities	**(9,228,212)**	(8,938,690)

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 2021, borrowings of HK$9.5 billion under current liabilities mainly comprised of borrowings of HK$4.4 billion from aircraft acquisition financing ("aircraft loans"), HK$2.5 billion from PDP financing and HK$2.6 billion from other unsecured bank borrowings. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 10). The repayment of above aircraft loans will be partially funded by the collection of operating lease receivables of HK$2.8 billion (Note 35(e)) (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 2021. Repayment of PDP loans and other financing is expected to be funded by existing loan facilities and/or 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 2021 and those capital commitments in the next twelve months from 31 December 2021.

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 short-term 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 2021					
Financial liabilities					
Borrowings	**10,532,530**	**6,658,598**	**13,145,607**	**6,293,755**	**36,630,490**
Medium-term notes	**1,029,321**	**–**	**–**	**–**	**1,029,321**
Bonds and debentures	**4,339,945**	**160,765**	**3,162,647**	**–**	**7,663,357**
Other liabilities and accruals (i)	**1,111,437**	**40,109**	**134,251**	**53,015**	**1,338,812**
Derivative financial instruments	**94,777**	**42,349**	**6,625**	**–**	**143,751**
Off-balance sheet – short term lease commitments (Note 35)	**570**	**–**	**–**	**–**	**570**

	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 (Note 35)	115,163	14,040	–	–	129,203
Off-balance sheet – short term lease commitments (Note 35)	87	–	–	–	87

(i) For the purpose of liquidity risk analysis, tax payables, operating lease rentals received in advance, bonuses, directors' fee payables and other non-financial liabilities included in other liabilities and accruals 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 2021, service fee income of HK$1,272,000 (2020: HK$1,210,000) 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 2021	**10,824,526**	**3,728**	**122,290**
As at 31 December 2020	10,762,609	3,622	121,593

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$3,728,000 (2020: HK$3,622,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2021 (Note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 approximately HK$122,290,000). As at 31 December 2021, the fair value of this currency swap contract amounted to HK$10,622,000 (2020: HK$16,927,000) and the fair value loss of HK$6,382,000 (2020: HK$2,035,000) was recognised in "other gains or losses" for the year ended 31 December 2021 (Note 20(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 2021. 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 2021.

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 debts 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	
	2021	2020
	HK$'000	HK$'000
Interest-bearing debts included in total liabilities	**40,480,384**	37,156,101
Total liabilities	**44,011,864**	40,976,750
Total assets	**50,029,119**	46,392,519
Total equity	**6,017,255**	5,415,769
Gearing ratio	**80.9%**	80.1%
Asset-liability ratio	**88.0%**	88.3%
Interest-bearing debts to equity ratio	**6.7:1**	6.9:1

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 2021				
Assets				
Interest rate swaps	–	3,590	–	3,590
Currency swaps and forward contracts	–	111,347	–	111,347
Financial asset at fair value through profit or loss	–	–	750,841	750,841
	–	114,937	750,841	865,778
Liability				
Interest rate swaps	–	143,226	–	143,226

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 2020				
Assets				
Currency swaps and forward contracts	–	17,720	–	17,720
Financial asset 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

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$9,000,000 (2020: 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$182,000,000 and HK$185,000,000 (2020: 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 2021.

	Financial asset at fair value through profit or loss HK$'000
As at 1 January 2021	**797,888**
Additional investment to financial asset at fair value through profit or loss	**8,833**
Proceeds from financial asset at fair value through profit or loss	**(3,938)**
Disposal of financial asset at fair value through profit or loss	**(95,685)**
Fair value gains on the financial asset at fair value through profit or loss	**39,041**
Currency translation difference	**4,702**
As at 31 December 2021	**750,841**

	Financial asset at fair value through profit or loss HK$'000
As at 1 January 2020	752,913
Additional investment to financial asset at fair value through profit or loss	41,814
Proceeds from financial asset at fair value through profit or loss	(32,423)
Fair value gains on the financial asset at fair value through profit or loss	38,960
Currency translation difference	(3,376)
As at 31 December 2020	797,888

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 2021		As at 31 December 2020	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables (excluding the unguaranteed residual values)	**4,020,082**	**4,305,034**	3,849,388	4,208,436
Borrowings	**32,477,860**	**32,893,234**	26,763,014	26,690,742
Medium-term notes	**979,816**	**1,005,829**	1,338,308	1,370,678
Bonds and debentures	**7,022,708**	**6,349,849**	9,054,779	8,511,404

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 determine 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.

(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 16 and Note 29 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 2021.

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 (2020: 49) finance leases as at 31 December 2021 were approximately HK$5,243,225,000 (2020: HK$5,213,233,000). 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 2021 by approximately HK$9,902,000 (2020: HK$9,763,000).

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 before 30 June 2023 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 2020							
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
Year ended 31 December 2021							
Opening net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Additions	9,004,473	–	6,732	–	2,599	452	9,014,256
Depreciation	(800,574)	(1,602)	(2,542)	(906)	(13,333)	(1,706)	(820,663)
Assets classified as held for sale	(2,043,006)	–	–	–	–	–	(2,043,006)
Disposals/write off	(1,492,876)	–	–	–	–	(32)	(1,492,908)
Currency translation difference	134,727	–	32	242	438	1	135,440
Closing net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
As at 31 December 2021							
Cost	25,566,589	8,617	22,615	45,418	54,314	15,936	25,713,489
Accumulated depreciation	(2,415,426)	(5,946)	(14,559)	(3,543)	(22,629)	(7,626)	(2,469,729)
Net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760

Lease rental income amounting to HK$1,959,809,000 relating to the leasing of aircraft and engine for the year ended 31 December 2021 are included in operating lease income in the consolidated statement of income (2020: HK$1,945,545,000).

As at 31 December 2021, the net book value of aircraft amounted to HK$22,854,960,000 (2020: HK$18,180,560,000).

As at 31 December 2021, the net book value of aircraft amounting to HK$17,914,127,000 (2020: HK$12,858,739,000) were pledged as collateral for bank and other borrowings for aircraft acquisition financing and borrowings from trust plans (Note 17).

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Investments in and loans to associates and joint ventures – carrying amount after share of losses	**1,421,777**	1,251,441
Expected credit loss on loans to associates and joint ventures	**(148,427)**	(116,537)
	1,273,350	1,134,904

As at 31 December 2021, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Nature of relationship	Measurement method
Aircraft Recycling International Limited ("ARI") (a, Note 8)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG (Notes 4.2(c) and 8)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	PRC	Line maintenance, base maintenance, technical training.	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") (c)	PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)") (c)	PRC	Aircraft leasing	49%	Joint venture	Equity
PT Transnusa Aviation Mandiri ("TAM") (d)	Indonesia	Commercial air transportation services	49%	Joint venture	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 2021, the net liabilities of ARI was HK$390,909,000 (2020: net liabilities of HK$352,195,000), and as a result, the Group's equity interests in ARI was reduced to zero (2020: 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 2021, the Group's outstanding balance of advance to ARI amounted to HK$618,000 (2020: Nil). As at 31 December 2021, the Group's carrying amount of outstanding loans to ARI amounted to HK$1,162,453,000 (2020: HK$1,059,703,000). For details, please refer to Note 34(b)(ii).

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 2021, the Group's outstanding balance of advance to FLARI amounted to HK$24,376,000 (2020: Nil). As at 31 December 2021, the Group's outstanding loans balance receivable from FLARI amounted to HK$4,809,000 (2020: HK$6,311,000). For details, please refer to Note 34(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 2021, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK$37,063,000 (2020: HK$34,467,000) and HK$37,014,000 (2020: HK$34,423,000), respectively. For details, please refer to Note 34(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) CALC IDN Limited ("CALC IDN"), is a wholly-owned subsidiary of the Company, which holds approximately 72.82% of the share capital in Linkasia Airlines Group Limited ("Linkasia Airlines") (formerly known as "Aviation Synergy Ltd"), which was owned as to 14.13% by Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) and 13.05% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive director and deputy chief executive officer of the Company).

Linkasia Airlines 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. According to the contractual rights and obligations of each investor, TAM is jointly controlled by the Group and other investor.

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:

	2021 HK$'000	2020 HK$'000
As at 1 January	–	–
Add: Investment in TAM	–	98,868
Add: Loans to TAM	6,995	106,469
Total	6,995	205,337
Less: Share of losses and provisions on interest in TAM	–	(205,424)
Add: Currency translation difference	22	87
As at 31 December	7,017	–

As at 31 December 2021, the Group held rental deposit of US$900,000 (equivalent to HK$7,017,000) from TAM (2020: Nil) in relation to an operating lease of one aircraft, please refer to Note 34(j).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Lease payments receivables		
– Not later than 1 year	**128,815**	129,578
– Later than 1 year but not later than 2 years	**126,887**	128,181
– Later than 2 years but not later than 3 years	**204,456**	126,328
– Later than 3 years but not later than 4 years	**1,085,977**	203,191
– Later than 4 years but not later than 5 years	**1,844,533**	1,079,669
– Later than 5 years	**2,198,585**	4,019,729
Total	**5,589,253**	5,686,676
Less: Unearned finance lease income relating to lease payment receivables	**(1,569,171)**	(1,837,288)
Present value of lease payment receivables	**4,020,082**	3,849,388
Add: Present value of unguaranteed residual value	**3,704,444**	3,421,378
Net investment in the lease	**7,724,526**	7,270,766
Less: Accumulated expected credit losses allowance	**(10,118)**	(7,069)
Finance lease receivables – net	**7,714,408**	7,263,697

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

	As at 31 December			
	2021		2020	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**5,665,273**	**73%**	5,332,181	73%
Others	**2,049,135**	**27%**	1,931,516	27%
Finance lease receivables – net	**7,714,408**	**100%**	7,263,697	100%

8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Long-term investments – CAG (a)	**750,841**	701,959
Long-term investments – ARG (b)	**–**	95,929
	750,841	797,888

(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. Pursuant to the share purchase agreements and assignment agreements dated 13 July 2021, entered between the Group and Everbright Absolute Return Fund ("EAR Fund") and China Chengtong Investment Company Limited ("CCIC"), the Group agreed to sell and EAR Fund and CCIC agreed to purchase 13 ordinary shares (representing 1.3% of the entire issued shares of ARG) and 65 ordinary shares (representing 6.5% of the entire issued shares of ARG), respectively and the Group agreed to assign and EAR Fund and CCIC agreed to take the assigned shareholder loan amounted to US$2,052,000 (equivalent to approximately HK$15,949,000) and US$10,259,000 (equivalent to approximately HK$79,736,000), respectively in accordance with the assignment agreements. The above transactions were completed on 19 July 2021. The Group no longer holds any investments in ARG.

9 PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	**8,806,714**	11,857,594
Operating lease receivables (b)	**553,770**	376,677
Interest capitalised (Note 25(a))	**741,742**	804,675
Deposits paid	**32,865**	49,399
Prepayments and amounts due from related parties (Note 34(g))	**269,612**	311,860
Deductible in-put value-added taxes	**115,493**	–
Receivables arising from aircraft transactions (c)	**773,338**	–
Others (d)	**113,321**	94,430
	11,406,855	13,494,635
Less: Expected credit losses allowance (b)	**(174,313)**	(75,795)
	11,232,542	13,418,840

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. In November 2019, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement and 2018 Aircraft Purchase Agreement with Boeing to adjust its order from 100 aircraft to 92 aircraft. In March 2021, the Group entered into the agreement with Boeing to adjust its order from 92 aircraft to 66 aircraft and to reschedule the delivery of certain aircraft.

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) 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
As at 31 December 2021 Gross carrying amount	**191,743**	**50,130**	**65,161**	**246,736**	**553,770**
As at 31 December 2020 Gross carrying amount	163,370	15,128	70,529	127,650	376,677

As at 31 December 2021, the expected credit losses amounted to HK$174,313,000 (2020: HK$75,795,000) and the net operating lease receivables amounted to HK$379,457,000 (2020: HK$300,882,000).

(c) The receivables arising from aircraft transactions as at 31 December 2021 was fully settled in January 2022.

(d) The "Others" above were mainly deferred expenses and prepayments to third parties.

10 ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2021, the Group has signed letter of intent or sale and purchase agreements for the disposal of several lease-attached aircraft. These aircraft intended to be disposed were consequently classified as held for sale. During the year ended 31 December 2021, the Group reclassified property, plant and equipment to assets classified as held for sale with the carrying amount of HK$2,043,006,000 (2020: Nil), of which HK$1,367,437,000 (2020: Nil) was disposed. As at 31 December 2021, the carrying amount of assets classified as held for sale was HK$675,569,000 (2020: Nil) and the carrying amount of borrowings related to the assets held for sale was HK$505,689,000 (2020: Nil). The borrowings related to the assets held for sale will be repaid before the disposal of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

11 RESTRICTED CASH

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Pledged for bank borrowings for aircraft acquisition financing	**46,498**	51,495
Pledged for long-term borrowings (Note 17)	**44,133**	43,879
Pledged for interest rate swap contracts (Note 20(c))	**142,828**	312,790
Pledged for a currency swap contract (Note 20(a))	**3,728**	3,622
	237,187	411,786

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
US$	**200,073**	369,662
RMB	**37,114**	42,124
	237,187	411,786

The average effective interest rate as at 31 December 2021 was 0.12% (2020: 0.77%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Cash at bank and on hand	**4,776,389**	4,877,557

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
US$	**3,864,967**	4,258,528
RMB	**889,682**	595,809
HK$	**16,281**	18,231
EUR	**4,745**	4,271
Other currencies	**714**	718
	4,776,389	4,877,557

The average effective interest rate as at 31 December 2021 was 0.13% (2020: 0.76%).

13 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 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 scrip dividend (Note 31)	HK$0.1	45,735,457	4,573,546
As at 31 December 2020 and 1 January 2021	HK$0.1	720,004,837	72,000,484
Buy-back of shares (a)	HK$0.1	(2,519,500)	(251,950)
Payment of scrip dividend (Note 31)	HK$0.1	30,134,400	3,013,440
As at 31 December 2021	**HK$0.1**	**747,619,737**	**74,761,974**

(a) The Company acquired 6,604,000 (2020: 3,000,000) of its own shares through purchases on the Stock Exchange and 2,519,500 (2020: 3,000,000) of those purchased shares were subsequently cancelled during the year ended 31 December 2021. The total amount paid to acquire the shares was HK$38,471,000 (2020: HK$19,172,000), including transaction costs.

14 RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$000	Treasury shares 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 (Note 13(a))	(18,803)	–	(69)	–	–	–	–	(18,872)
Cash flow hedges (Note 20)	–	–	–	–	–	(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)
Scrip 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

	Share premium HK$'000	**Merger reserve HK$'000**	**Capital reserve HK$000**	**Treasury shares HK$000**	**Share-based payments HK$'000**	**Hedging reserves HK$'000**	**Currency translation differences HK$'000**	**Total HK$'000**
Balance as at 1 January 2021	**1,382,441**	**623,720**	**(108)**	**–**	**330**	**(323,652)**	**(97,253)**	**1,585,478**
Buy-back of shares (Note 13(a))	**(15,777)**	**–**	**(58)**	**(22,385)**	**–**	**–**	**–**	**(38,220)**
Cash flow hedges (Note 20)	**–**	**–**	**–**	**–**	**–**	**195,810**	**–**	**195,810**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**71,237**	**71,237**
Scrip dividends	**173,545**	**–**	**–**	**–**	**–**	**–**	**–**	**173,545**
Balance as at 31 December 2021	**1,540,209**	**623,720**	**(166)**	**(22,385)**	**330**	**(127,842)**	**(26,016)**	**1,987,850**

(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 2020	14,974,000
Granted (i)	10,000,000
Lapsed	(14,974,000)
As at 31 December 2020, 1 January 2021 and 31 December 2021	**10,000,000**

(i) The value of the options granted in the total amount of HK$330,000 on 2 January 2020.

As at 31 December 2021 and 2020, there was no outstanding share options of 2016 Post-IPO Share Option Scheme. For share options outstanding as at 31 December 2021, the adjusted exercise price per share of 2020 Post-IPO Share Option Scheme was HK$8.13 (2020: HK$8.46).

14 RESERVES *(continued)*

(a) *(continued)*

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the year ended 31 December 2021 and 2020 are as follows:

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Directors and employees	–	330

15 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	As at 31 December 2021 HK$'000	2020 HK$'000
Perpetual capital securities (a)	1,474,620	1,548,332
Other non-controlling interests of ordinary shares	(27,598)	(25,601)
	1,447,022	1,522,731

(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. During the year ended 31 December 2021, the Group has paid dividend of HK$87,235,000 (2020: Nil) and the dividend of HK$89,007,000 scheduled to be paid in November 2022 could not be elected for deferral by the Group has been recognised as dividend payable as at 31 December 2021.

The movement of the perpetual capital securities during the year is as follows:

	HK$'000
As at 1 January 2020	–
Issuance of perpetual capital securities	1,545,501
Profit for the year	2,831
As at 31 December 2020	1,548,332
As at 1 January 2021	1,548,332
Profit for the year	102,530
Dividend distributed to perpetual capital securities	(176,242)
As at 31 December 2021	1,474,620

16 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Deferred tax liabilities:		
– To be settled within 12 months	**173,938**	146,794
– To be settled after 12 months	**724,302**	641,922
	898,240	788,716

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 2020	746,374
Charged to profit or loss (Note 29)	40,461
Currency translation difference	1,881
As at 31 December 2020	788,716
As at 1 January 2021	**788,716**
Charged to profit or loss (Note 29)	**111,472**
Currency translation difference	**(1,948)**
As at 31 December 2021	**898,240**

As at 31 December 2021, certain subsidiaries of the Group had unused tax losses of approximately HK$1,188,657,000 (2020: HK$998,924,000) available to offset against future profits, for which deferred tax asset of HK$195,865,000 (2020: HK$154,527,000) had not been recognised as their future realisation is uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 DEFERRED INCOME TAX LIABILITIES *(continued)*

The expiry dates of the unused tax losses are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Year		
2022	**12,655**	18,350
2023	**62,165**	62,165
2024	**91,383**	91,383
2025	**129,165**	129,165
2026	**158,633**	–
No expiry date	**734,656**	697,861
	1,188,657	998,924

In accordance with the corporate income tax laws in the People's Republic of China ("PRC"), a 5% or 10% withholding tax is levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. No deferred tax liability has been provided by the Group on the retained earnings of approximately HK$1,593,028,000 as at 31 December 2021 (2020: HK$909,324,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

17 BORROWINGS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	**15,514,817**	10,541,963
PDP financing (b)	**6,303,373**	8,456,588
Other unsecured bank borrowings (c)	**5,600,145**	2,595,060
	27,418,335	21,593,611
Long-term borrowings		
Borrowings from trust plans (d)	**4,689,311**	4,818,500
Other borrowings (e)	**370,214**	350,903
	5,059,525	5,169,403
	32,477,860	26,763,014

Bank borrowings

(a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 31 December 2021, 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$46,498,000 (2020: HK$45,380,000).

(b) As at 31 December 2021, PDP financing of HK$5,929,576,000 (2020: HK$8,085,286,000) was unsecured and guaranteed by the Company. Remaining 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 2021, the Group had aggregate unsecured bank borrowings of HK$4,586,834,000 (2020: HK$2,595,060,000) which were guaranteed by certain companies of the Group.

The bank and other borrowings are repayable as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Within 1 year	**9,352,026**	8,075,496
Between 1 and 2 years	**5,471,783**	3,472,990
Between 2 and 5 years	**8,515,064**	6,177,909
Over 5 years	**4,079,462**	3,867,216
	27,418,335	21,593,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 BORROWINGS *(continued)*

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Fixed-interest rate	**7,052,252**	2,539,977
Floating-interest rate	**20,366,083**	19,053,634
	27,418,335	21,593,611

The average effective interest rate as at 31 December 2021 of bank and other borrowings was 2.96% (2020: 3.34%). The carrying amounts of borrowings are principally denominated in US$.

The Group has the following undrawn borrowings facilities:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Expiring within one year	**335,275**	821,326
Expiring beyond one year	**2,781,717**	1,901,206
	3,116,992	2,722,532

Long-term borrowings

(d) As at 31 December 2021, 46 borrowings (2020: 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% (2020: 3.5% to 7.8%) per annum for remaining terms of two to eight years (2020: three to nine years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$44,133,000 (2020: HK$43,879,000).

(e) As at 31 December 2021, four borrowings (2020: four borrowings) were obtained through a structured financing arrangement for four aircraft (2020: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2020: 3.9% to 5.7%) per annum for their remaining terms of three to four years (2020: four to five years) and are guaranteed by the Company.

18 MEDIUM-TERM NOTES

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. These medium-term notes had been fully repaid on maturity.

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 2021, after deducting the issuing cost, the total carrying amount of these notes was HK$979,816,000 (2020: HK$1,338,308,000).

19 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. These bonds had been fully repaid on maturity.

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% per annum and were listed on the Inter-Bank Bond Market of China. These debentures had been fully repaid on maturity.

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% per annum and were listed on the Inter-Bank Bond Market of China. These debentures had been fully repaid on maturity.

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 and US$35 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

In July 2021, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.98%.

In August 2021, the Group issued three-year RMB100 million unsecured bonds due in 2024, bearing coupon rate of 4.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 BONDS AND DEBENTURES *(continued)*

In December 2021, the Group issued three-year US$100 million unsecured guaranteed notes in a principal amount of US$100 million due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Company and were listed on the Stock Exchange.

During the year ended 31 December 2021, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US$122,306,000 (2020: US$6,992,000). The principal amount of bonds was US$122,997,000 (2020: US$7,200,000). A net gain of US$555,000 (equivalent to approximately HK$4,314,000) (2020: US$190,000 (equivalent to approximately HK$1,474,000)) was recognised after deducting the transaction cost.

As at 31 December 2021, the total carrying amount of these bonds was HK$7,022,708,000 (2020: HK$9,054,779,000).

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Derivative financial assets		
– Currency swap (a)	**10,622**	16,927
– Currency forward contracts (b)	**100,725**	793
– Interest rate swaps (c)	**3,590**	–
	114,937	17,720
Derivative financial liabilities		
– Interest rate swaps (c)	**143,226**	355,566

(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 (equivalent to approximately HK$122,290,000). As at 31 December 2021, the fair value of this currency swap contract amounted to HK$10,622,000 (2020: HK$16,927,000) and the fair value loss of HK$6,382,000 (2020: HK$2,035,000) was recognised in "other gains or losses" for the year ended 31 December 2021. As at 31 December 2021, this arrangement was secured by a pledged deposit of HK$3,728,000 (2020: HK$3,622,000).

(b) As at 31 December 2021, the Group had 21 outstanding currency forward contracts with notional amount of RMB2,400,000,000 (equivalent to approximately HK$2,942,880,000) (2020: four outstanding currency forward contracts with notional amount of RMB400,000,000 (equivalent to approximately HK$475,040,000)) which will expire at various dates from 20 December 2022 to 18 September 2023 (2020: 20 December 2022 to 30 December 2022, 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.

20 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

(c) As at 31 December 2021, the Group had 35 outstanding interest rate swap contracts (2020: 31 contracts) which will expire at various dates from 21 March 2022 to 24 December 2025 (2020: 25 April 2021 to 3 April 2025), to exchange floating interest rates into fixed interest rates in a range of 0.4% to 2.6% (2020: 0.9% to 2.6%). As at 31 December 2021, these arrangements were secured by margin deposits of HK$142,828,000 (2020: HK$312,790,000).

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

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Recognised in other comprehensive income		
Change in fair value of interest rate swaps	**62,823**	(308,809)
Reclassified from other comprehensive income to profit or loss in respect of:		
– Hedged items that affected profit or loss	**135,223**	90,897
– Hedge ineffectiveness	**(2,236)**	14,901
	195,810	(203,011)
Recognised in other gains/(losses) of profit or loss		
Fair value gains/(losses) on interest rate swaps	**16,281**	(21,300)
Fair value gains on currency forward contracts	**99,610**	793
Unrealised losses on currency swap	**(6,382)**	(2,035)
	109,509	(22,542)

21 OTHER LIABILITIES AND ACCRUALS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Deposits and fund received for lease and aircraft projects	**1,419,777**	1,571,029
Consultant and insurance premium payable	**91,921**	104,232
Value-added tax and other taxes	**278,520**	295,154
Operating lease rentals received in advance	**151,298**	75,272
Amounts due to related parties (Note 34(h))	**1,442**	16
Amount due to non-controlling interest of a subsidiary (Note 34(i))	**25,455**	76,164
Dividend payable to perpetual capital securities holder (Note15(a))	**89,007**	–
Lease liabilities	**34,736**	45,252
Others (including salary and bonus payable)	**147,316**	208,238
	2,239,472	2,375,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2021, 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			
	2021		2020	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	**332,076**	**13%**	422,568	17%
Airline Company – B	**314,070**	**13%**	339,192	14%
Airline Company – C	**234,003**	**9%**	192,545	8%
Airline Company – D	**163,036**	**7%**	162,690	6%
Airline Company – E	**127,209**	**5%**	67,878	3%
Others	**1,330,049**	**53%**	1,301,915	52%
Total finance and operating lease income	**2,500,443**	**100%**	2,486,788	100%

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Aircraft transactions (a)	**297,128**	514,275
Aircraft components trading (b)	**4,613**	–
	301,741	514,275

(a) Aircraft transactions

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 (Note 34(b)(ii)), the disposal of two aircraft with related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin) (Note 34(f)), respectively, the disposal of seven aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (Note 34(a)(iii)) and the disposal of five aircraft to third parties.

The net gain from aircraft transactions for the year ended 31 December 2021 included the gain from disposal of nine aircraft, including the disposal of two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (Note 34(a)(iii)) and the disposal of seven aircraft to third parties.

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING *(continued)*

(b) Aircraft components trading

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Sales from aircraft components trading assets	**29,422**	–
Less: Cost of aircraft components trading assets	**(24,809)**	–
Profit from aircraft components trading assets	**4,613**	–

24 OTHER INCOME

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Government grants (a)	**215,467**	251,526
Interest income from loans to associates and joint ventures	**105,385**	92,852
Forfeiture of deposit received	**–**	84,627
Bank interest income	**8,186**	9,998
Asset management service fees income from CAG Group (Note 34(c))	**12,102**	12,212
Operating lease income on other assets from a related party (Note 34(a)(ii))	**–**	1,320
Incidental income and others (b)	**134,742**	32,184
	475,882	484,719

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

(b) Incidental income and others were mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases, proceed net gains from bonds repurchase, insurance compensation and government wage subsidies under a job support scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 INTEREST EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Interest expense on borrowings	**988,332**	1,056,338
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	**135,223**	90,897
Interest expense on medium-term notes	**64,907**	76,978
Interest expense on bonds and debentures	**392,535**	418,477
	1,580,997	1,642,690
Less: Interest capitalised on qualifying assets (a)	**(369,743)**	(313,908)
	1,211,254	1,328,782

(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.

26 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Employee benefit expenses (Note 27)	**144,660**	135,692
Value-added tax and other taxes	**18,897**	28,769
Professional service expenses	**64,896**	52,760
Rental and utilities expenses	**5,229**	5,439
Office and meeting expenses	**14,840**	9,956
Travelling and training expenses	**4,697**	5,554
Auditor's remuneration		
– Audit service	**4,326**	4,176
– Non-audit service	**2,241**	585
Others	**22,232**	25,368
	282,018	268,299

27 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Wages, salaries and bonuses	**129,281**	122,317
Share-based compensation (Note 14(a))	**–**	330
Welfare, medical and other expenses	**15,379**	13,045
	144,660	135,692

28 OTHER GAINS/(LOSSES)

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Unrealised losses on currency swap	**(6,382)**	(2,035)
Currency exchange gains/(losses) in US$	**(21,912)**	28,831
Currency exchange losses in RMB	**(113,060)**	(306,508)
Fair value gains on currency forward contracts in RMB	**99,610**	793
Fair value gains/(losses) on interest rate swaps and futures	**16,281**	(66,791)
Fair value gains on financial asset at fair value through profit or loss	**39,041**	38,960
	13,578	(306,750)

29 INCOME TAX EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	**93,464**	124,597
Deferred income tax (Note 16)	**111,472**	40,461
	204,936	165,058

Mainland China

The subsidiaries incorporated in the Mainland China are subject to the PRC corporate income tax ("CIT") at 25% (2020: 25%), except for certain subsidiaries which are subject to the preferential tax treatments. The leasing income of the subsidiaries in Mainland China is subject to VAT at 13%.

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.

29 INCOME TAX EXPENSES *(continued)*

Others *(continued)*

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%.

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 2021. The difference is analysed as follows:

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Profit before income tax	**832,206**	433,001
Tax calculated at a tax rate of 25%	**208,052**	108,250
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	**(6,630)**	(16,490)
– Income not subject to tax	**(117,971)**	(101,183)
– Non-deductible expenses	**80,148**	154,543
– Utilisation of previously unrecognised tax losses	**(6,883)**	(23,375)
– Tax losses for which no deferred income tax assets were recognised	**48,220**	43,313
Tax charge	**204,936**	165,058

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2021 and 2020.

	Year ended 31 December	
	2021	2020
Profit attributable to shareholders of the Company (HK$'000)	**525,780**	334,143
Weighted average number of ordinary shares in issue (number of shares in thousands)	**728,291**	693,411
Basic earnings per share (HK$ per share)	**0.722**	0.482

(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. For share options outstanding as at 31 December 2021 and 2020, as the exercise price per share is higher than average market price of ordinary shares, it is not assumed that the outstanding share options have been exercised in the calculation of the diluted losses per share for the years ended 31 December 2021 and 2020.

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31 DIVIDENDS

A final dividend of HK$0.2 per ordinary share totalling HK$143.7 million for the year ended 31 December 2020 was paid by cash of HK$43.5 million and by share issuance of HK$100.2 million in July 2021. The payment of the final dividend was calculated based on 718,334,837 issued shares after deducting 1,670,000 issued shares which were acquired by the Company in 2021. The proposed final dividend payment was calculated based on 720,004,837 issued shares.

An interim dividend of HK$0.15 per ordinary share totalling HK$110.0 million was paid by cash of HK$33.7 million and by share issuance of HK$76.3 million in November 2021.

On 16 March 2022, the Board recommended a final dividend of HK$0.26 per ordinary share totalling HK$193.3 million and proposed a scrip dividend option to be offered, which is calculated based on 743,535,237 issued shares as at 16 March 2022. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2021, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2022.

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Interim dividend paid of HK$0.15 (2020: HK$0.20) per ordinary share	**110,032**	141,194
Proposed final dividend of HK$0.26 (2020: HK$0.20) per ordinary share	**193,319**	144,001
Total	**303,351**	285,195

32 NET DEBT RECONCILIATION

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Cash and cash equivalents	**4,776,389**	4,877,557
Restricted cash	**237,187**	411,786
Borrowings	**(32,477,860)**	(26,763,014)
Medium-term notes	**(979,816)**	(1,338,308)
Bonds and debentures	**(7,022,708)**	(9,054,779)
Derivative financial instruments	**(28,289)**	(337,846)
Other liabilities and accruals – lease liabilities	**(34,736)**	(45,252)
Other liabilities and accruals – amount due to non-controlling interest of a subsidiary	**(25,455)**	(76,164)
Net debt	**(35,555,288)**	(32,326,020)

32 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	Amount due to non-controlling interest of a subsidiary HK$'000	Medium-term notes HK$'000	Bonds and debentures HK$'000	Derivative financial instruments HK$'000	Total HK$'000
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	38,950	377,524	(1,641,821)	(74,896)	(676,466)
Acquisition – leases	–	–	–	(28,661)	–	–	–	–	(28,661)
Currency exchange adjustments	17,626	(351)	48,084	703	32	(79,333)	(156,196)	558	(168,877)
Other non-cash movements (a)	–	–	152,003	(1,476)	(115,146)	–	(11,395)	(160,235)	(136,249)
Net debt as at 31 December 2020	4,877,557	411,786	(26,763,014)	(45,252)	(76,164)	(1,338,308)	(9,054,779)	(337,846)	(32,326,020)
Net debt as at 1 January 2021	**4,877,557**	**411,786**	**(26,763,014)**	**(45,252)**	**(76,164)**	**(1,338,308)**	**(9,054,779)**	**(337,846)**	**(32,326,020)**
Cash flows	**(145,085)**	**(177,166)**	**(5,266,288)**	**15,714**	**38,612**	**397,650**	**2,143,180**	**139,127**	**(2,854,256)**
Acquisition – leases	**–**	**–**	**–**	**(2,599)**	**–**	**–**	**–**	**–**	**(2,599)**
Currency exchange adjustments	**43,917**	**2,567**	**(249,748)**	**(579)**	**(275)**	**(39,158)**	**(104,116)**	**(953)**	**(348,345)**
Other non-cash movements (a)	**–**	**–**	**(198,810)**	**(2,020)**	**12,372**	**–**	**(6,993)**	**171,383**	**(24,068)**
Net debt as at 31 December 2021	**4,776,389**	**237,187**	**(32,477,860)**	**(34,736)**	**(25,455)**	**(979,816)**	**(7,022,708)**	**(28,289)**	**(35,555,288)**

(a) Other non-cash movements mainly arising from disposal and acquisition of borrowings, capital injection in a non wholly owned subsidiary, fair value change of derivative financial instruments and amortisation of upfront fees and issuing cost of borrowings, medium-term notes and bonds and debentures.

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Year ended 31 December 2021

	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	–	–	–	–	–	–	–
Executive directors							
Mr. Poon Ho Man	–	1,748	7,516	–	–	18	9,282
Ms. Liu Wanting	–	3,024	10,516	–	–	18	13,558
Non-executive directors							
Mr. Tang Chi Chun (i)	196	35	–	–	–	–	231
Mr. Wang Hongyang (ii)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	380	85	–	–	–	–	465
Mr. Nien Van Jin, Robert	370	85	–	–	–	–	455
Mr. Cheok Albert Saychuan	400	85	–	–	–	–	485
Dr. Tse Hiu Tung, Sheldon (iii)	200	40	–	–	–	–	240
	1,546	5,102	18,032	–	–	36	24,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 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	–	–	–	–	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 director							
Mr. Tang Chi Chun (i)	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 (iv)	83	104	–	–	–	–	187
Dr. Tse Hiu Tung, Sheldon (iii)	57	5	–	–	–	–	62
	940	5,658	8,802	–	330	36	15,766

Note:

(i) Resigned on 24 December 2021

(ii) Appointed on 24 December 2021

(iii) Appointed on 18 September 2020

(iv) Passed away on 1 June 2020

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2021 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 2021 (2020: Nil).

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

(b) Five highest paid individuals

During the year ended 31 December 2021, the five individuals whose emoluments were the highest in the Group include two directors and three individuals (2020: two directors and three individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2021, the emoluments paid to three (2020: three) remaining individuals are as follows:

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Basic salaries and allowances	**8,907**	8,736
Discretionary bonuses	**3,214**	1,597
Other benefits	**396**	333
	12,517	10,666

The emoluments of the above three (2020: three) individuals fell within the following bands:

	Year ended 31 December	
	2021	2020
HK$3,000,001 to HK$4,000,000	**1**	2
HK$4,000,001 to HK$5,000,000	**2**	1

During the years ended 31 December 2021 and 2020, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.

34 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 14(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 37.9% equity interest in the Company as at 31 December 2021.

(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	
	2021	2020
	HK$'000	HK$'000
Interest income from CE Group	**3,425**	3,889
Interest expenses to CE Group	**195,390**	237,658
Loans upfront and arrangement fee to CE Group	**1,278**	1,357
Transactions handling charges to CE Group	**4,395**	8,266

	As at 31 December	
	2021	2020
	HK$'million	HK$'million
Bank deposits placed in CE Group	**1,796.9**	2,472.5
Borrowings due to CE Group	**3,653.9**	4,964.5
Undrawn facilities provided by CE Group	**697.1**	737.6

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

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Operating lease income on other assets earned from:		
CEL Management	**–**	1,320

34 RELATED PARTY TRANSACTIONS *(continued)*

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

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

During the year ended 31 December 2021, the Group disposed two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (2020: the Group disposed seven aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd.). The total consideration from the disposals of aircraft is HK$783.6 million (2020: HK$2,501.6 million) 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	
	2021	2020
	HK$'000	HK$'000
Service fee charged by:		
ARI Group (Note)	**9,906**	45,272
FLARI	**–**	430

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

(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 2021, the outstanding shareholders' loan balances receivable from ARI was amounted to HK$1,162,453,000 (2020: HK$1,059,703,000) (Note 6) and the interest income for the year ended 31 December 2021 was HK$99,598,000 (2020: HK$92,608,000) (Note 24).

During the year ended 31 December 2021, the Group entered into a factoring arrangement with ARI Group, which is secured by the receivables from a subsidiary of ARI, to provide the advance of RMB1.0 million (approximately equivalent to HK$1.2 million), the proceeds is charged at 5% per annum and payable in arrears of three monthly intervals. As at 31 December 2021, the outstanding advance receivables from ARI Group was amounted to HK$618,000 (2020: Nil).

As at 31 December 2021, ARI Group held bonds issued by the Group with principal amount of US$3,200,000.

34 RELATED PARTY TRANSACTIONS *(continued)*

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

(ii) Transactions with ARI Group (continued)

During the year ended 31 December 2021, the Group acquired four aircraft (with lease arrangements) from ARI Group with total consideration of RMB512.5 million (equivalent to approximately HK$628.4 million) (2020: 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)).

During the year ended 31 December 2020, the Group entered into a letter of intent with ARI Group relating to the purchase of five engines, which would be delivered in 2021, with total consideration of US$55,000,000 (equivalent to approximately HK$426,388,000). During the year ended 31 December 2021, the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the above engines to be no later than 2022. As at 31 December 2021, the Group had placed interest-free deposit amounted to HK$234,796,000 (2020: HK$232,575,000).

During the year ended 31 December 2021, the Group entered into a letter of intent with ARI Group relating to the purchase of entire equity interest of Skylink 1-Aircraft Leasing Limited, a wholly-owned subsidiary in ARI Group, with total consideration of US$8,800,000 (equivalent to approximately HK$68,614,000). As at 31 December 2021, the Group had placed deposit amounted to US$4,400,000 (equivalent to approximately HK$34,307,000).

(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 2021, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK$4,809,000 (2020: HK$6,311,000) (Note 6) and the interest income for the year ended 31 December 2021 was HK$415,000 (2020: HK$244,000).

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased items of plant and machinery and office equipment and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK$24,524,000) (2020: Nil), the proceeds is charged at 8% per annum and payable in arrears of three monthly intervals. As at 31 December 2021, the outstanding advance receivables from FLARI Group was amounted to HK$24,376,000 (2020: Nil).

34 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with CAG Group

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Fair value gains of long-term investments in CAG Group	**35,867**	33,095
Asset management service fees income from CAG Group	**12,102**	12,212

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

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Fair value gains of long-term debt investments in ARG Group	**3,174**	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 2021, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK$37,063,000 (2020: HK$34,467,000) (Note 6) and HK$37,014,000 (2020: HK$34,423,000) (Note 6), respectively, and the interest income for the year ended 31 December 2021 was HK$1,399,000 (2020: Nil) and HK$1,397,000 (2020: Nil), respectively.

(f) Disposal of aircraft and related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin) 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), and 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).

During the year ended 31 December 2020, the total consideration from aforementioned disposals was HK$1,132.9 million and recorded net income from aircraft transactions in the consolidated statement of income.

34 RELATED PARTY TRANSACTIONS *(continued)*

(g) Prepayments and amounts due from related parties

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Prepayments to ARI Group (Note 34(b)(ii))	**269,104**	232,575
Amounts due from ARI Group (i)	**502**	79,279
FPAM Group	**6**	6
	269,612	311,860

(i) Balance as at 31 December 2020 included dividend receivables from two wholly-owned subsidiaries of the Company amounted to HK$78,846,000. The entire equity interest of these wholly-owned subsidiaries of the Company were disposed to ARI Group during the year ended 31 December 2020. The Group received the settlement of this balance from ARI Group during the year ended 31 December 2021.

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	
	2021	2020
	HK$'000	HK$'000
ARI Group	**1,442**	16

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

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

As at 31 December 2021, 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$25,455,000 (2020: HK$76,164,000). The amount was unsecured, interest-free and repayable on demand.

34 RELATED PARTY TRANSACTIONS *(continued)*

(j) Transaction with TAM

During the year ended 31 December 2021, the Group entered into an operating lease arrangement of one aircraft with TAM. The operating lease income earned during the year was HK$2,384,000 (2020: Nil).

(k) 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	
	2021	2020
	HK$'000	HK$'000
Director fee, salaries, bonus and other short-term employee benefits	**37,234**	26,102
Share-based payments	**–**	330
	37,234	26,432

35 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 31 December 2021, the Group provided guarantee to certain bank borrowings of associates and joint ventures amounting to HK$681,467,000 (2020: HK$729,000,000). These borrowings were secured by the related aircraft leased to airline companies in Mainland China under operating leases and certain portion of the guarantee was countered guaranteed by an investor of the joint ventures. The credit risk of the Group associated with the financial guarantee is limited.

(b) Capital commitments

Capital expenditures contracted but not provided for at the end of the reporting period are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft	**93,930,570**	98,048,611

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.

(c) Loan commitments

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Contracted but not provided for:		
Shareholder loan commitment to ARG	**–**	129,203

(d) Short term 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	
	2021	2020
	HK$'000	HK$'000
Not later than 1 year	**570**	87

35 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(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	
	2021	2020
	HK$'000	HK$'000
Not later than 1 year	**2,772,322**	1,808,356
Later than 1 year but not later than 2 years	**2,790,358**	1,820,478
Later than 2 year but not later than 3 years	**2,628,356**	1,830,698
Later than 3 year but not later than 4 years	**2,346,342**	1,702,756
Later than 4 year but not later than 5 years	**1,873,918**	1,471,792
Later than 5 years	**6,537,183**	4,846,172
	18,948,479	13,480,252

The above commitment included amount of HK$465,592,000 (2020: Nil) related to assets classified as held for sale (Note 10).

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	
	2021	2020
	HK$'000	HK$'000
Not later than 1 year	**44**	190
Later than 1 year but not later than 2 years	**–**	48
	44	238

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	**5,446,158**	2,364,862
Financial asset at fair value through profit or loss	**15,495**	–
Loans and interest receivables from subsidiaries	**490,545**	520,066
Amounts due from subsidiaries	**995,317**	1,598,706
Prepayments and other receivables	**640**	813
Cash and cash equivalents	**648,368**	3,722
Total assets	**7,596,523**	4,488,169
EQUITY		
Share capital	**74,762**	72,000
Reserves	**2,214,004**	2,078,679
Retained earnings	**471,232**	689,442
Total equity	**2,759,998**	2,840,121
LIABILITIES		
Amounts due to subsidiaries	**2,536,959**	693,200
Interest payables	**9,855**	11,057
Bank borrowings	**1,735,992**	672,297
Bonds and debentures	**542,817**	268,999
Other liabilities and accruals	**10,902**	2,495
Total liabilities	**4,836,525**	1,648,048
Total equity and liabilities	**7,596,523**	4,488,169

The balance sheet of the Company was approved by the Board of Directors on 16 March 2022 and was signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

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

(a) Reserve movement of the Company

	Reserves HK$'000	Retained earnings HK$'000
Balance as at 1 January 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
Balance as at 1 January 2021	**2,078,679**	**689,442**
Comprehensive income		
Profit for the year	**–**	**35,509**
Total comprehensive income	**–**	**35,509**
Transactions with shareholders		
Buy-back of shares	**(38,220)**	**–**
Dividends	**173,545**	**(253,719)**
Total transactions with shareholders	**135,325**	**(253,719)**
Balance as at 31 December 2021	**2,214,004**	**471,232**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES

As at 31 December 2021, 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$348,029,000	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$1,001,841	100%	Investment holding	Limited liability entity
Indirectly owned:					
CALC 10-Aircraft Limited	Ireland 20 June 2012	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 11-Aircraft Limited	Ireland 10 December 2014	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 12-Aircraft Limited	Ireland 6 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 19-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 20-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 30-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 31-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 32-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 33-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 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

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC 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
ZF Ireland Aircraft 52 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 53 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 54 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 55 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 56 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 57 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
ZF Ireland Aircraft 69 Limited	Ireland 9 January 2018	EUR1	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 72 Limited	Ireland 23 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 73 Limited	Ireland 23 July 2018	EUR1	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 Ireland Aircraft 87 Limited	Ireland 10 September 2018	EUR100	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 Holdings 2 Limited	Hong Kong 29 March 2021	HK$10	100%	Provision of financing	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
CALC Aviation Assets Limited	Labuan 30 December 2015	US$100	100%	Aircraft leasing	Limited liability entity
CALC Aviation Capital Limited	Labuan 30 December 2015	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sebelas Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sembilan Limited	Labuan 12 July 2016	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sepuluh Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
ZF Finance Limited	Malta 11 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
Linkasia Airlines (formerly known as "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
中永洪化融資租賃(上海)有限公司 (CALC Honghua Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧一飛機租賃(上海)有限公司 (Zhongyong Chongning 1 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛天复租賃(天津)有限公司 (CALC Tianfu Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛太和租賃(天津)有限公司 (CALC Taihe Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛文明租賃(天津)有限公司 (CALC Wenming Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛永淳租賃(上海)有限公司 (CALC Yong Chun Limited)	PRC 10 October 2012	RMB1,000,000	100%	Aircraft leasing	Limited liability entity
中飛長慶租賃(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$950,000,000	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛咸亨租賃(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
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

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中機皇慶租賃(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
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
中機建安飛機租賃(上海)有限公司 (ZJ Jianan Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永漢飛機租賃(上海)有限公司 (ZJ Yonghan Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永康飛機租賃(上海)有限公司 (ZJ Yongkang Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建寧飛機租賃(上海)有限公司 (ZJ Jianning Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建和飛機租賃(上海)有限公司 (ZJ Jianhe Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永壽飛機租賃(上海)有限公司 ZJ Yongshou Aircraft Leasing (Shanghai) Company Limited	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永興飛機租賃(上海)有限公司 (ZJ Yongxing Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機熹平飛機租賃(上海)有限公司 (ZJ Xiping Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中機初平飛機租賃(上海)有限公司 ZJ Chuping Aircraft Leasing (Shanghai) Company Limited	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機元嘉飛機租賃(上海)有限公司 (ZJ Yuanjia Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機興平飛機租賃(上海)有限公司 (ZJ Xingping Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機昭寧飛機租賃(上海)有限公司 (ZJ Zhaoning Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機至正租賃(天津)有限公司 (ZJ Zhizheng Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機至治租賃(天津)有限公司 (ZJ Zhizhi Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大觀租賃(天津)有限公司 (ZJ Daguan Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機慶元租賃(天津)有限公司 (ZJ Qingyuan Leasing (Tianjin) Co., Ltd.)	PRC 26 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛寶慶租賃(天津)有限公司 (CALC Baoqing Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛睿天成融資租賃(天津)有限公司 (CALC RuiTianCheng Financial Leasing Limited)	PRC 28 July 2016	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.

38 EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Pursuant to the announcement made on 18 February 2022, the Group successfully completed the issuance of RMB1.2 billion (approximately equivalent to HK$1.5 billion) private bonds with a term of 3 years at the coupon rate of 4.4% on 18 February 2022.

(b) While the industry is assessing the impact brought by the Russia-Ukraine situation, it is in common view that it would not affect the long-term growth of the aviation sector proven by its strong resilience to withstand shocks in history. Two of the Group's owned aircraft with the total carrying amount of HK$635.5 million are being leased to two Russian carriers (one to each). The relatively small exposure to Russia is further protected by the security deposit and maintenance reserves held by the Group under the two leases. The Group will continue to monitor and assess the situation as it evolves.

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. WANG Hongyang

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
Airbus Bank GmbH
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 CITIC Bank International Limited
China Construction Bank Corporation
China Development Bank
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
China Zheshang Bank Co., Ltd.
Chiyu Banking Corporation Limited
Chong Hing Bank Limited
Credit Agricole Corporate and Investment Bank
Crédit Industrial et Commercial
Credit Suisse Securities (USA) LLC
CTBC Bank Co., Ltd
Dah Sing Bank Limited
Deutsche Bank AG
Development Bank of Japan Inc.
E.Sun Commercial Bank, Ltd.
EnTie Commercial Bank
The Export-Import Bank of China
Far Eastern International Bank, Ltd.
Goldman Sachs (Asia) LLC
Hua Nan Commercial Bank, Ltd.
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China Limited, Seoul Branch
Industrial and Commercial Bank of China (Thai) Public Company Limited
Industrial Bank Co., Ltd.
KDB Asia Limited
KfW IPEX-Bank GmbH
Macao Development Bank
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

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STOCK CODE

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CALC

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FULL VALUE CHAIN AIRCRAFT SOLUTIONS PROVIDER