

CALC

China Aircraft Leasing Group Holdings Limited

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

Stock code: 01848



On the Path to Sustainability and Green Development

2022 ANNUAL REPORT



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ABOUT CALC

China Aircraft Leasing Group Holdings Limited (“CALC”) is a one-stop aircraft full life-cycle 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, aiming to steadily achieve sustainable growth towards its goal of becoming a world-leading aircraft asset manager.

At a Glance

As of 31 December 2022

176 Aircraft
(150 owned aircraft + 26 managed aircraft)

226 Aircraft on order

HK\$119.2b Total value of fleet*

38 Airline clients spanning

HK\$55.3b Total assets

17 Countries and regions

*The figure represents CALC's owned fleet and order book value as at 31 December 2022 (Source: ICF)



Aircraft leasing
and sourcing



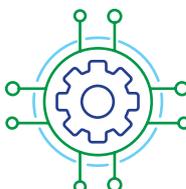
Aircraft trading and
portfolio sales



Maintenance, repair &
overhaul ("MRO")



Aircraft investment
vehicles and asset
management

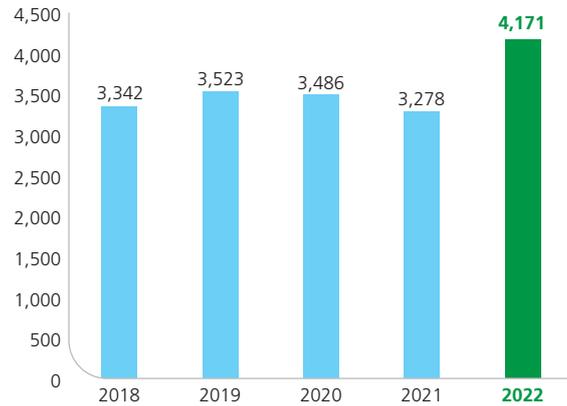


Aircraft disassembly and
component sales

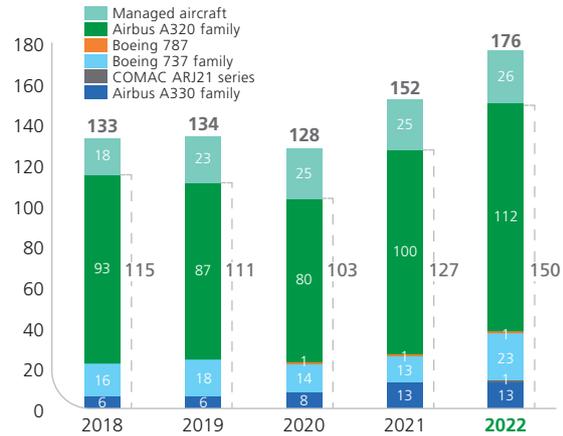
FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

TOTAL REVENUE

(HK\$ million)

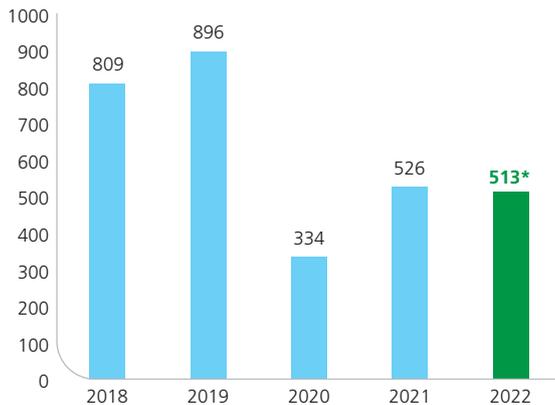


AIRCRAFT OWNED & MANAGED



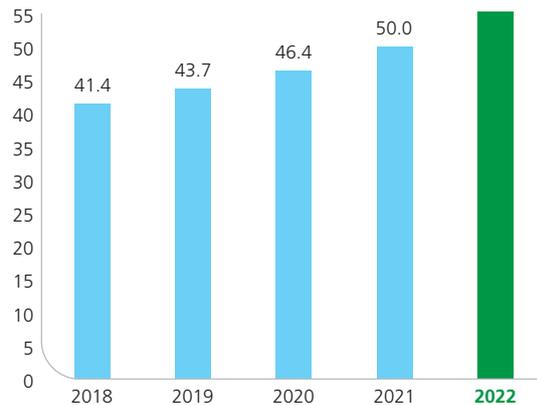
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK\$ million)

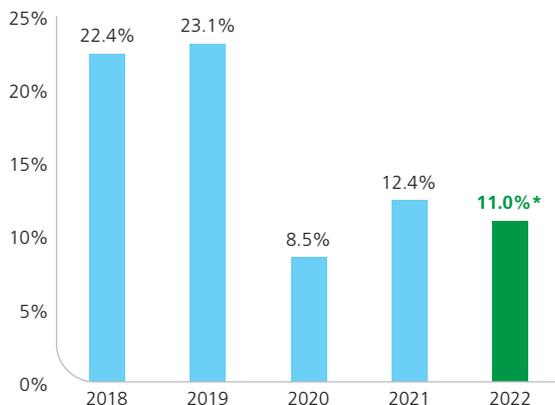


TOTAL ASSETS

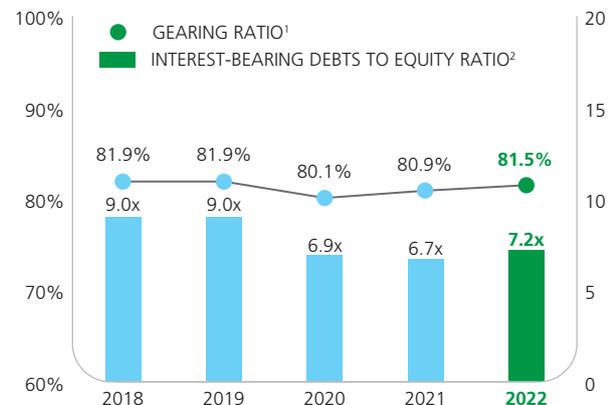
(HK\$ billion)



RETURN ON EQUITY



GEARING 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

* Represents the adjusted profit attributable to shareholders and the adjusted return on equity, which both exclude the effect of the net write-off of two aircraft remained in Russia of HK\$439 million

FINANCIAL HIGHLIGHTS AND FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				2022 HK\$m
	2018 HK\$m	2019 HK\$m	2020 HK\$m	2021 HK\$m	
Total revenue	3,342	3,523	3,486	3,278	4,171
Profit attributable to shareholders of the Company	809	896	334	526	74

CONSOLIDATED BALANCE SHEET

	As at 31 December				2022 HK\$m
	2018 HK\$m	2019 HK\$m	2020 HK\$m	2021 HK\$m	
ASSETS					
Property, plant and equipment and right-of-use assets	18,886	19,611	18,451	23,244	27,354
Interests in and loans to associates and joint ventures	959	1,118	1,135	1,273	1,354
Finance lease receivables - net	10,021	7,791	7,264	7,714	8,172
Derivative financial assets	123	26	18	115	221
Financial assets at fair value through profit or loss	499	753	798	751	770
Prepayments and other assets and others	6,772	9,765	13,438	11,918	12,793
Cash and bank balances	4,167	4,587	5,289	5,014	4,668
Total assets	41,427	43,651	46,393	50,029	55,332
LIABILITIES					
Total interest-bearing debts	33,942	35,763	37,156	40,480	45,104
Other liabilities	3,705	3,918	3,821	3,532	3,972
Total liabilities	37,647	39,681	40,977	44,012	49,076
Net assets	3,780	3,970	5,416	6,017	6,256
Per-Share-Basis					
Basic earnings per share (HK cents)	119.4	132.3	48.2	72.2	9.9
Net asset value per share (HK\$) ^(note 1)	5.6	5.9	7.5	8.0	8.4
Financial Ratios					
Gearing ratio (interest-bearing debts vs total assets)	81.9%	81.9%	80.1%	80.9%	81.5%
Return on average shareholders' equity	22.4%	23.1%	8.5%	12.4%	1.6%
Interest coverage ^(note 2)	210.5%	226.2%	197.3%	236.5%	216.7%
Interest-bearing debts to equity ratio	9.0	9.0	6.9	6.7	7.2

Notes:

- (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



Mr. ZHANG Mingao

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 2022 (the “**Review Year**”).

RESULTS AND DIVIDEND

In 2022, the global aviation industry expedited to recover amid changes. On one hand, the annual delivery volume of large commercial aircraft significantly increased and the global aviation market tended to recover positively when the negative impact of COVID-19 further diminished and various countries successively lifted their travel restrictions. On the other hand, multiple factors such as geopolitical situation as well as global rate hike and volatility posed relatively complex external factors to the aviation industry, while bringing external environment uncertainties against the global lessors including the Group.

For the twelve months ended 31 December 2022 (the “**Review Year**”), the Group’s total revenue was HK\$4,171.0 million, up 27.2% from the same period in 2021 (2021: HK\$3,278.1 million). Adhering to prudent principles, the Group wrote off in full relevant assets that remained in Russia due to the Russia-Ukraine Conflict (details set out in “Net Write-off of Two Aircraft Remained in Russia” section on page 18), affecting the results and performance of the Group. Profit attributable to shareholders of the Company for the Review Year was HK\$73.6 million (2021: HK\$525.8 million). If the abovementioned effects of write-offs were excluded, adjusted profit attributable to shareholders of the Company for the Review Year should have reached HK\$512.6 million (2021: HK\$525.8 million).

The Board has recommended payment of a final dividend of HK\$0.15 per ordinary share. Together with the 2022 interim dividend of HK\$0.15 per share already paid, total dividend payout for the year 2022 amounted to HK\$0.30 (2021: HK\$0.41) per share.

CHAIRMAN'S STATEMENT

CONTINUOUSLY STRENGTHENING ITS FULL-VALUE-CHAIN ADVANTAGES WHILE PRACTISING LONG-TERM STRATEGIC MISSIONS

CALC is an essential invested company of China Everbright Limited (“**CEL**”) and it always adheres to the mission and vision of “integrating industries and financing, and contributing to China’s rising aviation strength”, while deepening and optimising the model of “integrating industries and financing in aviation”, as well as continuously strengthening its capacity in aircraft full life-cycle value chain, thereby striving to become the globally leading aircraft full-value-chain solution supplier. During the Review Year, the Group’s total owned and managed fleet increased to 176 aircraft, representing a significant increase of 24 aircraft year-on-year. As of the end of 2022, CALC ranked the 7th among global lessors by ICF International in terms of the combined asset value of owned fleet and order booked, moving up one rank as compared with 2021.

During the Review Year, the Group fully followed the commercially sustainable development model, which further enhanced its full-value-chain business competitiveness. On top of the Part 145 approval certification granted by Civil Aviation Administration of China for base maintenance and overhaul of A320 series aircraft, FL ARI Aircraft Maintenance & Engineering Company Ltd. (“**FL ARI**”), the aircraft maintenance, repair and overhaul (“**MRO**”) joint venture under the Group, was further granted the approval certification for base maintenance and overhaul of B737NG series aircraft, and it has perfectly completed the C-Check business for the first aircraft it undertook, and remarkably enhanced its scope and capacity in maintenance and repair services.

As directed by the development philosophy of green aviation, the Group proactively provided airlines with aftermarket services and retirement solutions for green aviation. In July 2022, the Group signed its first B737-800SF freighter conversion order and agreement, marking the official beginning of its “passenger-to-freighter” (P2F) business. In the future, it will be able to fully explore the value of aircraft assets to a larger extent. China Aviation Aftermarket Holdings Limited (“**CAAM**”), the Group’s associate company, reached its business collaboration on aged aircraft for the first time with Air China Limited and LATAM Airlines Group S.A., respectively, under which the disposals of aged aircraft will be conducted by recycling solutions such as aircraft disassembling or P2F conversions, etc., which will highlight the Group’s commitments on the sustainable development in aviation in the future.

CHAIRMAN'S STATEMENT

During the Review Year, there was an additional crucial milestone in the aviation industry development in China, which provided new room for commercial development. During the Review Year, COMAC was granted the qualifying certification for C919 aircraft model by Civil Aviation Administration of China and successfully delivered the first C919 aircraft in the world, for which CALC was one of those initial customers in the first batch of orders; the independently developed regional passenger aircraft ARJ21 in China has been formally delivered to TransNusa (“**TransNusa**”) in Indonesia under CALC, which marked the first entry of passenger jet aircraft from China into the overseas markets. CALC will exploit the advantage of its full-value-chain business to explore and develop additional room in markets and contribute to the innovation and upgrade as well as high-quality development in domestic aviation industry.

IMPLEMENTING NEW DEVELOPMENT PHILOSOPHY OF “GREEN AVIATION” PURSUING FIRMLY THE DIRECTION OF SUSTAINABLE DEVELOPMENT

In the post-pandemic era, energy transition becomes the common trend all over the world. Many countries have already introduced their policies and measures of “carbon neutrality”, and China has also clarified its strategic objectives of “carbon peaking and carbon neutrality” in order to drive the sustainable development in economy and society and speed up the transition of aviation industry towards the green and low-carbon goal. Meanwhile, the aviation industry has performed its internal enhancement of quality and efficiency due to the COVID-19, added the requirements of green and low-carbon transition, which accelerated the progress of “retiring” of aged aircraft in airlines and generated more demands for disposals of aged aircraft and purchases of new-generation energy-savings aircraft.

CALC has comprehensively and consistently implemented the new development philosophy of “green aviation”, while taking full advantage of the aircraft full-value-chain business model, so as to expedite its corporate capacity in “environmental, social and governance” (“**ESG**”) management. With its focus on the new industrial trend against the backdrop of “green aviation”, CALC invested in the most popular new-generation aircraft with the world-class fuel efficiency, which help airlines optimize their fleet structure and improve the levels of energy savings and emission reduction. Meanwhile, counting on the two major fully-licensed domestic and overseas aircraft recycling facilities, CALC proactively optimised its industry chain deployment and initiated business innovation in the field of low-carbon and circular economy, which provided global customers with one-stop green solution with a fleet of higher quality, and further strengthened its empowerment and stimulation to the sustainable development of global aviation industry.

The Group attached high importance to its ESG efforts and made proactive exploration and innovation, for which it initiated the ESG initiate “Aviation Sustainability: Our Future” jointly with member delegates of Aircraft Leasing Ireland. China Asset Leasing Company Limited (“**CALC (TJ)**”) under the Group has successfully issued the first low-carbon transition bond among the domestic aviation industry and aircraft operational leasing industry, which were oversubscribed, as a step to practice the philosophy of green finance and contribute to the construction of domestic civil aviation development system of green, recycled and low-carbon nature. During the Review Year, CALC was awarded with various honours such as the 12th China Securities Golden Bauhinia Award for the Best ESG Practice of Listed Company, the ESG Leading Enterprise Award 2022 by Bloomberg Businessweek/Chinese Edition, the Excellent ESG Enterprise by the Hong Kong Economic Times, which symbolized the continuous market recognitions to its ESG practices.

TAKING ADVANTAGE OF DIVERSIFIED FINANCING CHANNELS TO GAIN FURTHER LONG-TERM COMPETITIVENESS

The global aviation industry is currently at the stage of steady recovery. According to the statistics of the International Air Transport Association (“**IATA**”), in 2022, the revenue passenger kilometres (“**RPK**”) of the global aviation increased by 64.4% year-on-year as compared with 2021, which recovered to 68.5% of the pre-COVID-19 level. Against the backdrop of the limited production capacity of OEM, airlines are expected to meet the demands from the increasing passenger traffic with the help from lessors, providing new development opportunities to aircraft leasing industry.

CHAIRMAN'S STATEMENT

Leveraging the advantages of leading aircraft full-value-chain platform as well as onshore and offshore dual-platform financing channels, the Group expanded its diversified and innovative financing channels, so as to provide sufficient liquidity protection and capitalize on the development opportunities generated by the strong demands for recovery from onshore and offshore markets in the future. During the Review Year, the Group successfully issued a batch of low-carbon transition bonds amounting to RMB1 billion, a batch of corporate bonds amounting to RMB1.2 billion and a batch of medium-term notes amounting to RMB1.5 billion, fully taking advantage of its own dual platform for onshore and offshore financing while minimising the financing costs of the Group by making flexible use of various financial instruments.

In June 2022, the Group was reaccredited by Moody's and Fitch for its corporate family rating of Ba1 and Long-term Issuer Rating of BB+, respectively, both with a stable outlook, reflecting that both international credit rating agencies recognized the capacity of quality asset portfolio mainly comprising narrow-body aircraft models of the Group to effectively mitigate the quality risks during the economic slowdown period.

PROSPECTS

With the ever-surging recovery trend in global economy, the aviation industry is likely to sustain its growth in the medium-to-long-term demands. According to the forecast by the IATA, the global travel volume in 2023 will reach 85.5% of the pre-pandemic level and the aviation industry is expected to fully recover towards the profitable status. Currently, those enterprises which have clear strategic objectives, strong operation capacity and optimal background of shareholders, as well as diversified investment portfolio and financing options will be the first to prevail in the aviation market during the post-pandemic era.

As the domestic preventive measures against the pandemic in China have been largely optimized and the high-quality development of economy has speeded up, the outlook of recovery in aviation industry remains positive. In December 2022, the "Outline of Strategic Planning for Expanding Domestic Demands (2022-2035)" (《擴大內需戰略規劃綱要(2022—2035年)》) stated that the consumption potentials of general aviation should be released and the construction of regional airports and general airports should be proactively promoted, thereby supporting and facilitating the development of general aviation in terms of consumption and construction. Moreover, in January 2022, the Civil Aviation Administration of China issued the "14th Five-Year Specific Planning for Green Development of Civil Aviation" (《「十四五」民航綠色發展專項規劃》), which stated that the structural optimization, premise allocation, comprehensive saving and recycling of energy resources in civil aviation industry should be promoted, while the utilization rate of energy resources in the industry should be maximized and the extent of carbon emission should be minimized, in order to stick to the sustainable development.

Taking on the role of supporting and implementing the national strategies, CALC will keep pace with the national development, while continuously strengthening its own competitive edges, and grabbing aviation policy benefits during the window period, so as to strengthen the branding advantage of the Group in terms of aircraft leasing and aircraft chain business on a going basis and reinstate its competitive edges in the international markets. Also, it closely synergized and cooperated with CEL to continuously deepen the deployment of diversified platform for aviation-themed funds, aircraft leasing and trading business. Further, CALC increased its investment in the new-generation energy-saving aircraft models by closely following the long-term trend of green and low-carbon development in aviation industry. The Group will still steadily promote its construction as the featured sector of CEL in aircraft leasing, thereby striving to enable CALC to be the globally leading aircraft full-value-chain solution supplier with a green and low-carbon footprint.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to my fellow Board members and the management for their proactiveness, courage and perseverance, thus 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, let me thank our business partners and other stakeholders for their continuing support and trust in CALC.

ZHANG Mingao

Chairman of the Board of Directors
Hong Kong, 14 March 2023

CEO'S STATEMENT



Mr. POON Ho Man
*Executive Director
and Chief Executive Officer*

INDUSTRY OVERVIEW

In 2022, despite multiple disturbances such as the conflicts between Russia and Ukraine (the “**Russia-Ukraine Conflict**”), COVID-19 and interest rate fluctuations, the global civil aviation industry has maintained a strong recovery throughout the year. Airlines from various countries have progressively steered out of the doldrums of COVID-19 and there was a continuous improvement in operating and financial conditions. Data by the IATA showed that in 2022, the total global air travel (measured by revenue passenger kilometres or RPKs) increased by 64.4% compared with 2021, which has recovered to 68.5% of the level before the COVID-19. In 2022, the international passenger traffic increased by 152.7% compared with 2021. Among them, the growth in international passenger traffic in the Asia-Pacific region ranked first among all regions, representing a substantial year-on-year growth of 363.3% compared with 2021.

Driven by strong demand, aircraft became assets of tight supply and its market value and rental level have been steadily restored. According to the report of CIRIUM, an aviation analysis company, the recovery of the market value of single-aisle aircraft continued from 2021 to 2022, and is still recovering steadily at the moment. The year of 2022 was the inflection point of the value of dual-aisle aircraft, which showed a positive upward trend.

During the Review Year, after the occurrence of Russia-Ukraine Conflict, several European and American countries imposed several economic sanctions on Russia (the “**Sanctions**”), which have affected global lessors’ businesses in Russia in different degrees, including that of the Group. In this context, on the one hand, the Group successfully withstood market challenges with its high-quality fleet asset portfolio and rigorous risk management. On the other hand, the Group fully utilized the operational advantages of the entire aircraft industry chain, and actively grasped the opportunities of market recovery through flexible and diverse solutions, diversified financing channels, professional asset management capabilities and tight industry partnerships to achieve stable performance.

CEO'S STATEMENT

BUSINESS REVIEW 2022

1. Expansion of high-quality fleet assets

The Group actively seized market opportunities and continued to expand and optimize its fleet portfolio. During the Review Year, the Group delivered a total of 28 aircraft, among which 18 were new aircraft from order book placement and 10 aircraft were completed through purchase and leaseback arrangements. During the Review Year, the Group has also sold a total of 5 aircraft to its aircraft asset management joint venture platform and third parties. The CALC's fleet significantly increased 24 aircraft from the end of 2021, resulting in a fleet of 176 aircraft as at 31 December 2022, including 150 owned aircraft and 26 managed aircraft.

During the Review Year, CALC continued to maintain a quality combination consisting of popular aircraft models. As at 31 December 2022, by number of aircraft, 90% of CALC's owned fleet were narrow-body models, which have high liquidity and are favored by the market. The utilization rate of CALC's fleet (except for the two aircraft related to Russian airlines) reached 100% as at 31 December 2022.

CALC strives to provide one-stop aircraft full life-cycle solutions for global airlines and aircraft asset owners. Its businesses cover both new aircraft and mid-to-old age aircraft. As at 31 December 2022, the average age of CALC's own fleet was 8.5 years, while the average remaining lease term was 6.5 years, among which, the average age of the new aircraft leased fleet (aircraft under 12 years old) was 5.9 years, while the average remaining lease term was 8.2 years, and those of the used aircraft pipeline (aircraft aged 12 years or above) were 15.9 years and 3.3 years, respectively.

As at 31 December 2022, CALC had 226 aircraft on its orderbook, including 131 Airbus, 66 Boeing and 29 COMAC aircraft. As one of the few lessors capable of directly purchasing aircraft from all three major aircraft manufacturers in the world, CALC ranked third among global lessors for its strong order scale consisting of new-generation energy-saving models according to the statistics of the Airfinance Journal's data in November 2022, which was beneficial to the Group to grasp the huge opportunities brought by renewal of fleets and replenishment of capacity of airlines under the recovery trend of the aviation industry. It is worth mentioning that CALC successfully delivered a COMAC ARJ21 aircraft to TransNusa of Indonesia in December 2022. It was the first COMAC aircraft delivered by the Group from the order book, which not only added new model to its fleet portfolio, but it was also the first time that the Group has successfully assisted domestic jet-propelled regional aircraft to enter the overseas market.

During the Review Year, CALC continued to consolidate its leading position in the Chinese market. As at 31 December 2022, by number of aircraft, 76% of CALC's owned fleet were leased to Chinese airline customers (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with strong financial strength. At the same time, CALC has also been accelerating its global market deployment, especially in exploring and developing high-quality new customers in regions with rapid economic growth and strong demand for air travel. During the Review Year, the Group has newly added an America's airline customer. All aircraft to be delivered in the next 15 months after 31 December 2022 have been mandated for lease. As at 31 December 2022, CALC's owned and managed aircraft were on lease to 38 airlines in 17 countries and regions.

CEO'S STATEMENT

2. Expansion of diversified financing channels

The Group attaches great importance to capital management and is committed to maintaining sufficient liquidity to support daily operations. Leveraging the advantages of onshore and offshore dual-market financing channels, the Group has received extensive support from financial institutions, bond investors and rating agencies.

During the Review Year, total new financing facilities obtained and renewed facilities of the Group exceeded HK\$21.0 billion, including aircraft project loans, PDP financing, working capital loans, RMB bonds, etc., providing strong support for the development of aircraft leasing and full-value-chain business and reflecting the confidence of financial institutions in the Group's business growth prospects. As at 31 December 2022, the Group had cash and bank balances amounting to HK\$4,667.5 million (31 December 2021: HK\$5,013.6 million) and undrawn borrowing facilities amounting to HK\$6,700.8 million (31 December 2021: HK\$3,117.0 million).

In terms of bond issuance, the Group successfully issued the first low-carbon transition bond in China's aviation industry with a principal amount of RMB1 billion in October 2022, with a coupon rate of only 3.56% and an oversubscription was recorded. In addition, with the relatively stable interest rate environment and abundant liquidity supply in China, the Group managed to issue RMB1.2 billion corporate bonds and RMB1.5 billion medium-term notes in February and April 2022, respectively, consecutively breaking its record in size of a single RMB bond issuance. The successful issuance of the above financing instruments reflected wide recognition of the Group's prospects and support from Chinese bond investors. The Group repaid a US\$300 million bond issue, a RMB1 billion super short-term debentures and a RMB1 billion corporate bond during the Review Period as they became mature.

In terms of credit rating, the Group continues to be recognized by domestic and foreign professional rating agencies. Following the first Corporate Family Rating at Ba1 from Moody's and the first Long-Term Issuer Rating at BB+ from Fitch in 2021, Moody's affirmed to maintain CALC's Corporate Family Rating at Ba1 with a stable outlook, while Fitch affirmed to maintain CALC's Long-Term Issuer Default Rating at BB+ with a stable outlook in June 2022, underscoring the international rating agencies' repeated recognition of CALC's stable operations and sound credit profile. Previously, CALC (TJ), a China-domiciled wholly-owned subsidiary of the Group, received an AA+ corporate credit rating from Dagong Global Credit Rating Co., Ltd and China Cheng Xin International Credit Rating Co., Ltd in 2021 and 2022, respectively.

3. Improving aircraft full-value-chain asset management strength

The Group continues to improve its aircraft full-value-chain asset management strength through creating differentiated competitiveness in aspects such as MRO, aircraft disassembly and recycling, components trading. During the Review Year, the Group continued to improve its aircraft repair and maintenance capabilities and deepen its business layout in the aftermarket. The Group's joint venture FL ARI was granted the Part 145 approval certification by Civil Aviation Administration of China for base maintenance and overhaul of A320 series aircraft and B737NG series aircraft, further improving its repair and maintenance business capabilities. The aircraft recycling facility of Aircraft Recycling International Limited, an associate company, was approved to be included in the flight zone of Harbin Taiping International Airport, marking a new stage for domestic aircraft repair and maintenance business.

CEO'S STATEMENT

In July 2022, The Group placed its first freighter conversion order, marking the beginning of its "passenger-to-freighter" ("P2F") conversions business. In addition, during the Review Year, the Group's associate company CAAM reached agreements for the first time with Air China and LATAM Airlines Group S.A., respectively, on old aircraft transactions, assisting the two airlines to retire 5 old aircraft and 6 airframes, respectively. In the future, CAAM will maximize residual value of the aircraft asset by disassembling and recycling or by P2F. In addition, the Group reached a multi-year pre-emptive agreement with an original equipment supplier on component purchases, in order to continue the enhancement in our capabilities in aircraft parts and components supply and support.

PROSPECTS

The rapid recovery of the global aviation industry and the improvement in profitability of airlines established a solid foundation for the Group's future development. IATA expected that the global aviation will return to profit in 2023, airlines will realize a net profit of US\$4.7 billion and global air travel will return to pre-pandemic levels in 2024. Considering the production capacities of aircraft manufacturers are still limited in the short to medium term, the penetration rate of aircraft leasing is expected to trend up further. In addition, with the relaxation of preventive measures against the pandemic and reopening of borders of China in January 2023, the demand of the aviation market is expected to rebound strongly. According to the prediction both from Airbus and Boeing, there will be over 8,400 aircrafts to be delivered to China globally in the coming 20 years commencing from 2022, and China is expected to become the aviation market with the largest passenger traffic in the world.

In light of the above, the Group will remain steadfast in the principle of "looking to expand the global market with a foothold in China", continue to reinforce our leadership in the Chinese market and proactively explore and develop high-quality clientele in countries or regions of the world with accelerating growth. The Group will also continue to expand its aftermarket business and create differentiated competitiveness. Leveraging on the advantages of the domestic and overseas financing platforms, the Group will continue to obtain quality funds from flexible sources to facilitate our business development and further deepen the development of the aircraft asset management segment by setting up more aircraft investment platforms and joint ventures. With our extensive practical experiences in the industry and excellent capabilities in aircraft asset management, CALC will continue to create value for our shareholders and stakeholders and endeavor to establish itself as a world-leading aircraft full-value-chain solution provider.

POON Ho Man

Executive Director and Chief Executive Officer
Hong Kong, 14 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

RECONCILIATIONS OF NON-GAAP MEASURES

The table below sets forth a reconciliation of adjusted profit attributable to shareholders of the Company, adjusted EBITDA and adjusted EPS (Basic), which are calculated by excluding the net write-off of two aircraft remained in Russia of HK\$439.0 million incurred in first half of 2022 to assist investors on their understanding of the changes and trends related to the profitability of the Group's operations, for the years indicated:

	Year ended 31 December	
	2022 HK\$'Million	2021 HK\$'Million
Profit attributable to shareholders of the Company	73.6	525.8
<i>Add:</i> Net write-off of two aircraft remained in Russia	439.0	–
Adjusted profit attributable to shareholders of the Company	512.6	525.8
EBITDA	3,490.6	2,864.1
<i>Add:</i> Net write-off of two aircraft remained in Russia	439.0	–
Adjusted EBITDA	3,929.6	2,864.1
EPS (Basic) (HK\$)	0.099	0.722
<i>Add:</i> Adjustment per share related to net write-off of two aircraft remained in Russia (HK\$)	0.590	–
Adjusted EPS (Basic) (HK\$)	0.689	0.722

1. RESULTS

Total revenue of the Group was HK\$4,171.0 million in 2022, an increase of HK\$892.9 million or 27.2% from HK\$3,278.1 million in 2021. Operating profit for the year in 2022 amounted to HK\$775.2 million, a decrease of HK\$44.7 million or 5.5% compared with HK\$819.9 million in 2021. Profit attributable to shareholders of the Company in 2022 amounted to HK\$73.6 million, a decrease of HK\$452.2 million or 86.0% compared with HK\$525.8 million in 2021.

Total assets amounted to HK\$55,332.1 million as at 31 December 2022, compared with HK\$50,029.1 million as at 31 December 2021, an increase of HK\$5,303.0 million or 10.6%. The increase in assets was mainly due to the increase in the total fleet size of the Group from 127 aircraft as at 31 December 2021 to 150 aircraft as at 31 December 2022.

Total liabilities amounted to HK\$49,075.9 million, an increment of HK\$5,064.0 million or 11.5% compared with HK\$44,011.9 million as at 31 December 2021, 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 debts for the newly delivered aircraft. As at 31 December 2022, the interest-bearing debts of the Group amounted to HK\$45,104.1 million (2021: HK\$40,480.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

2. CONSOLIDATED STATEMENT OF INCOME

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Total revenue		
Lease income		
Finance lease income	574,683	540,634
Operating lease income	2,967,565	1,959,809
	3,542,248	2,500,443
Other operating income		
Net income from aircraft transactions and aircraft components trading	207,072	301,741
Other income	421,682	475,882
	4,171,002	3,278,066
Expenses		
Interest expenses	(1,610,507)	(1,211,254)
Depreciation and others	(1,356,612)	(820,663)
Expected credit losses	(83,355)	(144,213)
Other operating expenses	(345,335)	(282,018)
	(3,395,809)	(2,458,148)
Operating profit	775,193	819,918
Net write-off of two aircraft remained in Russia	(439,029)	–
Share of results from associates and joint ventures	2,682	(1,290)
Other gains, net	184,619	13,578
Profit before income tax	523,465	832,206
Income tax expenses	(307,781)	(204,936)
Profit for the year	215,684	627,270
Profit attributable to		
Shareholders of the Company	73,598	525,780
Holders of perpetual capital securities and other non-controlling interests	142,086	101,490
	215,684	627,270
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$ per share)		
– Basic earnings per share	0.099	0.722
– Diluted earnings per share	0.099	0.722

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Total Revenue

For the year ended 31 December 2022, the total revenue amounted to HK\$4,171.0 million, compared with HK\$3,278.1 million in 2021, an increase of HK\$892.9 million or 27.2%.

Total lease income from finance leases and operating leases for the year 2022 amounted to HK\$3,542.2 million, compared with HK\$2,500.4 million in 2021, an increase of HK\$1,041.8 million or 41.7%.

For the year ended 31 December 2022, the Group's average lease rental yield of the finance leases and operating leases was 13.8% (2021: 12.9%) and 11.7% (2021: 11.5%), 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 11.9% (2021: 11.6%).

2.2 Other Operating Income

During the year ended 31 December 2022, the Group recognised net gain from disposal of five aircraft and aircraft components trading amounted to HK\$207.1 million (2021: net gain from disposal of nine aircraft and aircraft components trading amounted to HK\$301.7 million) with aggregate net book value of HK\$2,136.8 million (2021: aggregate net book value of HK\$3,103.2 million).

The average gain per aircraft during the current year was HK\$40.8 million, compared to HK\$33.0 million in last year.

During the year ended 31 December 2022, the Group had the following other income:

	Year ended 31 December		Change
	2022 HK\$'Million	2021 HK\$'Million	
Government grants	212.0	215.5	-1.6%
Interest income from loans to associates and joint ventures	100.1	105.4	-5.0%
Bank interest income	32.7	8.2	298.8%
Asset management service fees income from CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively, "CAG Group")	19.2	12.1	58.7%
Incidental income and others	57.7	134.7	-57.2%
Total	421.7	475.9	-11.4%

Government grants for the year ended 31 December 2022 amounted to HK\$212.0 million, compared with HK\$215.5 million in 2021, a decrease of HK\$3.5 million or 1.6%.

Incidental income and others mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases in 2021, net gains from bonds repurchase, compensation and government wage subsidies under a job support scheme. The decrease in incidental income in the current year was mainly due to no such income was received from the manufacturer and suppliers in the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

2.3 Expenses**2.3.1 Interest Expenses**

For the year ended 31 December 2022, interest expenses incurred by the Group amounted to HK\$1,610.5 million compared with HK\$1,211.3 million in 2021, an increase of HK\$399.2 million or 33.0%. The increase in interest expenses was mainly due to the increase in total interest-bearing debts from HK\$40,480.4 million as at 31 December 2021 to HK\$45,104.1 million as at 31 December 2022 and the increase in 3 month US\$ LIBOR from 0.24% as at 1 January 2021 to 4.77% as at 31 December 2022. The average effective interest rate of bank and other borrowings during the year was 4.20% (2021: 2.96%).

Most of the interest expenses from the floating interest rate borrowings had either been hedged or capitalised. The following table summarises the sensitivity test on change in US\$ interest rate for the year ended 31 December 2022:

US\$ interest rate	Sensitivity test on	
	Cash outflow HK\$'Million	Profit attributable to shareholders of the Company HK\$'Million
Increased by 1%	193	(82)
Decreased by 1%	(193)	82

2.3.2 Depreciation

The amount represented depreciation on aircraft under operating leases, leasehold improvements, office equipment, office building, right-of-use assets and other assets. Depreciation and others for the year ended 31 December 2022 was HK\$1,356.6 million compared with HK\$820.7 million in 2021, an increase of HK\$535.9 million or 65.3%. This was mainly attributable to an increase in the number of aircraft under operating leases from 78 aircraft as at 31 December 2021 to 101 aircraft as at 31 December 2022 and the full year impact of the 22 aircraft delivered in fourth quarter of 2021.

2.3.3 Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, value-added tax surcharge and other taxes, rentals and office administration expenses. The increase in other operating expenses was mainly due to the increase in volume of aircraft delivery transactions as the Group delivered 28 aircraft in the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

2.4 Net Write-off of Two Aircraft Remained in Russia

Following the Russia-Ukraine Conflict in February 2022 and subsequent Sanctions, in March 2022, in compliance with the Sanctions, the Group terminated leasing arrangements with Russian lessees in respect of two owned aircraft, representing less than 2% of the number of the Group's owned fleet of 150 as at 31 December 2022. The Group has been maintaining dialogue with the Russian lessees, actively seeking to repossess the aircraft. As at 31 December 2022, one of the engines located outside Russia (the "**Engine**") is under control by the Group.

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 31 December 2022, the Group has not recognised any claim receivables.

The Group has determined prudently that the net book value of the aircraft amounting to HK\$565.6 million (excluding the net book value of the Engine) should be fully written down, which is offset by the security deposit and maintenance reserves received amounting to HK\$126.6 million, resulting in a net write-off of HK\$439.0 million for the year ended 31 December 2022, which was a non-cash transaction.

2.5 Other Gains, Net

	Year ended 31 December		Change
	2022 HK\$'Million	2021 HK\$'Million	
Currency exchange gains/(losses) in RMB ^(note)	334.7	(113.1)	N/A
Fair value (losses)/gains on currency forward contracts in RMB ^(note)	(149.2)	99.6	N/A
Net exchange gains/(losses) in RMB ^(note)	185.5	(13.5)	N/A
Currency exchange losses in US\$	(11.2)	(21.9)	-48.9%
Fair value gains on financial assets at fair value through profit or loss	37.4	39.0	-4.1%
Changes in fair value attributable to interest rate	(25.9)	16.3	N/A
Unrealised losses on currency swap	(1.2)	(6.3)	-81.0%
Total	184.6	13.6	1,257.4%

Note: The net exchange gains arising from net financial liabilities denominated in RMB was mainly due to the appreciation of US\$ exchange rate against RMB from 6.36 as at 31 December 2021 to 6.90 as at 31 December 2022. The following table illustrates the foreign currency exposure in RMB as at 31 December 2022 and the related gains/(losses) in RMB for the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

	As at 31 December 2022 RMB'Million		Year ended 31 December 2022 HK\$'Million
Net financial liabilities (excluding working capital) denominated in RMB exposed to currency exchange risk	(3,882.6)	Currency exchange gains in RMB	334.7
Less: Hedged by notional amount of currency forward contracts in RMB	2,300.0	Fair value losses on currency forward contracts in RMB	(149.2)
Unhedged currency exchange risk exposure in RMB	(1,582.6)	Net exchange gains in RMB	185.5

The following table summarises the sensitivity test on change in US\$ against RMB exchange rate for the year ended 31 December 2022:

US\$ against RMB	Impact on profit before income tax HK\$'Million
10% appreciation in RMB	(179.2)
10% depreciation in RMB	179.2

2.6 Income Tax Expenses

Income tax for the year ended 31 December 2022 was HK\$307.8 million (2021: HK\$204.9 million). The higher effective tax rate in the current year was mainly due to the net write-off of two aircraft remained in Russia amounted to HK\$439.0 million, which is a non-deductible item and certain deferred tax credit not recognised in respect of certain tax losses incurred. The Group would evaluate regularly to consider the recognition of the deferred tax credit in future.

3. CONSOLIDATED BALANCE SHEET

3.1 Assets

As at 31 December 2022, the Group's total assets amounted to HK\$55,332.1 million compared with HK\$50,029.1 million as at 31 December 2021, an increase of HK\$5,303.0 million or 10.6%.

	As at 31 December 2022 HK\$'Million	2021 HK\$'Million	Change
Property, plant and equipment and right-of-use assets	27,354.4	23,243.8	17.7%
Finance lease receivables – net	8,172.1	7,714.4	5.9%
Assets classified as held for sale	1,425.2	675.6	111.0%
Prepayments and other assets	11,367.6	11,242.6	1.1%
Investments in and loans to associates and joint ventures	1,354.4	1,273.4	6.4%
Financial assets at fair value through profit or loss	769.5	750.8	2.5%
Derivative financial assets	221.4	114.9	92.7%
Cash and bank balances	4,667.5	5,013.6	-6.9%
Total assets	55,332.1	50,029.1	10.6%

MANAGEMENT DISCUSSION AND ANALYSIS

3.1.1 Property, Plant and Equipment and Right-of-use Assets, Finance Lease Receivables – Net and Assets Classified as Held for Sale

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 76 aircraft as at 31 December 2021 to 97 aircraft as at 31 December 2022, which is netted-off by the write-off of two aircraft remained in Russia and depreciation provided during the year.

Net finance lease receivables represented the present value of minimum lease payments receivable from aircraft classified as finance leases and their residual values. 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.

Assets classified as held for sale represented the cost of assets expected to be disposed in the next 12 months. The number of aircraft classified as held for sale increased from two aircraft as at 31 December 2021 to four aircraft as at 31 December 2022. The increase of two aircraft was due to the reclassification of two aircraft with an aggregated amount of HK\$765.0 million from property, plant and equipment and right-of-use assets during the current year.

The total fleet size of the Group under both operating leases, finance leases and held for sale increased from 127 aircraft as at 31 December 2021 to 150 aircraft as at 31 December 2022.

3.1.2 Aircraft Portfolio

Aircraft portfolio by number of aircraft is as follows:

Aircraft Type	As at 31 December	
	2022 Owned Aircraft	2021 Owned Aircraft
Airbus A320 CEO family	85	80
Airbus A320 NEO family	27	20
Airbus A330 CEO family	13	13
Boeing B737 NG family	23	13
Boeing B787	1	1
COMAC ARJ21 series	1	–
Total ^(note)	150	127

Note: Including two aircraft remained in Russia as at 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1.3 Prepayments and other Assets

Prepayments and other assets mainly represented Pre-Delivery Payments (“PDP”) made to aircraft manufacturers for aircraft acquisition from order book and operating lease receivables. The balance in prepayments and the other assets remains stable.

The aging of the operating lease receivables based on due date was as follows:

	As at 31 December			
	2022 HK\$'Million	%	2021 HK\$'Million	%
Current/deferral	253.2	52%	191.8	35%
Less than 30 days past due	5.4	1%	50.1	9%
30 to 90 days past due	16.7	3%	65.2	12%
More than 90 days past due	217.1	44%	246.7	44%
Total	492.4	100%	553.8	100%

As at 31 December 2022, the expected credit losses allowance amounted to HK\$187.5 million (2021: HK\$174.3 million) and the net operating lease receivables amounted to HK\$304.9 million (2021: HK\$379.5 million).

With the recovery of aviation industry, there was improvement in the rent collection. The operating lease receivables as at 31 December 2022 amounted to HK\$492.4 million, a decrease of HK\$61.4 million or 11.1% compared with HK\$553.8 million in 2021. 52% (2021: 35%) of the operating lease receivables were not yet past due or with agreed deferral. The rent collection ratio, represented by the cash received over invoiced amount, for the year ended 31 December 2022 was 102.4% (2021: 97.4%).

3.2 Liabilities

As at 31 December 2022, the Group's total liabilities amounted to HK\$49,075.9 million, compared with HK\$44,011.9 million as at 31 December 2021, an increase of HK\$5,064.0 million or 11.5%.

An analysis is given as follows:

	As at 31 December		Change
	2022 HK\$'Million	2021 HK\$'Million	
Borrowings	38,001.1	32,477.9	17.0%
Bonds and debentures	5,406.5	7,022.7	-23.0%
Medium-term notes	1,696.5	979.8	73.1%
Total interest-bearing debts	45,104.1	40,480.4	11.4%
Deferred income tax liabilities	1,057.1	898.2	17.7%
Interest payables	297.7	210.3	41.6%
Income tax payables	45.9	40.3	13.9%
Derivative financial liabilities	52.5	143.2	-63.3%
Other liabilities and accruals	2,518.6	2,239.5	12.5%
Total liabilities	49,075.9	44,011.9	11.5%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.1 Borrowings

The analysis of borrowings is as follows:

	As at 31 December 2022 HK\$'Million	2021 HK\$'Million	Change
Bank and other borrowings			
Bank and other borrowings for aircraft acquisition financing	19,083.2	15,514.8	23.0%
PDP financing	7,180.3	6,303.4	13.9%
Other bank borrowings	6,821.2	5,600.2	21.8%
	33,084.7	27,418.4	20.7%
Long-term borrowings			
Borrowings from trust plans	4,527.5	4,689.3	-3.5%
Other borrowings	388.9	370.2	5.1%
	4,916.4	5,059.5	-2.8%
Total borrowings	38,001.1	32,477.9	17.0%

The total borrowings increased from HK\$32,477.9 million as at 31 December 2021 to HK\$38,001.1 million as at 31 December 2022 was mainly due to (i) the increase in bank and other borrowings for aircraft acquisition financing by HK\$3,568.4 million as the fleet size increased from 127 as at 31 December 2021 to 150 as at 31 December 2022, (ii) the increase in PDP financing by HK\$876.9 million for the payment of PDP made to aircraft manufacturers for aircraft acquisition from order book and (iii) the increase in other bank borrowings by HK\$1,221.0 million.

3.2.2 Bonds and Debentures

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

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK\$ Million)	Note
March 2017	Seven years	March 2024	5.50%	US\$200.0	1,556.4	(a)
November 2020	Five years	November 2025	5.90%	US\$35.0	271.9	(c)
January 2021	Five years	January 2026	5.90%	US\$35.0	272.4	(c)
December 2021	Three years	December 2024	4.85%	US\$100.0	707.1	(a)&(b)
				US\$370.0	2,807.8	
August 2021	Three years	August 2024	4.20%	RMB100.0	113.1	(d)
February 2022	Three years	February 2025	4.40%	RMB1,200.0	1,354.5	(c)
October 2022	270 days	June 2023	3.56%	RMB1,000.0	1,131.1	(c)
				RMB2,300.0	2,598.7	
Total bonds and debentures as at 31 December 2022					5,406.5	(e)
Total bonds and debentures as at 31 December 2021					7,022.7	

MANAGEMENT DISCUSSION AND ANALYSIS

The bonds and debentures decreased from HK\$7,022.7 million as at 31 December 2021 to HK\$5,406.5 million as at 31 December 2022 was mainly due to the net effect of (i) the repayment of a five-year senior unsecured US\$ bonds, a super short-term RMB debentures and a three-year unsecured RMB bonds upon maturity, with an aggregate carrying amount of HK\$3,977.3 million and (ii) the proceeds from issuance of a three-year RMB private bond and a super short-term RMB debentures with an aggregate carrying amount of HK\$2,485.6 million during the current year.

Notes:

- (a) These bonds are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (b) During the year ended 31 December 2022, the Group completed bonds repurchase on the Stock Exchange for an aggregate principal amount of US\$8.2 million.
- (c) The bonds and debentures are unlisted and subscribed by independent third parties.
- (d) The bond is listed on the Shanghai Stock Exchange.
- (e) Upon maturity in March 2022, the Group fully repaid the five-year senior unsecured bonds with outstanding principal amount of US\$203.8 million, bearing coupon interest at 4.7% per annum.

Upon maturity in April 2022 and June 2022, the Group fully repaid the super short-term debentures and the three-year unsecured bonds with outstanding principal amount of RMB1.0 billion and RMB1.0 billion, bearing coupon interest at 3.98% and 5.2% per annum, respectively.

3.2.3 Medium-term Notes

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

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (RMB Million)	Carrying amount (HK\$ Million)	
April 2022	Three years	April 2025	4.50%	1,500.0	1,696.5	
Total medium-term notes as at 31 December 2022				1,500.0	1,696.5	Note
Total medium-term notes as at 31 December 2021					979.8	

MANAGEMENT DISCUSSION AND ANALYSIS

The medium-term notes increased from HK\$979.8 million as at 31 December 2021 to HK\$1,696.5 million as at 31 December 2022 was mainly due to net effect of (i) the repayment of the medium-term notes upon maturity, with outstanding principal amount of RMB800.0 million and (ii) the proceeds from issuance of the three-year medium-term notes with a principal amount of RMB1.5 billion during the current year.

Note: Upon maturity in August 2022, the Group fully repaid the above-mentioned medium-term notes with outstanding principal amount of RMB800.0 million, bearing coupon interest at 4.93% per annum.

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 and maximise shareholder value.

Operations and capital expenditure requirements are funded by a combination of cash generated from operating activities, bank and other borrowings, long-term borrowings, issuance of bonds, debentures and medium-term notes, and the asset-light strategy including disposal of aircraft. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities, and establishing of various aircraft investment platform like CAG and other joint ventures.

For the year ended 31 December 2022, 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		
	2022	2021	Change
	HK\$'Million	HK\$'Million	
Interest-bearing debts included in total liabilities	45,104.1	40,480.4	11.4%
Total liabilities	49,075.9	44,011.9	11.5%
Total assets	55,332.1	50,029.1	10.6%
Total equity	6,256.2	6,017.3	4.0%
Gearing ratio	81.5%	80.9%	0.6p.p.
Asset-liability ratio	88.7%	88.0%	0.7p.p.
Interest-bearing debts to equity ratio	7.2:1	6.7:1	7.5%

MANAGEMENT DISCUSSION AND ANALYSIS

5. HUMAN RESOURCES

As at 31 December 2022, staff of the Group numbered 169 (2021: 159). Total remuneration of employees for 2022 amounted to HK\$184.1 million (2021: HK\$144.7 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 2022, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$604.0 million (2021: HK\$681.5 million), of which HK\$274.4 million (2021: HK\$274.0 million) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter-guarantee as mentioned above, the Group guaranteed HK\$329.6 million (2021: HK\$407.5 million) of these bank borrowings.

6.2 Capital Commitments 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 Stock Exchange (the “**Listing Rules**”). Acquisition or disposal of aircraft is a Qualified Aircraft Leasing Activity pursuant to the Listing Rules.

The majority of the Group’s capital commitments is aircraft purchase commitment, amounted to HK\$85.4 billion as at 31 December 2022 (2021: HK\$93.9 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 31 December 2022, the Group had 226 aircraft in its order book, comprising 131 Airbus A320 aircraft family, 66 Boeing B737 aircraft family and 29 COMAC ARJ21 series aircraft.

During the year ended 31 December 2022, the Group completed the delivery of 28 aircraft, which included 10 delivered aircraft under purchase and leaseback arrangements.

During the year ended 31 December 2022, the Group completed the disposal of five aircraft, which included disposal of one aircraft to a joint venture.

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 2022 together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2022.

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 Environmental, Social and Governance Report published separately.

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 2022 are set out in the consolidated statement of income on page 75 of this annual report.

The Board has declared an interim dividend of HK\$0.15 per share for the six months ended 30 June 2022, totaling approximately HK\$111.7 million which was paid by cash.

The Board has recommended the payment of a final dividend of HK\$0.15 per share (2021: HK\$0.26 per share) in respect of the year ended 31 December 2022 to shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company (the “Register of Members”) on 30 June 2023. The proposed final dividend will be paid on or about 28 July 2023 following approval at the annual general meeting of the Company to be held on 16 May 2023 (the “2023 AGM”).

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 amended and restated articles of association of the Company (the “Articles”) 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.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' eligibility to attend and vote at the 2023 AGM and entitlement to the proposed final dividend, the Register of Members will be closed in accordance with the following timetable:

- | | |
|---|---|
| (i) For determining the Shareholders' eligibility to attend and vote at the 2023 AGM: | |
| (a) Latest time to lodge transfer documents for registration | 4:30 pm on 10 May 2023 |
| (b) Closure of Register of Members | 11 May 2023 to 16 May 2023
<i>(both dates inclusive)</i> |
| (ii) For determining entitlement to the final dividend: | |
| (a) Latest time to lodge transfer documents for registration | 4:30 pm on 26 June 2023 |
| (b) Closure of Register of Members | 27 June 2023 to 30 June 2023
<i>(both dates inclusive)</i> |
| (c) Record date | 30 June 2023 |

During the above closure periods, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2023 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 17/F., Far East Finance Centre, 16 Harcourt Road, 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 Articles or the laws of the 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.

REPORT OF THE DIRECTORS

BORROWINGS

Particulars of the Group's borrowings as at 31 December 2022 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 2022 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 SECURITIES

During the year ended 31 December 2022, 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 77 and 78 of this annual report and Notes 14 and 37 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2022, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK\$2,458,055,000 are set out in Note 37 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 36(a) to the consolidated financial statements, the Company had no material contingent liabilities as at 31 December 2022.

CHARITABLE DONATIONS

The Group's external charitable donations for the year amounted to approximately HK\$1,831,000.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. ZHANG Mingao (*Chairman of the Board*) (*appointed on 14 October 2022*)

Mr. POON Ho Man (*Chief Executive Officer*)

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

Dr. ZHAO Wei (*resigned on 14 October 2022*)

Non-executive Director

Mr. WANG Hongyang

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip

Mr. CHEOK Albert Saychuan

Dr. TSE Hiu Tung, Sheldon

Mr. FAN Chun Wah, Andrew, *J.P.* (*appointed on 14 March 2023*)

Mr. NIEN Van Jin, Robert (*retired on 23 May 2022*)

In accordance with Article 16.2 of the Articles, 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 annual general meeting and shall then be eligible for re-election at that meeting. Accordingly, Mr. ZHANG Mingao and Mr. FAN Chun Wah, Andrew, being new Directors appointed by the Board on 14 October 2022 and 14 March 2023 respectively, shall retire from office and, being eligible, will offer themselves for re-election at the 2023 AGM.

In addition, in accordance with Article 16.18 of the Articles, 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. FAN Yan Hok, Philip and Dr. TSE Hiu Tung, Sheldon shall retire by rotation. Mr. POON Ho Man and Dr. TSE Hiu Tung, Sheldon, being eligible, will offer themselves for re-election at the 2023 AGM. Mr. FAN Yan Hok, Philip has decided to retire from office with effect from the conclusion of the 2023 AGM and will not offer himself for re-election.

REPORT OF THE DIRECTORS

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

Change in composition of the Board and Board Committees

From 1 January 2022 to the date of this annual report, the changes in composition of the Board and Board committees are set out below:

Directors	Change
NIEN Van Jin, Robert	– retired as an independent non-executive Director (the “INED”) and resigned as a member of each of Audit Committee, Remuneration Committee and Nomination Committee with effect from the conclusion of the annual general meeting held on 23 May 2022
TSE Hiu Tung, Sheldon	– appointed as a member of each of Audit Committee, Remuneration Committee and Nomination Committee with effect from 23 May 2022
ZHANG Mingao	– appointed as the Chairman of the Board and an executive Director with effect from 14 October 2022
ZHAO Wei	– resigned as the Chairman of the Board, an executive Director, the chairman of Strategy Committee and a member of each of Remuneration Committee and Sustainability Steering Committee with effect from 14 October 2022
WANG Hongyang	– appointed as a member of each of Remuneration Committee and Sustainability Steering Committee with effect from 14 October 2022 – redesignated from a member to the chairman of Strategy Committee
FAN Chun Wah, Andrew	– appointed as an INED with effect from 14 March 2023

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.

Change of information in respect of Directors

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the changes in information required to be disclosed by Directors after the publication of the Company’s 2022 interim report up to the date of this annual report are set out below:

FAN Chun Wah, Andrew	– entitled to a Director fee of HK\$200,000 per annum and a meeting allowance of HK\$5,000 for each Board meeting and general meeting with effect from 14 March 2023
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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 2023 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.

REPORT OF THE DIRECTORS

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 2022.

PERMITTED INDEMNITY

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

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Profile of the Directors and Senior Management are set out on pages 60 to 64 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. CHEOK Albert Saychuan, Dr. TSE Hiu Tung, Sheldon and Mr. FAN Chun Wah, Andrew, is independent.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors for the year ended 31 December 2022 are set out in Note 34(a) to the consolidated financial statements.

REPORT OF THE DIRECTORS

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 2022, 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/underlying Shares (L) held ⁽¹⁾		
		Number of Shares/underlying Shares held	Total interests	Approximate percentage of Shares in issue ⁽²⁾
POON Ho Man	Interest of controlled corporation	185,827,261 ⁽³⁾	185,827,261	24.96%
LIU Wanting	Interest of controlled corporation	12,278,069 ⁽⁴⁾	17,078,069	2.29%
	Beneficial owner	4,800,000 ⁽⁵⁾		
FAN Yan Hok, Philip	Beneficial owner	200,000	200,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000	5,000	0.001%

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 744,355,352 Shares in issue as at 31 December 2022.
- (3) Mr. POON Ho Man was deemed to be interested in 185,827,261 Shares in the following manner:
 - (a) 176,496,672 Shares held by Friedmann Pacific Asset Management Limited, a substantial Shareholder 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.
- (4) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. LIU Wanting.
- (5) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Ms. LIU Wanting pursuant to the Post-IPO Share Option Scheme.

Save as disclosed above, as at 31 December 2022, 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.

REPORT OF THE DIRECTORS

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 2022 (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 2022, 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/underlying Shares held (L) ⁽¹⁾		
		Number of Shares/underlying Shares held	Total interests	Approximate percentage of Shares in issue ⁽²⁾
CEL Aviation Investment Holdings Limited ("CEL Aviation")	Beneficial owner	244,065,373 ⁽³⁾	244,065,373	32.79%
China Everbright Limited ("CEL")	Interest of controlled corporation	283,417,693 ⁽³⁾	283,417,693	38.08%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	283,417,693 ⁽⁴⁾	283,417,693	38.08%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.08%
Central Huijin Investment Limited ("Central Huijin")	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.08%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	176,496,672 ⁽⁶⁾	176,496,672	23.71%
Capella Capital Limited ("Capella")	Interest of controlled corporation	176,496,672 ⁽⁶⁾	176,496,672	23.71%
POON Ho Man	Interest of controlled corporation	185,827,261 ^{(7)&(8)}	185,827,261	24.96%
Christina NG	Interest of controlled corporation	176,496,672 ⁽⁷⁾	–	–
	Beneficial owner	7,500,000	183,996,672	24.72%

REPORT OF THE DIRECTORS

Notes:

- (1) The letter, "L" denotes the entity/person's long position in the securities.
- (2) Based on 744,355,352 Shares in issue as at 31 December 2022.
- (3) CEL was deemed to be interested in 244,065,373 and 39,352,320 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 2022, 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 is 20,900,000 Shares (2021 annual report: 10,000,000 Shares), which represented approximately 2.81% (2021 annual report: 1.34%) of the Shares in issue.

On 6 April 2022, options to subscribe for 20,900,000 Shares in aggregate were granted to Ms. LIU Wanting, an executive Director, and certain eligible employees (including senior management) of the Group pursuant to the Post-IPO Share Option Scheme, details of which are set out in the Company's announcement dated 6 April 2022. After grant of the above 20,900,000 share options, as at the date of this annual report, the number of Shares available for future grant under the Post-IPO Share Option Scheme is 27,142,900 Shares.

The Group has in place a standardised performance appraisal system for its employees to comprehensively evaluate their performance and contribution to the Group. The Chief Executive Officer of the Company (the "CEO") will determine whether the grantees of share options meet their respective individual performance targets based on their performance appraisal results for the relevant year.

REPORT OF THE DIRECTORS

During the year, no share options were vested or exercised and the movement of share options granted under the Post- IPO Share Option Scheme is as follows:

Name of grantees	Date of grant	Number of Shares under options					At 31 December 2022 (unvested)	Exercise price per Share HK\$	Closing price per Share immediately before date of grant HK\$	Exercise period
		At 1 January 2022	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	At 31 December 2022 (unvested)				
Directors										
ZHAO Wei ⁽¹⁾	2 January 2020	10,000,000	-	-	(10,000,000) ⁽²⁾	-	8.13 ⁽³⁾	8.29	18 April 2022 to 17 April 2024 ⁽⁴⁾	
LIU Wanting	6 April 2022	-	4,800,000	-	-	4,800,000	6.36	5.37	6 April 2023 to 5 April 2025 ⁽⁵⁾	
Sub-total		10,000,000	4,800,000	-	(10,000,000)	4,800,000				
Employees										
Senior management and other employees	6 April 2022	-	16,100,000	-	-	16,100,000	6.36	5.37	6 April 2023 to ⁽⁵⁾ 5 April 2025	
Sub-total		-	16,100,000	-	-	16,100,000				
Total		10,000,000	20,900,000	-	(10,000,000)	20,900,000				

Notes:

- (1) Dr. ZHAO Wei resigned as the Chairman of the Board and an executive Director with effect from 14 October 2022.
- (2) All share options granted to Dr. ZHAO Wei were lapsed on 21 July 2022.
- (3) The original exercise price of share options granted to Dr. ZHAO Wei was HK\$9.00. On 4 November 2021, the exercise price of all outstanding share options has been adjusted to HK\$8.13 per Share as a result of capitalisation issues.
- (4) The original exercise period of share options granted to Dr. ZHAO Wei expired on 17 April 2022. As approved by the Shareholders at an extraordinary general meeting of the Company held on 23 May 2022, the exercise period of all outstanding share options has been extended for 2 years from 18 April 2022 to 17 April 2024.
- (5) Subject to the achievement of certain individual performance targets as determined by the CEO at his sole and absolute discretion within relevant periods, 50% of the share options granted on 6 April 2022 will vest on 6 April 2023 and 6 April 2024 respectively and become exercisable within the exercise period.

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.

REPORT OF THE DIRECTORS

(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.

REPORT OF THE DIRECTORS

(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 Company's subsidiaries in Hong Kong. Under the MPF Scheme, the 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 Company established in the People's Republic of China (the "PRC") 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 of income during the year amounted to approximately HK\$4,055,000.

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 Shares in issue is held by the public pursuant to the Listing Rules.

REPORT OF THE DIRECTORS

DEED OF NON-COMPETITION UNDERTAKING

CEL, being a controlling Shareholder, has confirmed to the Company of its 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 2022. 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 Shareholder and duly enforced during the year ended 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the lease income of the Group accounted for 84.9% of the total revenue, and the information of the customers of the lease segment is as follows:

	For the year ended 31 December 2022 Percentage of the total lease income (before business taxes and surcharge) (%)
Top five customers	54.1%
The largest customer	22.9%

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 and their associates or the 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

Prior to the expiry of three old framework agreements entered into with China Everbright Group Ltd ("CE Group") on 31 December 2021, the Company and CE Group entered into three new framework agreements on 11 November 2021 for a term of three years, commencing from 1 January 2022 to 31 December 2024, which will 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 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 (the "CE bank");

REPORT OF THE DIRECTORS

- (2) The Loan Services Framework Agreement, pursuant to which CE Group will provide secured loan services (including (i) revolving credit facility and fixed term loan; (ii) guarantees; and (iii) currency swaps, currency forward contracts and interest rate swaps for hedging purpose) to the Group through CE Bank and/or the trustee of a trust plan (the "Trustee"); and
- (3) The Assignment of Finance Lease Receivables Framework Agreement, pursuant to which the Group will assign the finance lease receivables to the Trustee.

(collectively, the "CE Framework Agreements")

Details of the transactions to be contemplated under the CE Framework 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 for the year ended 31 December 2022 as stated below:

CE Framework Agreements	Actual Maximum Daily Closing Balance/Total Consideration (HK\$'Million) for the year ended 31 December 2022	Annual Caps (HK\$'Million) for the year ended/ending 31 December		
		2022	2023	2024
Deposit Services Framework Agreement	1,676 (Actual Maximum Daily Closing Balance of Deposits including interests accrued thereon)	9,360	10,920	12,480
Loan Services Framework Agreement	4,306 (Actual Maximum Daily Closing Balance of Loans including loan services (note))	18,214	21,060	24,960
Assignment of Finance Lease Receivables Framework Agreement	Nil (Total Consideration)	7,020	7,020	7,020

Note: Loan services include (i) revolving credit facility and fixed term loan; (ii) guarantees; and (iii) currency swaps, currency forward contracts and interest rate swaps for hedging purpose.

CE Group is the sole shareholder of CE Hong Kong which is the indirect controlling shareholder of CEL. CEL is one of the substantial Shareholders. Accordingly, CE Group is a substantial Shareholder and thus CE Group and its associates, including CE Bank and the Trustee, are connected persons of the Company. Therefore, the transactions contemplated under the CE Framework 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 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 to (a) revise the repayment terms; and (b) increase the annual caps for each of the years ended 31 December 2016, 2017 and 2018 to be HK\$1,300 million respectively.

On 15 October 2018, a second supplemental agreement to the Shareholders' Loan and Guarantee 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 2022 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 31 December 2021 and 2022, and the year ending 31 December 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 actual amount of which has not exceeded the annual cap amount for the year ended 31 December 2022 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 2022	Annual Caps (HK\$'Million) for the year ended/ending 31 December	
		2022	2023
Third ARI Supplemental Agreement	1,447	1,500	1,500

REPORT OF THE DIRECTORS

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 Engagement for the Issuance of Medium Term Notes

On 14 April 2022, China Asset Leasing Company Limited (“CALC Tianjin”), a wholly-owned subsidiary of the Company, as the issuer, engaged CE Bank as the Manager to facilitate the issuance of medium term notes in the principal amount of RMB1.5 billion in the PRC (the “Engagement”). The total actual amount of the Manager remuneration (including manager commission and expenses) paid by CALC Tianjin to CE Bank was approximately RMB1.4 million (equivalent to approximately HK\$1.6 million). Details of the Engagement is set out in the Company’s announcement dated 14 April 2022.

As disclosed in paragraph 1 above in this section, CE Bank is an associate of CE Group which is a substantial Shareholder. Thus CE Group and its associates including CE Bank are connected persons of the Company. Therefore, the Engagement (in aggregate with the previous engagements by the Group pursuant to Rule 14A.81 of the Listing Rules as set out in the Company’s announcement dated 14 April 2022) 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 2022.

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.

REPORT OF THE DIRECTORS

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 2022 is contained in Note 35 to the consolidated financial statements. Those transactions reported in Note 35 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 Dr. TSE Hiu Tung, Sheldon, 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 2022.

The consolidated financial statements of the Group for the year ended 31 December 2022 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 2023 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, 14 March 2023

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 2022 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 applicable Code Provisions as set out in the CG Code during the year ended 31 December 2022, except for the following deviation:

Under Code Provision F.2.2, the chairman of the board should attend the annual general meeting. Dr. ZHAO Wei, the former Chairman of the Board, absented at the annual general meeting held on 23 May 2022 (the “2022 AGM”) due to other business arrangement. In his absence, Mr. POON Ho Man, an executive Director and the Chief Executive Officer of the Company (the “CEO”), chaired the 2022 AGM, and the chairmen of Audit, Remuneration and Nomination Committees also attended the 2022 AGM to answer questions from shareholders of the Company (the “Shareholders”) to ensure an effective communication with the Shareholders.

In respect of Environmental, Social and Governance (the “ESG”) aspect, the Company’s first ESG report for the year of 2014 was published in 2015. The 2022 ESG report is the 9th report the Company will produce focusing on its ESG efforts.

The 2022 ESG report, setting out the Group’s ESG performance, will be available at the Company’s website (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 2022 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.

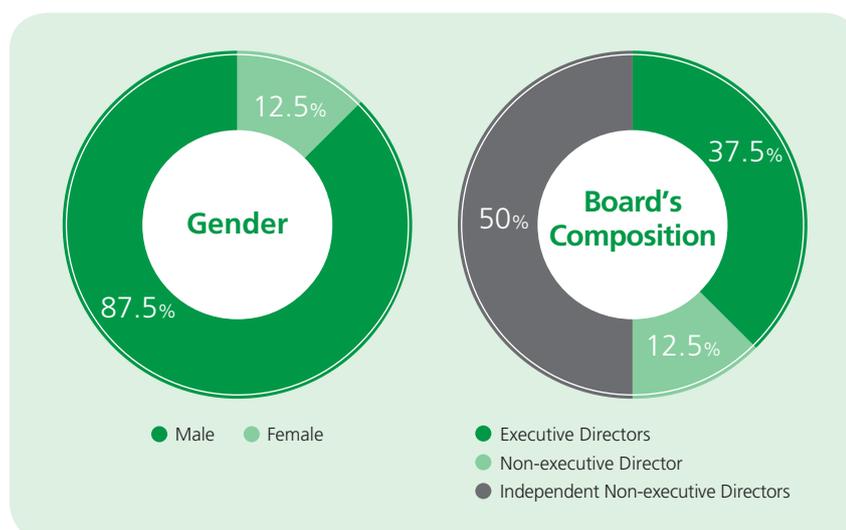
CORPORATE GOVERNANCE REPORT

THE BOARD

Composition of the Board

(as at the date of this annual report)

EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTOR	INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. ZHANG Mingao <i>(Chairman of the Board)</i> Mr. POON Ho Man <i>(CEO)</i> Ms. LIU Wanting <i>(Deputy CEO)</i>	Mr. WANG Hongyang	Mr. FAN Yan Hok, Philip Mr. CHEOK Albert Saychuan Dr. TSE Hiu Tung, Sheldon Mr. FAN Chun Wah, Andrew, <i>J.P.</i>



Throughout the year, the Board has complied with the Listing Rules to have at least three independent non-executive Directors (the "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 60 to 64 of this annual report.

CORPORATE GOVERNANCE REPORT

Changes in Composition of the Board and Board Committees

From 1 January 2022 to the date of this annual report, the changes in composition of the Board and Board Committees are listed below:

Director	Change
NIEN Van Jin, Robert	– retired as an INED and resigned as a member of each of Audit Committee, Remuneration Committee and Nomination Committee with effect from the conclusion of the 2022 AGM held on 23 May 2022
TSE Hiu Tung, Sheldon	– appointed as a member of each of Audit Committee, Remuneration Committee and Nomination Committee with effect from 23 May 2022
ZHANG Mingao	– appointed as the Chairman of the Board and an executive Director with effect from 14 October 2022
ZHAO Wei	– resigned as the Chairman of the Board, an executive Director, the chairman of Strategy Committee and a member of each of Remuneration Committee and Sustainability Steering Committee (the “SSC”) with effect from 14 October 2022
WANG Hongyang	– appointed as a member of each of Remuneration Committee and SSC with effect from 14 October 2022 – redesignated from a member to the chairman of Strategy Committee
FAN Chun Wah, Andrew	– appointed as an INED with effect from 14 March 2023

Save as disclosed above, there were no other changes to the composition of the Board and Board Committees during the year ended 31 December 2022 and up to the date of this annual report.

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 majority members are INEDs) has diversified industry expertise and professional knowledge, and provides advisory, adequate check and balances for effective and constructive contribution to the executive Board to safeguard interests of the Shareholders and the Company as a whole.

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

CORPORATE GOVERNANCE REPORT

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 set out below under sub-section headed "Nomination Committee".

All non-executive Directors (the "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 amended and restated 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 annual general meeting, and shall then be eligible for re-election at that annual 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 of the Company (the "2023 AGM"). Details of the retirement by rotation were set out in the section headed "Directors" in the Report of the Directors on page 29 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 re-election by the Shareholders at the first annual general meeting after the appointment. Accordingly, two Directors who were appointed by the Board on 14 October 2022 and 14 March 2023 respectively shall retire from office and, being eligible, will offer themselves for re-election at the 2023 AGM.

Board Meetings and General Meetings

The annual general meeting and an extraordinary general meeting 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 Committees and General Meetings Attendance".

CORPORATE GOVERNANCE REPORT

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 Board committee members, if applicable.

INEDs had attended a meeting independently held with the former Chairman of the Board, 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 Directors were provided with a comprehensive, formal and tailored induction so as to ensure they were fully aware of their responsibilities as a listed company's directors 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		
ZHANG Mingao (appointed on 14 October 2022)	✓	✓
POON Ho Man	✓	✓
LIU Wanting	✓	✓
ZHAO Wei (resigned on 14 October 2022)	✓	✓
Non-executive Director		
WANG Hongyang	✓	✓
Independent Non-executive Directors		
FAN Yan Hok, Philip	✓	✓
CHEOK Albert Saychuan	✓	✓
TSE Hiu Tung, Sheldon	✓	✓
NIEN Van Jin, Robert (retired on 23 May 2022)	✓	✓

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.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

During the year, the roles of the Chairman of the Board and the CEO are separately performed by different individuals. Ms. LIU Wanting (executive Director and Chief Commercial Officer) and Mr. MOK Chung Tat, Barry (Chief Financial Officer) also hold the position of Deputy CEO of the Group.

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

The Chairman of the Board is focusing on determination of strategy, direction and goal of the Group by chairing the Strategy Committee. The Chairman of the Board 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 the Board decisions fairly reflect consensus, drawing up and approving the Board meetings agenda, and chairing the 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-Bribery and Corruption Policy

The Company has its code of conduct with the updated anti-bribery and 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 Code Provision 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.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

The remuneration paid to and/or entitled by each of the Directors for the year ended 31 December 2022 is set out in Note 34(a) to the consolidated financial statements.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD COMMITTEES

The Company established three Board committees under the Listing Rules in September 2013, namely Audit Committee, Remuneration Committee and Nomination Committee, 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 set up under the Listing Rules is set out below:

Audit Committee	Remuneration Committee	Nomination Committee
CHEOK Albert Saychuan (<i>chairman</i>)	FAN Yan Hok, Philip (<i>chairman</i>)	CHEOK Albert Saychuan (<i>chairman</i>)
FAN Yan Hok, Philip	WANG Hongyang	FAN Yan Hok, Philip
TSE Hiu Tung, Sheldon	POON Ho Man	TSE Hiu Tung, Sheldon
	CHEOK Albert Saychuan	
	TSE Hiu Tung, Sheldon	

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 Dr. TSE Hiu Tung, Sheldon, 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 Committees and General Meetings Attendance".

CORPORATE GOVERNANCE REPORT

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 2022, 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 2021;
- 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 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 5 members: Mr. FAN Yan Hok, Philip (chairman), Mr. CHEOK Albert Saychuan and Dr. TSE Hiu Tung, Sheldon, all of them are INEDs; Mr. WANG Hongyang, a non-executive Director; and Mr. POON Ho Man, an executive Director. 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 Committees 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. For the purpose of providing incentives to employees, the Remuneration Committee had also reviewed and approved the grant of share options to Ms. LIU Wanting, an executive Director, and certain eligible employees (including senior management) of the Group under the post-IPO share option scheme of the Company. Details of such grant of share options are set out in the Report of Directors headed “Post-IPO Share Option Scheme”.

CORPORATE GOVERNANCE REPORT

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 Dr. TSE Hiu Tung, Sheldon, all of them are INEDs. A Nomination Committee meeting was held during the year. The attendances of each Nomination Committee member during the year are set out below under section headed "Board, Board Committees 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 new Directors and the re-election of retiring Directors.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

PwC, the external auditor of the Company, had given to the Company a written confirmation of its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants before the conduct of the annual audit for the year ended 31 December 2022.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of approximately HK\$8.2 million. The relevant fee paid or payable for audit services amounted to approximately HK\$4.5 million and the balancing of the remuneration related to the non-audit services of approximately HK\$3.7 million.

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 2022 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 65 to 73 of this annual report.

CORPORATE GOVERNANCE 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 2022 covering aspects of the Group's financial, operational, compliance controls and risk management functions. The Board has considered that the Group's risk management and internal control systems are effective and adequate.

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

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

A comprehensive analysis of the risks affecting the businesses of the Company and the associated mitigation measures is set out in the Risk Management Report on pages 55 to 59 of this annual report.

Climate Risks Management

In 2019, the Group began to conduct climate risk assessment, which allows it to understand the potential impacts of climate change on its daily business as early as possible. The Group has regularly assessed and identified long-term and short-term physical and transition risks related to climate change. After an in-depth analysis and understanding of climate-related risks and potential mitigation measures in 2020, the Group's Climate Risk Policy has come into effect on 1 January 2022 after reviewed and approved by the SSC in 2021. The Group believed that relevant policies can greatly enable it to implement comprehensive measures to deal with climate-related risks, and serve as a basis for the implementation by relevant departments.

In 2022, the Group has continuously invited an external consultant to hold a workshop to gain an in-depth understanding of stakeholders' concerns on climate change in an interactive manner. This has enabled the Group to identify significant climate change-related risks and opportunities that are material to it, as well as the potential impacts. In addition, the Group also made reference to various sources, including sustainability reporting guidelines, Task Force on Climate-Related Financial Disclosure ("TCFD") recommendations and industry benchmarking.

Details of TCFD are set out in the separate Environmental, Social and Governance Report of the Company for the year of 2022.

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, namely, Audit Committee, Remuneration Committee and Nomination Committee. 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.

CORPORATE GOVERNANCE REPORT

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 the 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 the 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 the 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 of the Company (the "2023 AGM"). The Directors and the external auditor of the Company would be available at the 2023 AGM to answer Shareholders' questions about the annual results for the financial year ended 31 December 2022.

CONSTITUTIONAL DOCUMENTS

Since the adoption of amended and restated memorandum and articles of association of the Company (the "M&A") took effect from the listing date of 11 July 2014, there were no changes in the M&A during the year of 2022.

As announced on 14 March 2023, the Board proposed to amend the existing M&A and to adopt a new amended and restated M&A as the new M&A in substitution for, and to the exclusion of, the existing M&A in order to (i) conform to the core standards for shareholders protections set out in Appendix 3 of the Listing Rules; (ii) allow general meetings to be held as virtual meetings or hybrid meetings; and (iii) incorporate certain housekeeping changes in line with the applicable laws of the Cayman Islands and the Listing Rules.

A special resolution will be proposed at the 2023 AGM to approve the proposed amendments to the existing M&A and the adoption of the new amended and restated M&A.

CORPORATE GOVERNANCE REPORT

BOARD, BOARD COMMITTEES AND GENERAL MEETINGS ATTENDANCE

The attendances of each Director at all Board and Board committees 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						
ZHANG Mingao ^(note 1)	1/1	n/a	n/a	n/a	n/a	n/a
POON Ho Man	4/4	n/a	2/2	n/a	1/1	1/1
LIU Wanting	2/4	n/a	n/a	n/a	0/1	0/1
ZHAO Wei ^(note 2)	1/3	n/a	1/2	n/a	0/1	0/1
Non-executive Director						
WANG Hongyang	4/4	n/a	n/a	n/a	0/1	0/1
Independent Non-executive Directors						
FAN Yan Hok, Philip	4/4	5/5	2/2	1/1	1/1	1/1
CHEOK Albert Saychuan	4/4	5/5	2/2	1/1	1/1	1/1
TSE Hiu Tung, Sheldon ^(note 3)	4/4	3/3	n/a	1/1	1/1	1/1
NIEN Van Jin, Robert ^(note 4)	1/1	2/2	2/2	n/a	1/1	n/a
Total number of meetings	4	5	2	1	1	1
Dates of Meetings	16/3/2022 5/7/2022 24/8/2022 16/12/2022	11/3/2022 22/4/2022 19/8/2022 27/10/2022 12/12/2022	14/2/2022 18/3/2022	26/9/2022	23/5/2022	23/5/2022

Notes:

- (1) Mr. ZHANG Mingao has been appointed as the Chairman of the Board and an executive Director with effect from 14 October 2022.
- (2) Dr. ZHAO Wei resigned as the Chairman of the Board and an executive Director and a member of Remuneration Committee with effect from 14 October 2022.
- (3) Dr. TSE Hiu Tung, Sheldon has been appointed as a member of each of Audit Committee, Remuneration Committee and Nomination Committee with effect from 23 May 2022.
- (4) Mr. NIEN Van Jin, Robert retired as an INED and resigned as member of each of Audit Committee, Remuneration Committee and Nomination Committee with effect from the conclusion of the 2022 AGM held on 23 May 2022.

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 management in the design, implementation and monitoring of the risk management and internal control systems. 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.

RISK MANAGEMENT REPORT

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, 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.

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

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.

RISK MANAGEMENT REPORT

2 ANNUAL REVIEW OF THE RISK MANAGEMENT AND INTERNAL CONTROL

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

2.1 Ongoing Monitoring of Risk and Internal Control

2.1.1 Scope and quality

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

The impact and likelihood of each significant risk was evaluated with reference to associated measures and key performance indicators. The adequacy of the risk mitigation plans was assessed and, if necessary, improvements were made.

2.1.2 Extent and frequency of communication

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

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.

2.2 Significant Control Failings or Weaknesses

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

2.3 Effectiveness of Financial Reporting and Listing Rule Compliance

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

RISK MANAGEMENT REPORT

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.

2.4 Risk Mitigating Measures and Key Changes

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

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

Due to the strong average credit quality of the Company's portfolio, counterparty risk has historically not been material. The COVID-19 had an adverse impact on the world's airlines, including the Company's customers. 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 sought to consider each such request on its individual merits. Features of such support, where agreed were 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.

As COVID-19 restrictions eased, demand for travel has returned strongly. In 2022, total demand as reported by IATA (measured by Revenue Passenger Kilometres) recovered to 68.5% of 2019 levels. The improvement gathered pace toward year end as China re-opened to travel, with December demand at 76.9% of the same month in 2019. As a result, most of the Company's customers are reporting positive cashflows in 2022. Deferral agreements, where applicable, are being repaid – with a significant number fully repaid before the end of the year. The airline operating environment is expected to remain challenging in the near term. However, the Company has limited exposure to troubled airline companies and actively monitors concentration risk at a lessee and jurisdiction level. The status of receivables is reported to the Management on a regular basis and remedial actions are discussed frequently between relevant departments. Where required to protect the integrity of Company assets, Risk Management, Legal and Technical teams coordinate to appoint local representatives to act on behalf of the Company.

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

- (i) Took new delivery of 28 aircraft and disposed of 5 aircraft to reduce geographical and portfolio concentration risks.
- (ii) With the relatively stable interest rate environment and abundant liquidity supply in China, the Company managed to issue RMB1.2 billion corporate bonds, RMB1.5 billion medium-term notes, and RMB1 billion super short-term debentures.

RISK MANAGEMENT REPORT

- (iii) Continues to maintain abundant standby credits and committed working capital facilities from commercial banks to ensure sufficient liquidity.
- (iv) The Company continues to obtain the same level of credit ratings from two international credit rating agencies as 2021. Moody's affirmed CALC's Corporate Family Rating at Ba1 with a stable outlook, while Fitch affirmed CALC's Long-Term Issuer Default Rating at BB+ with a stable outlook. These updates will help the Company reach a wider investor base and continue to improve the debt structure and lower financing costs.
- (v) The Company closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Company uses the currency swaps and currency forward contracts to hedge its exposure to currency exchange risk.
- (vi) 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

Mr. ZHANG Mingao

Chairman and Executive Director

Mr. ZHANG Mingao, aged 55, is the Chairman of the Board and an Executive Director.

Mr. ZHANG is currently an executive director of China Everbright Limited (stock code: 165.HK) (“CEL” and together with its subsidiaries, collectively “CEL Group”), a substantial shareholder of the Company (the “Shareholder”), and the President of CEL Group. Mr. ZHANG is also the chairman of Everbright Jiabao Co., Ltd. (stock code: 600622.SH) and the non-executive and non-independent chairman of Ying Li International Real Estate Limited (stock code: 5DM.SGX).

Mr. ZHANG was the General Manager of Asset Management Department of China Everbright Bank Company Limited (stock codes: 601818.SH, 6818.HK) (“Everbright Bank”). Since Mr. ZHANG joined Everbright Bank in 1999, he had served as the risk director of Everbright Bank (Suzhou Branch), the risk director of SME Department of Everbright Bank (Headquarters) and the President of Everbright Bank (Wuxi Branch).

Mr. ZHANG holds a Bachelor’s degree of Economics in rural financial professional from the College of Economics and Trade of Nanjing Agricultural University. He has over 30 years of industry and management experience in the financial industry.

Mr. POON Ho Man

Executive Director and Chief Executive Officer

Mr. POON Ho Man, aged 50, is an Executive Director and the Chief Executive Officer of the Company. Mr. POON is the chairman of Sustainability Steering Committee and a member of each of Strategy Committee, and Remuneration Committee of the Company. He is also a director of certain subsidiaries of the Company and is interested in 14.13% equity interest in Linkasia Airlines Group Limited (“Linkasia Airlines”), a non-wholly-owned subsidiary of the Company. He is responsible for formulating the Group’s overall strategic planning and managing overall business operations. Mr. POON has over 25 years of experience in direct investment, structured financing and aviation financing, of which over 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. Mr. POON also oversaw the founding of Aircraft Recycling International Limited (“ARI”), a commonly held entity of the Company, 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, 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 as well as certain subsidiaries of ARI.

Mr. POON obtained the degree of bachelor of engineering from the University of Hong Kong in 1995, and obtained the degree of executive master of business administration from Tsinghua University in 2005. Mr. POON has been a CFA® charterholder of the Association for Investment Management and Research (now known as the Chartered Financial Analysts Institute).

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. POON was a member of the Eleventh and Twelfth Heilongjiang Province Committee of the Chinese People's Political Consultative Conference ("CPPCC") and the Vice Chairman of HKCPPCC (Provincial) Members Association Foundation Limited, and is currently the Vice President of Association for the Promotion of Hong Kong Heilongjiang Economy and a member of its Youth Committee, the Vice President of Chinese Financial Association of Hong Kong and the Honorary President of Hong Kong Overseas Chinese Association. Mr. POON also obtained the World Outstanding Chinese Award from World Chinese Business Investment Foundation in 2006.

As at the date of this report, Mr. POON had corporate interest in 185,827,261 Shares (representing approximately 25% of the Shares in issue).

Ms. LIU Wanting

Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer

Ms. LIU Wanting, aged 41, is an Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer of the Company. Ms. LIU is also a member of Strategy Committee and Sustainability Steering Committee of the Company. Within the Group, Ms. LIU is a director of certain subsidiaries of the Company and ARI, and is interested in 13.05% equity interest in Linkasia Airlines. Ms. LIU is responsible for the Group's overall strategic planning and implementation, as well as managing overall commercial operations. Ms. LIU joined the Group in June 2006 and is the founding member of the Group.

Ms. LIU is a founding member of Chinese Financial Association of Hong Kong. Ms. LIU holds an EMBA at the PBC School of Finance at Tsinghua University in China and a master's degree in communication management from Hong Kong Baptist University.

As at the date of this report, Ms. LIU had corporate interest in 12,278,069 Shares (representing approximately 1.65% of the Shares in issue) and was interested in share options with rights to subscribe for 4,800,000 Shares (representing approximately 0.65% of the Shares in issue) pursuant to the post-IPO share option scheme of the Company.

Mr. WANG Hongyang

Non-executive Director

Mr. WANG Hongyang, aged 45, is a Non-executive Director, the chairman of Strategy Committee and a member of each of Remuneration Committee and Sustainability Steering Committee of the Company. He is also the chairman of the board of directors of China Asset Leasing Company Limited, a company incorporated in the People's Republic of China (the "PRC") and a wholly-owned subsidiary of the Company. Mr. WANG is also one of the Supervisors of a PRC joint venture which is indirectly held by the Company, ARI, and an independent third party as to 11%, 49% and 40% respectively. Mr. WANG is the chairman of ARI.

Mr. WANG is currently an executive director and the Vice President of CEL Group in charge of finance, a non-executive and non-independent director of Ying Li International Real Estate Limited (stock code: 5DM.SGX) and a Supervisor of Everbright Securities Company Limited (stock codes: 601788.SH, 6178.HK). 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.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. FAN Yan Hok, Philip

Independent Non-executive Director

Mr. FAN Yan Hok, Philip, aged 73, is an Independent Non-executive Director. Mr. FAN is also the chairman of Remuneration Committee and a member of each of Audit Committee and Nomination Committee of the Company.

Mr. FAN is currently an external director of Sumida Corporation, a company listed on the Tokyo Stock Exchange (6817.TSE), and an independent non-executive director of the following companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

Name of listed company	Stock code
China Everbright Environment Group Limited	257
Hysan Development Company Limited	14
First Pacific Company Limited	142

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 had personal interest in 200,000 Shares (representing approximately 0.03% of the Shares in issue).

Mr. CHEOK Albert Saychuan

Independent Non-executive Director

Mr. CHEOK Albert Saychuan, aged 72, is an Independent Non-executive Director. Mr. CHEOK is also the chairman of each of Audit Committee and Nomination Committee, and a member of Remuneration Committee of the Company.

Mr. CHEOK graduated from the University of Adelaide, Australia with First Class Honours in economics. Mr. CHEOK is a fellow of CPA Australia. 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 the vice president of the board of governors of the Malaysian Institute of Corporate Governance until end 2020.

Mr. CHEOK is currently the independent non-executive chairman of Amplefield Limited, listed in Singapore, and an independent non-executive director of Supermax Corporation Berhad, listed in Malaysia.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

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 had personal interest in 5,000 Shares (representing approximately 0.001% of the Shares in issue).

Dr. TSE Hiu Tung, Sheldon

Independent Non-executive Director

Dr. TSE Hiu Tung, Sheldon, aged 58, is an Independent Non-executive Director. Dr. TSE is also a member of each of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

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

Mr. FAN Chun Wah, Andrew, J.P.

Independent Non-executive Director

Mr. FAN Chun Wah, Andrew, J.P., aged 44, is an Independent Non-executive Director.

Mr. FAN is a practicing certified public accountant in Hong Kong with over 16 years of experience. He holds a Bachelor Degree of Business Administration (Accounting and Finance) from The University of Hong Kong and a Bachelor Degree in Laws from the University of London.

Mr. FAN is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also the Vice Chairman of the Tenth and the Eleventh Committees of the Zhejiang Province United Young Association, a member and a Standing Committee member of the Eleventh to the Thirteenth Committees of the All-China Youth Federation and a member of the Fourteenth National Committee of the CPPCC.

Mr. FAN is currently an independent non-executive director of Sing Tao News Corporation Limited (stock code: 1105.HK), Nameson Holdings Limited (stock code: 1982.HK), Culturecom Holdings Limited (stock code: 343.HK) and Chuang's China Investments Limited (stock code: 298.HK), all shares of which are listed on the Main Board of the Stock Exchange.

PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. MOK Chung Tat, Barry

Deputy Chief Executive Officer and Chief Financial Officer

Mr. MOK Chung Tat, Barry, aged 64, 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 other corporate functions. Mr. MOK is a director of a subsidiary of the Company, and ARI and its certain subsidiaries.

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.

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

Mr. TANG Yu Ping, Pitney

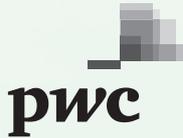
Chief Operating Officer

Mr. TANG Yu Ping, aged 53, 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 contingency 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 a director or an alternate director of certain subsidiaries of the Company and ARI.

Prior to joining the Group, Mr. TANG held senior financial positions in various companies listed in Hong Kong. He has over 29 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 74 to 169, comprise:

- the consolidated balance sheet as at 31 December 2022;
- 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 2022, 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.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

- Assessment on working capital sufficiency
- Provision for tax positions
- Assessment of investment in CAG Bermuda 1 Limited (“CAG”) and its subsidiaries (collectively as “CAG Group”)
- Provision of lease receivables

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter

How our audit addressed the key audit matter

Assessment on working capital sufficiency

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

As at 31 December 2022, the Group's current liabilities exceeded its current assets by HK\$12,676.7 million (Note 3.1.3). The Group had capital commitments amounting to HK\$85,394.3 million (Note 36) mainly relating to aircraft purchase, of which HK\$15,679.4 million was payable within one year.

COVID-19 and responsive government actions have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, all of which had 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 2022 and therefore continue as a going concern.

The directors' forecasts are based on a number of assumptions including the aircraft delivery and leasing schedules, available financing resources that have been granted or will be granted and the amount of capital commitments.

We focused on this matter because the preparation of cash flow forecasts requires the directors to make significant judgement on the assessment of the assumptions.

We obtained the Group's cash flow forecasts, which covered a period of not less than twelve months from 31 December 2022.

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 2022 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
<p>Provision for tax positions</p> <p>Refer to Note 4.1(a) and Note 16 to the consolidated financial statements.</p> <p>As at 31 December 2022, current income tax liabilities were HK\$45.9 million and deferred income tax liabilities were HK\$1,057.1 million.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Based on the work performed, the provision for tax positions were supported by available evidence.</p>

INDEPENDENT AUDITOR'S REPORT

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 service 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, many of the airline customers have curtailed their commercial operations, which could result in lease defaults.

As at 31 December 2022, the finance lease receivables and operating lease receivables are HK\$8,183.9 million and HK\$492.4 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\$11.8 million (Note 7) and impairment provisions of operating lease receivables of HK\$187.5 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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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 HKSA's 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 HKSA's, 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.

INDEPENDENT AUDITOR'S REPORT

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, 14 March 2023

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2022	2021
		HK\$'000	HK\$'000
ASSETS			
Property, plant and equipment and right-of-use assets	5	27,354,373	23,243,760
Investments in and loans to associates and joint ventures	6	1,354,410	1,273,350
Finance lease receivables – net	7	8,172,086	7,714,408
Financial assets at fair value through profit or loss	8	769,462	750,841
Derivative financial assets	20	221,399	114,937
Prepayments and other assets	9	11,362,415	11,232,542
Assets classified as held for sale	10	1,425,199	675,569
Aircraft components trading assets		5,245	10,136
Restricted cash	11	1,114,958	237,187
Cash and cash equivalents	12	3,552,533	4,776,389
Total assets		55,332,080	50,029,119
EQUITY			
Share capital	13	74,436	74,762
Reserves	14	2,314,613	1,987,850
Retained earnings		2,276,247	2,507,621
Equity attributable to shareholders of the Company		4,665,296	4,570,233
Perpetual capital securities and other non-controlling interests	15	1,590,921	1,447,022
Total equity		6,256,217	6,017,255
LIABILITIES			
Deferred income tax liabilities	16	1,057,059	898,240
Borrowings	17	38,001,150	32,477,860
Medium-term notes	18	1,696,509	979,816
Bonds and debentures	19	5,406,490	7,022,708
Derivative financial liabilities	20	52,543	143,226
Income tax payables		45,850	40,274
Interest payables		297,689	210,268
Other liabilities and accruals	21	2,518,573	2,239,472
Total liabilities		49,075,863	44,011,864
Total equity and liabilities		55,332,080	50,029,119

The notes on pages 81 to 169 are an integral part of these consolidated financial statements.

The financial statements on pages 74 to 169 were approved by the Board of Directors on 14 March 2023 and were signed on its behalf.

ZHANG Mingao
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Total revenue			
Lease income			
Finance lease income	22	574,683	540,634
Operating lease income	22	2,967,565	1,959,809
		3,542,248	2,500,443
Other operating income			
Net income from aircraft transactions and aircraft components trading	23	207,072	301,741
Other income	24	421,682	475,882
		4,171,002	3,278,066
Expenses			
Interest expenses	25	(1,610,507)	(1,211,254)
Depreciation and others		(1,356,612)	(820,663)
Expected credit losses		(83,355)	(144,213)
Other operating expenses	26	(345,335)	(282,018)
		(3,395,809)	(2,458,148)
Net write-off of two aircraft remained in Russia	27	(439,029)	–
Share of results from associates and joint ventures	6	2,682	(1,290)
Other gains, net	29	184,619	13,578
Profit before income tax		523,465	832,206
Income tax expenses	30	(307,781)	(204,936)
Profit for the year		215,684	627,270
Profit attributable to			
Shareholders of the Company		73,598	525,780
Holders of perpetual capital securities and other non-controlling interests		142,086	101,490
		215,684	627,270
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$ per share)			
– Basic earnings per share	31(a)	0.099	0.722
– Diluted earnings per share	31(b)	0.099	0.722

The notes on pages 81 to 169 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Profit for the year		215,684	627,270
Other comprehensive income for the year:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges	20	325,184	195,810
Currency translation differences		(5,990)	71,237
		319,194	267,047
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences attributable to non-controlling interests		1,813	(957)
Total other comprehensive income for the year, net of tax		321,007	266,090
Total comprehensive income for the year		536,691	893,360
Total comprehensive income for the year attributable to			
Shareholders of the Company		392,792	792,827
Holders of perpetual capital securities and other non-controlling interests		143,899	100,533
		536,691	893,360

The notes on pages 81 to 169 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				Perpetual capital securities and other non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Balance as at 1 January 2022	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255
Comprehensive income						
Profit for the year	–	–	73,598	73,598	142,086	215,684
Other comprehensive income						
Cash flow hedges (Note 20)	–	325,184	–	325,184	–	325,184
Currency translation differences	–	(5,990)	–	(5,990)	1,813	(4,177)
Total comprehensive income	–	319,194	73,598	392,792	143,899	536,691
Transactions with shareholders and non-controlling interests						
Cancellation of shares (Note 13(a))	(408)	495	–	87	–	87
Dividends	82	4,074	(304,972)	(300,816)	–	(300,816)
Share option scheme: – Value of services (Note 14)	–	3,000	–	3,000	–	3,000
Total transactions with shareholders and non-controlling interests	(326)	7,569	(304,972)	(297,729)	–	(297,729)
Balance as at 31 December 2022	74,436	2,314,613	2,276,247	4,665,296	1,590,921	6,256,217

The notes on pages 81 to 169 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				Perpetual capital securities and other non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Retained earnings HK\$'000	Total 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 and cancellation of shares (Note 13(a))	(251)	(38,220)	–	(38,471)	–	(38,471)
Dividends	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 81 to 169 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Cash flows from operating activities			
Profit before income tax		523,465	832,206
Adjustments for:			
– Depreciation and others		1,356,612	820,663
– Net income from aircraft transactions	23	(203,991)	(297,128)
– Expected credit losses		83,355	144,213
– Net write-off of two aircraft remained in Russia	27	439,029	–
– Interest expenses	25	1,610,507	1,211,254
– Share-based payments	14(a)	3,000	–
– Unrealised currency exchange (gains)/losses		(311,674)	93,035
– Fair value changes attributable to interest rate and fair value changes on currency swap and currency forward contracts		176,241	(109,509)
– Share of results from associates and joint ventures		(2,682)	1,290
– Gain on repurchase of bonds		–	(4,314)
– Interest income		(132,761)	(113,571)
– Fair value gains on financial assets at fair value through profit or loss	29	(37,418)	(39,041)
		3,503,683	2,539,098
Changes in working capital:			
– Finance lease receivables – net		(448,782)	(408,238)
– Prepayments and other assets		(98,954)	33,547
– Aircraft components trading assets		4,891	9,350
– Other liabilities and accruals		529,082	79,149
Cash generated from operations		3,489,920	2,252,906
Income taxes paid		(141,333)	(78,087)
Net cash flows generated from operating activities		3,348,587	2,174,819
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,059,005)	(5,819,940)
Proceeds from disposal of aircraft		2,465,665	2,055,341
Pre-Delivery Payments (“PDP”) and prepayments paid for acquisition of aircraft		(3,875,665)	(172,028)
PDP refunded for acquisition of aircraft		1,920,401	561,451
Interest received		119,290	108,713
Payments relating to financial assets at fair value through profit or loss		(30,696)	(8,833)
Proceeds from distribution of financial assets at fair value through profit or loss		53,907	3,938
Proceeds from disposal of financial assets at fair value through profit or loss		–	95,685
Investment in associates and joint ventures		(5,152)	(1,290)
Payments relating to loans to associates and joint ventures		(335,498)	(295,484)
Repayments of loans to associates and joint ventures		217,488	130,006
Net cash flows used in investing activities		(6,529,265)	(3,342,441)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Cash flows from financing activities			
Proceeds from borrowings		19,391,991	19,613,538
Issue of bonds and debentures, net of transaction costs		2,649,260	2,370,300
Issue of medium-term notes, net of transaction costs		1,834,982	–
Repayments of borrowings		(13,717,579)	(14,347,250)
Repurchase and repayment of bonds and debentures, including transaction costs		(4,041,541)	(4,513,480)
Repayment of medium-term notes		(956,560)	(397,650)
Repayment of lease liabilities		(14,141)	(15,714)
Repayment of amount due to non-controlling interests		–	(38,612)
Interest paid in respect of derivative financial instruments		(42,793)	(139,127)
Interest paid in respect of borrowings, notes, bonds and debentures		(1,787,297)	(1,483,767)
(Increase)/decrease in deposits pledged in respect of borrowings		(1,004,697)	9,667
Decrease in deposits pledged in respect of derivative financial instruments		121,828	167,499
Buy-back of shares, including transaction costs		–	(38,471)
Dividends paid to holders of perpetual capital securities	15	(124,359)	(87,235)
Dividends paid to shareholders		(300,816)	(77,161)
Net cash flows generated from financing activities		2,008,278	1,022,537
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		4,776,389	4,877,557
Currency exchange difference on cash and cash equivalents		(51,456)	43,917
Cash and cash equivalents at end of the year		3,552,533	4,776,389

The notes on pages 81 to 169 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, Umland 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 2022 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 the following:

- derivative financial instruments and financial assets at fair value through profit or loss - measured at fair value; and
- assets classified as held for sale - measured at the lower of carrying amount and fair value less costs to sell.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.1 Basis of preparation** *(continued)***(a) Going concern**

As at 31 December 2022, the Group's current liabilities exceeded its current assets by HK\$12,676.7 million. The Group had total capital commitments of HK\$85,394.3 million as at 31 December 2022, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years until the end of 2027. Out of the total capital commitments, HK\$15,679.4 million is forecasted to be incurred and payable within one year based on the current delivery schedules and forecasted delivery schedules with the Original Equipment Manufacturers ("OEMs"). The Group will satisfy these capital commitments through the Group's internal resources, available and additional banking facilities and aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 31 December 2022, the Group had cash and bank balances of HK\$4,667.5 million and undrawn borrowing facilities of HK\$6,700.8 million. The total balance of cash and bank with undrawn borrowing facilities was HK\$11,368.3 million.

During the years 2020 to 2022, 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 and adjusted the delivery schedules of new aircraft to a few airline customers during COVID-19. However, starting from late 2022, after experiencing the worst downturn in its history, the industry has turned the corner on the COVID-19 and the situation of the Group's airline customers is improving.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

The Group will need to secure a substantial amount of funds in the foreseeable future to finance the 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 2022. The directors have taken into account the following plans and measures for the purposes of their assessment:

- According to the relevant aircraft purchase agreements, the scheduled payment of Pre-Delivery Payments (“PDP”) for the next twelve months from 31 December 2022 amounts to HK\$9,649.6 million. In addition, two PDP facilities are set to expire and the utilised facility drawdowns of HK\$5,333.2 million will need to be repaid by the end of 2023.

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, latest delivery schedule and industry knowledge. Based on past experience, 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. As at 31 December 2022, the Group had already obtained PDP financing facilities from banks to provide financing up to HK\$2,493.9 million to satisfy the forecasted committed PDP payments in the next twelve months from 31 December 2022.

For the repayment of utilised facility drawdowns under the facilities expiring by the end of 2023, the Group has initiated the process to obtain new PDP loan facilities with various onshore and offshore banks and financial institutions. With the recovery of aviation industry, the directors believe that certain lenders of our existing PDP syndication are interested in participating in a new PDP syndication and given the Group’s past experience in renewing PDP facilities, the directors are confident that the Group will be able to renew certain expiring PDP facilities in 2023. The remaining balances of PDP scheduled to be paid and PDP facilities to be repaid at maturity in the next twelve months from 31 December 2022 are expected to be funded by internal resources and/or facilities obtained from other financing channels of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.1 Basis of preparation** *(continued)***(a) Going concern** *(continued)*

- 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 bridging financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the year ended 31 December 2022, the Group has obtained 42 aircraft project loan facilities of US\$1,260.5 million (approximately equivalent to HK\$9,841.7 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 four aircraft project loan facilities subsequent to 31 December 2022. 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 2022.
- As at 31 December 2022, the Group had working capital loan and revolving loan facilities of HK\$8,529.2 million out of which HK\$6,535.8 million has been utilised. The directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK\$1,993.4 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 concluded three new working capital loan and revolving loan facilities with facility amount of US\$61.8 million (approximately equivalent to HK\$482.5 million) subsequent to 31 December 2022.
- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes, as well as other debt and capital financing. In particular, the Group has (i) obtained the official registration acceptance notification from the 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 and (ii) obtained the official registration acceptance notification from the China Securities Regulatory Commission for issuance of unsecured bonds up to a principal amount of RMB2.0 billion in the PRC within two years from October 2022. In February, April and October 2022, the Group completed the issuance of private bonds of RMB1.2 billion, medium-term notes of RMB1.5 billion and super short-term debentures of RMB1.0 billion in China. The Group will review the market conditions and consider issuing RMB super short-term debentures, RMB medium-term notes, RMB bonds and US\$ bonds under the US\$3.0 billion guaranteed MTN programmes if appropriate. Based on 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2022, of which, up to March 2023, the Group has signed letters of intent or sale and purchase agreements for the disposals of six aircraft. During the year ended 31 December 2022, the Group completed five aircraft disposals and received net proceeds from relevant disposals of HK\$1,683.5 million. Based on the Group's experience in aircraft portfolio trading in previous years, the directors are confident that the scheduled disposals of aircraft will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 31 December 2022.

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, the cash flows generated from its business operations, continued availability of existing and new banking facilities, 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 disposals of aircraft as planned, the Group has sufficient working capital for its present requirements in the next twelve months from 31 December 2022. 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.

(b) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2022:

- Property, Plant and Equipment: Proceeds before intended use – Amendments to HKAS 16
- Reference to the Conceptual Framework – Amendments to HKFRS 3
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)
- Annual Improvements to HKFRS Standards 2018 – 2020

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.1 Basis of preparation** *(continued)***(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 2023 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2022.

	Effective Date
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.

2.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(a) Consolidation *(continued)*

(i) Business combinations *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.2 Subsidiaries** *(continued)***(a) Consolidation** *(continued)**(ii) Changes in ownership interests in subsidiaries without change of control*

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

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(b) Separate financial statements

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

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

(c) Structured entities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 profit 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- (iii) all resulting foreign exchange differences are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	5 – 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(c) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the classification of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other operating income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains, net, 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, net. 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, net 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, net in the period in which it arises.

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, net 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(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.

2.11 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.11 Derivative financial instruments and hedging activities** *(continued)****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, net 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, net 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, net.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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.

2.19 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Share-based payments *(continued)*

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

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.

2.20 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.21 Leases** *(continued)***(a) Where the Group is lessee** *(continued)*

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 global airline companies. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 bank borrowings, medium-term notes, bonds and debentures, and 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. Currency exchange risk may arise when the finance lease receivables, operating lease receivables and certain borrowings are denominated in different currencies. 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 swap and currency forward contracts to hedge its exposure to currency exchange risk. The foreign currency swaps and foreign currency forward contracts do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains, net, please refer to Note 20 and Note 29.

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

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Cash and cash equivalents	649,087	697,006
Other financial assets	205,287	269,513
Total financial assets	854,374	966,519
Bank borrowings	(784,207)	(95,794)
Medium-term notes	(1,696,509)	(979,816)
Bonds and debentures	(2,598,653)	(2,573,699)
Other financial liabilities	(478,734)	(378,201)
Total financial liabilities	(5,558,103)	(4,027,510)
Notional amount of foreign currency forward contracts	2,604,290	2,942,880
Net exposure	(2,099,439)	(118,111)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)***3.1 Financial risk factors** *(continued)***3.1.1 Market risk** *(continued)**(a) Currency exchange risk (continued)*

As at 31 December 2022, the Group had one outstanding currency swap contract with notional principal of US\$15,684,000 (equivalent to approximately HK\$122,458,000) (2021: US\$15,684,000 (equivalent to approximately HK\$122,290,000)). For details, please refer to Note 20(a).

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 2022 and 2021.

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Profit before tax		
– 5% appreciation of RMB against US\$	(110,418)	(11,616)
– 5% depreciation of RMB against US\$	110,418	11,616

(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 and other borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank and other borrowings do not match. The following table indicates the amount of bank and other borrowings exposed to interest rate risk as at 31 December 2022 and 2021.

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Borrowings exposed to US\$ London Interbank Offered Rate ("LIBOR")	16,319,859	19,220,602
Borrowings exposed to US\$ Secured Overnight Financing Rate ("SOFR")	5,962,198	222,982
Borrowings exposed to RMB Loan Prime Rate ("LPR")	3,668,483	922,499
	25,950,540	20,366,083

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 2022, the Group had 27 outstanding floating-to-fixed interest rate swaps (2021: 31 swaps) to manage its unmatched interest rate risk 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 risk exposure trend and will consider hedging the exposure where necessary and appropriate.

	As at 31 December			
	2022	2021	2022	2021
	Notional amount HK\$'000	Carrying Value HK\$'000	Notional amount HK\$'000	Carrying Value HK\$'000
Interest rate swaps				
Exposed to US\$ LIBOR	5,277,723	202,272	6,639,160	(132,923)
Exposed to US\$ SOFR	169,198	9,283	227,484	(1,769)
	5,446,921	211,555	6,866,644	(134,692)

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

	Year ended 31 December	
	2022	2021
<i>Interest rate swaps</i>		
Carrying amount, net (HK\$'000)	211,555	(134,692)
Notional amount (HK\$'000)	5,446,921	6,866,644
Maturity date	2023 – 2025	2022 – 2025
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January (HK\$'000)	347,430	203,237
Change in value of hedged item used to determine hedge effectiveness (HK\$'000)	(342,944)	(201,002)
Weighted average hedged rate for the year	2.0%	1.9%

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2022 and 2021. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax by approximately HK\$43,948,000 (2021: increased/decreased the Group's profit before tax by approximately HK\$2,663,000); and would also have increased/decreased the Group's reserves by approximately HK\$37,481,000 (2021: HK\$39,317,000), because of the impact of cash flow hedge interest derivatives.

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)*

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 2022, the bank borrowings and interest rate swaps relating to hedge accounting referenced to US\$ LIBORs will be affected by the IBOR reforms described below.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, some of the airline customers have curtailed their commercial operations, which could result in lease defaults. The Group has 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\$11,841,000 (2021: HK\$10,118,000) for finance lease receivables (Note 7) and HK\$187,516,000 (2021: HK\$174,313,000) for operating lease receivables (Note 9) as at 31 December 2022.

Credit risk exposure on operating leases receivables:

	As at 31 December			
	2022		2021	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	280,316	133,293	362,027	173,964
Europe	29,808	22,778	22,259	333
Americas	182,301	31,445	169,484	16
	492,425	187,516	553,770	174,313

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

	As at 31 December			
	2022		2021	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	4,204,864	11,841	4,020,082	10,118

(d) Concentration of credit risk

During the year ended 31 December 2022, 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. 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 assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (continued)**3.1 Financial risk factors** (continued)**3.1.2 Credit risk** (continued)

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 35 and Note 36 for details.

In addition, the Group is exposed to credit risk associated with cash in banks 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.

3.1.3 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 after the balance sheet date:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current assets		
Loans to associates and joint ventures	16,552	6,763
Finance lease receivables – net	241,394	143,753
Financial assets at fair value through profit or loss	126,022	114,827
Derivative financial assets	145,658	19,428
Aircraft components trading assets	5,245	10,136
Prepayments and other assets	532,810	1,742,647
Assets classified as held for sale	1,425,199	675,569
Restricted cash	770,161	127,918
Cash and cash equivalents	3,552,533	4,776,389
	6,815,574	7,617,430
Current liabilities		
Deferred income tax liabilities	199,545	173,938
Borrowings	15,698,907	9,499,333
Medium-term notes	–	979,816
Bonds and debentures	1,131,071	4,039,787
Derivative financial liabilities	37,289	94,688
Income tax payables	45,850	40,274
Interest payables	297,689	210,268
Other liabilities and accruals	2,081,901	1,807,538
	19,492,252	16,845,642
Net current liabilities	(12,676,678)	(9,228,212)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)***3.1 Financial risk factors** *(continued)***3.1.3 Liquidity risk** *(continued)*

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

As at 31 December 2022, borrowings of HK\$15.7 billion under current liabilities mainly comprised of borrowings of HK\$5.2 billion from aircraft acquisition financing (“aircraft loans”), HK\$6.9 billion from PDP financing and HK\$3.6 billion from other 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\$3.4 billion (Note 36(d)) (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 2022. 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.

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 2022 and those capital commitments in the next twelve months from 31 December 2022.

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 2022					
Financial liabilities					
Borrowings	17,884,645	8,935,989	11,726,670	6,188,859	44,736,163
Medium-term notes	76,430	76,430	1,774,880	–	1,927,740
Bonds and debentures	1,379,796	2,562,830	2,005,399	–	5,948,025
Other liabilities and accruals (i)	1,365,133	42,119	115,716	126,699	1,649,667
Derivative financial instruments	37,289	15,254	–	–	52,543
Off balance sheet short term lease commitments (Note 36)	103	–	–	–	103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (continued)**3.1 Financial risk factors** (continued)**3.1.3 Liquidity risk** (continued)

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
As at 31 December 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 36)	570	–	–	–	570

- (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.

3.1.4 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 2022, service fee income of HK\$1,344,000 (2021: HK\$1,272,000) was included in Group's other operating income.

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

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)*

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 2022	10,839,381	3,417	122,458
As at 31 December 2021	10,824,526	3,728	122,290

Notes:

- (i) The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of HK\$3,417,000 (2021: HK\$3,728,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2022 (Note 11).
- (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\$122,458,000). As at 31 December 2022, the fair value of this currency swap contract amounted to HK\$9,468,000 (2021: HK\$10,622,000) and the fair value loss of HK\$1,172,000 (2021: HK\$6,382,000) was recognised in "other gains, net" for the year ended 31 December 2022 (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 2022. 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 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (continued)**3.2 Capital risk management** (continued)

The Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, and asset-liability ratio, which is calculated as total liabilities divided by total assets 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	
	2022	2021
	HK\$'000	HK\$'000
Interest-bearing debts included in total liabilities	45,104,149	40,480,384
Total liabilities	49,075,863	44,011,864
Total assets	55,332,080	50,029,119
Total equity	6,256,217	6,017,255
Gearing ratio	81.5%	80.9%
Asset-liability ratio	88.7%	88.0%
Interest-bearing debts to equity ratio	7.2:1	6.7:1

3.3 Fair value estimation of financial instruments

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (continued)**3.3 Fair value estimation of financial instruments** (continued)**Financial assets and financial liabilities measured at fair values**

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

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2022				
Assets				
Interest rate swaps	–	211,555	–	211,555
Currency swap and forward contracts	–	9,844	–	9,844
Financial assets at fair value through profit or loss	3,425	–	766,037	769,462
	3,425	221,399	766,037	990,861
Liability				
Currency forward contracts	–	52,543	–	52,543
	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 swap and forward contracts	–	111,347	–	111,347
Financial assets 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

The fair values of the interest rate swaps for hedging and the currency swap and currency forward contracts 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 other financial assets at fair value through profit or loss, which are measured at level 3 within the fair value hierarchy, 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 assessed 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\$5,000,000 (2021: HK\$9,000,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase or decrease the fair value by HK\$181,000,000 and HK\$290,000,000 (2021: HK\$182,000,000 and HK\$185,000,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (continued)**3.3 Fair value estimation of financial instruments** (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 2022.

	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2022	750,841
Investment to financial assets at fair value through profit or loss	30,696
Proceeds from financial assets at fair value through profit or loss	(53,907)
Fair value gains on the financial assets at fair value through profit or loss	37,418
Currency translation difference	989
As at 31 December 2022	766,037
	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2021	797,888
Investment to financial assets at fair value through profit or loss	8,833
Proceeds from financial assets at fair value through profit or loss	(3,938)
Disposal of financial assets at fair value through profit or loss	(95,685)
Fair value gains on the financial assets at fair value through profit or loss	39,041
Currency translation difference	4,702
As at 31 December 2021	750,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)***3.3 Fair value estimation of financial instruments** *(continued)***Financial assets and financial liabilities carried at amortised cost**

The fair values of cash and cash equivalents, 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, are not sensitive to changes in inputs to valuation techniques.

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

	As at 31 December 2022		As at 31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finance lease receivables (excluding the unguaranteed residual values)	4,204,864	4,532,366	4,020,082	4,305,034
Borrowings	38,001,150	39,109,293	32,477,860	32,893,234
Medium-term notes	1,696,509	1,782,517	979,816	1,005,829
Bonds and debentures	5,406,490	5,647,484	7,022,708	7,129,559

The fair values of the above finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures (which are not traded in the active market) are estimated by discounting the future cash flows at the current market rates available to the Group for similar financial instruments. Their fair values are considered to be of level 2 within the fair value hierarchy.

The fair values of other bonds and debentures (which are traded in the active market) are determined based on the quoted prices in the respective markets. Their fair values are considered to be of level 1 within the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 30 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 2022.

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 (2021: 49) finance leases as at 31 December 2022 were approximately HK\$5,204,735,000 (2021: HK\$5,243,225,000). 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 2022 by approximately HK\$10,947,000 (2021: HK\$9,902,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Included in the depreciation and others, there are provision of the non-financial assets of HK\$74,466,000 during the year ended 31 December 2022.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
Year ended 31 December 2022							
Opening net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
Additions	9,270,857	-	5,399	-	9,178	1,280	9,286,714
Depreciation and others	(1,319,287)	(1,603)	(3,545)	(929)	(13,095)	(1,842)	(1,340,301)
Assets classified as held for sale	(764,966)	-	-	-	-	-	(764,966)
Disposals	(2,239,939)	-	-	-	-	-	(2,239,939)
Write-off (Note 27)	(565,631)	-	-	-	-	-	(565,631)
Currency translation difference	(264,119)	-	(21)	77	(1,202)	1	(265,264)
Closing net book amount	27,268,078	1,068	9,889	41,023	26,566	7,749	27,354,373
As at 31 December 2022							
Cost	31,442,978	8,549	28,870	45,480	57,507	17,218	31,600,602
Accumulated depreciation and others	(4,174,900)	(7,481)	(18,981)	(4,457)	(30,941)	(9,469)	(4,246,229)
Net book amount	27,268,078	1,068	9,889	41,023	26,566	7,749	27,354,373
As at 1 January 2021							
Cost	20,269,024	8,570	15,789	45,158	54,209	15,509	20,408,259
Accumulated depreciation and others	(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 and others	(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 rentals amounting to HK\$2,967,565,000 relating to the lease of aircraft and engine for the year ended 31 December 2022 are included in operating lease income in the consolidated statement of income (2021: HK\$1,959,809,000).

As at 31 December 2022, the net book value of aircraft amounted to HK\$26,797,986,000 (2021: HK\$22,854,960,000).

As at 31 December 2022, the net book value of aircraft under operating leases amounting to HK\$22,213,195,000 (2021: HK\$17,914,127,000) were pledged as collateral for bank and other borrowings for aircraft acquisition financing and borrowings from trust plans (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	As at 31 December	2021
	2022	HK\$'000
	HK\$'000	HK\$'000
Investments in and loans to associates and joint ventures – carrying amount after share of results	1,552,837	1,421,777
Expected credit loss on loans to associates and joint ventures	(198,427)	(148,427)
	1,354,410	1,273,350

As at 31 December 2022, 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)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG (Notes 4.2(c) and Note 8)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	The PRC	Line maintenance, base maintenance, technical training.	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)") (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
Feitian No.2 Leasing (Tianjin) Company Limited ("Feitian No.2 (Tianjin)") (c)	The PRC	Aircraft leasing	20%	Joint venture	Equity
PT Transnusa Aviation Mandiri ("TAM") (d)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity
PT Linkaviasi Asia Indonesia ("LAI") (e)	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 2022, the net liabilities of ARI was HK\$513,823,000 (2021: net liabilities of HK\$390,909,000), and as a result, the Group's equity interests in ARI was reduced to zero (2021: 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. As at 31 December 2022, the Group's carrying amount of outstanding loans to ARI amounted to HK\$1,181,449,000 (2021: HK\$1,162,453,000). For details, please refer to Note 35(b) (ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2022, the Group's outstanding balance of advance to FLARI amounted to HK\$12,551,000 (2021: HK\$24,376,000). As at 31 December 2022, the Group's outstanding shareholders' loans balance receivable from FLARI amounted to HK\$56,445,000 (2021: HK\$4,809,000). For details, please refer to Note 35(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), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 31 December 2022, the Group's outstanding loans balance receivable from HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) amounted to HK\$35,558,000 (2021: HK\$37,063,000), HK\$35,511,000 (2021: HK\$37,014,000) and HK\$18,036,000 (2021: Nil), respectively. For details, please refer to Note 35(d).

As the result of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (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"). The remaining shares of Linkasia Airlines are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	2022 HK\$'000	2021 HK\$'000
As at 1 January	7,017	–
Add: Loans to TAM	–	6,995
Total	7,017	6,995
Add: Currency translation difference	10	22
As at 31 December	7,027	7,017

As at 31 December 2022, the Group held rental deposits of US\$1,932,000 (equivalent to approximately HK\$15,085,000) from TAM (2021: US\$900,000 (equivalent to approximately HK\$7,017,000)) in relation to aircraft under finance leases and operating leases, please refer to Note 35(i).

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

(e) Linkasia Airlines indirectly (i) holds 49% equity interest in LAI and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in LAI. The principal activity of LAI 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, LAI is jointly controlled by the Group and other investor.

As the result of LAI is not material to the Group, no summarised financial information of LAI 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 36(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	
	2022	2021
	HK\$'000	HK\$'000
Lease payments receivables		
– Not later than 1 year	108,711	128,815
– Later than 1 year but not later than 2 years	188,519	126,887
– Later than 2 years but not later than 3 years	1,072,186	204,456
– Later than 3 years but not later than 4 years	1,836,468	1,085,977
– Later than 4 years but not later than 5 years	1,511,864	1,844,533
– Later than 5 years	806,670	2,198,585
Total	5,524,418	5,589,253
Less: Unearned finance lease income relating to lease payment receivables	(1,319,554)	(1,569,171)
Present value of lease payment receivables	4,204,864	4,020,082
Add: Present value of unguaranteed residual value	3,979,063	3,704,444
Net investment in leases	8,183,927	7,724,526
Less: Accumulated expected credit losses allowance	(11,841)	(10,118)
Finance lease receivables – net	8,172,086	7,714,408

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

	As at 31 December			
	2022		2021	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	5,811,896	71%	5,665,273	73%
Others	2,360,190	29%	2,049,135	27%
Finance lease receivables – net	8,172,086	100%	7,714,408	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Long-term investments – CAG (Note (a))	735,429	750,841
Investment – aircraft modification (Note (b))	27,479	–
Others	6,554	–
	769,462	750,841

Notes:

- (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) The Group entered into a cooperation agreement with ARI Group for an investment project to modify airliner into cargo. As stipulated in the cooperation agreement, the Group's committed investment is approximately US\$8.0 million (equivalent to approximately HK\$62.5 million). As the owner of the aircraft, ARI Group is responsible for the sale of the aircraft following the modification into cargo. After the Group and ARI Group have recovered their investment in the project, the remaining sale proceeds will be distributed according to a 60% and 40% split.

9 PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	9,559,283	8,806,714
Operating lease receivables (b)	492,425	553,770
Interest capitalised (Note 25(a))	886,147	741,742
Deposits paid	28,380	32,865
Prepayments and amounts due from related parties (Note 35(f))	319,386	269,612
Deductible in-put value-added taxes	68,745	115,493
Receivables arising from aircraft transactions (c)	–	773,338
Others (d)	195,565	113,321
	11,549,931	11,406,855
Less: Expected credit losses allowance (b)	(187,516)	(174,313)
	11,362,415	11,232,542

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.

PDP 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 Group recognised an allowance for impairment losses by providing for expected credit losses when the lessee does not pay the amounts due under its lease agreements.

The aging of the operating lease receivables based on due date was as follows:

	As at 31 December			
	2022		2021	
	HK\$'000	%	HK\$'000	%
Current/deferral	253,239	52%	191,743	35%
Less than 30 days past due	5,403	1%	50,130	9%
30 to 90 days past due	16,672	3%	65,161	12%
More than 90 days past due	217,111	44%	246,736	44%
Total	492,425	100%	553,770	100%

As at 31 December 2022, the expected credit losses allowance amounted to HK\$187,516,000 (2021: HK\$174,313,000) and the net operating lease receivables amounted to HK\$304,909,000 (2021: HK\$379,457,000).

- (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 prepayment to third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2022, the Group has signed letters of intent for the disposals of several lease-attached aircraft. These aircraft intended to be disposed of were consequently classified as held for sale. Aircraft classified as held for sale were measured at the lower of carrying amount and fair value less costs to sell, resulting in the charge of HK\$16,311,000 as "Depreciation and others" in the consolidated financial statements during the year ended 31 December 2022 (2021: Nil). As at 31 December 2022, net book value of assets classified as held for sale was HK\$1,425,199,000 (2021: HK\$675,569,000). The fair value of the assets classified as held for sale was determined based on market price of the aircraft. This is a level 2 measurement as per the fair value hierarchy.

The carrying amount of borrowings related to the assets held for sale was HK\$1,080,827,000 (2021: HK\$505,689,000). The borrowings related to the assets held for sale will be repaid before the disposals 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	
	2022	2021
	HK\$'000	HK\$'000
Pledged for bank borrowings for aircraft acquisition financing (Note 17(a))	288,439	46,498
Pledged for other bank borrowings (Note 17(c))	757,357	–
Pledged for long-term borrowings (Note 17(d))	44,199	44,133
Pledged for interest rate swap contracts (Note 20(c))	21,546	142,828
Pledged for a currency swap contract (Note 20(a))	3,417	3,728
	1,114,958	237,187

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

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
US\$	1,080,935	200,073
RMB	34,023	37,114
	1,114,958	237,187

The average effective interest rate as at 31 December 2022 was 0.74% (2021: 0.12%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Cash at bank and on hand	3,552,533	4,776,389

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

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
US\$	2,632,611	3,864,967
RMB	882,136	889,682
HK\$	29,385	16,281
EUR	7,319	4,745
Other currencies	1,082	714
	3,552,533	4,776,389

The average effective interest rate as at 31 December 2022 was 0.65% (2021: 0.13%).

13 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of	Number of	Share capital
	each share	issued shares	in HK\$
Issued:			
As at 1 January 2022	HK\$0.1	747,619,737	74,761,974
Cancellation of shares (a)	HK\$0.1	(4,084,500)	(408,450)
Payment of scrip dividend	HK\$0.1	820,115	82,012
As at 31 December 2022	HK\$0.1	744,355,352	74,435,536
As at 1 January 2021	HK\$0.1	720,004,837	72,000,484
Buy-back and cancellation of shares (a)	HK\$0.1	(2,519,500)	(251,950)
Payment of scrip dividend	HK\$0.1	30,134,400	3,013,440
As at 31 December 2021	HK\$0.1	747,619,737	74,761,974

- (a) During the year ended 31 December 2021, the Company acquired 6,604,000 of its own shares through purchases on the Stock Exchange and 2,519,500 purchased shares were subsequently cancelled during the year ended 31 December 2021. The remaining 4,084,500 shares were cancelled during the year ended 31 December 2022. The total amount paid to acquire the shares was HK\$38,471,000, including transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$000	Treasury shares HK\$000	Share-based payments HK\$'000	Hedging reserve HK\$'000	Currency translation differences HK\$'000	Total HK\$'000
Balance as at 1 January 2022	1,540,209	623,720	(166)	(22,385)	330	(127,842)	(26,016)	1,987,850
Cancellation of shares (Note 13(a))	(21,890)	-	-	22,385	-	-	-	495
Cash flow hedges (Note 20)	-	-	-	-	-	325,184	-	325,184
Currency translation differences	-	-	-	-	-	-	(5,990)	(5,990)
Share option scheme (a)								
– Value of services	-	-	-	-	3,000	-	-	3,000
Scrip dividends	4,074	-	-	-	-	-	-	4,074
Balance as at 31 December 2022	1,522,393	623,720	(166)	-	3,330	197,342	(32,006)	2,314,613

	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$000	Treasury shares HK\$000	Share-based payments HK\$'000	Hedging reserve 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 and cancellation 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 2 January 2020 and 6 April 2022, the Company granted 10,000,000 share options (“2020 Share Options”) and 20,900,000 share options (“2022 Share Options”), respectively, under the share option scheme adopted by the Company for the purpose of recognising the contribution of participants, including certain directors of the Company and selected employees of the Group, in relation to the growth of the Group. None of the options have been exercised as at 31 December 2022.

During the year ended 31 December 2022, the exercise period of all 2020 Share Options granted to Dr. Zhao Wei (“Dr. Zhao”), an executive director of the Company, was extended by two years up to 17 April 2024 (the “Extension”), which has been approved by the shareholders at an extraordinary general meeting of the Company held on 23 May 2022 and was subject to acceptance by Dr. Zhao. As at 31 December 2022, all 2020 Share Options granted to Dr. Zhao were lapsed due to non-acceptance of the Extension by Dr. Zhao.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 RESERVES (continued)

(a) (continued)

Movement of outstanding share options during the years ended 31 December 2022 and 2021 is as follows:

	Number of share options
As at 1 January 2021, 31 December 2021 and 1 January 2022	10,000,000
Granted (i)	20,900,000
Lapsed	(10,000,000)
As at 31 December 2022	20,900,000

(i) The values of the 2022 Share Options granted were in the total amount of HK\$5,108,000 on 6 April 2022.

For share options outstanding as at 31 December 2022, the adjusted exercise price per share of 2022 Share Options was HK\$6.36. For share options outstanding as at 31 December 2021, the adjusted exercise price per share of 2020 Share Options was HK\$8.13.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Directors and employees	3,000	–

15 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Perpetual capital securities (a)	1,617,351	1,474,620
Other non-controlling interests of ordinary shares	(26,430)	(27,598)
	1,590,921	1,447,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS*(continued)***(a) Perpetual capital securities**

On 16 December 2020, a subsidiary of the Group (the “Issuer”) issued US\$200 million floating rate guaranteed perpetual capital securities with the aggregate net proceeds (after transaction cost of HK\$5.0 million) of HK\$1,545.5 million. The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of the Issuer. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the Company elects to declare dividends to ordinary shareholders, the Issuer shall make distribution to the holders of perpetual capital securities at the distribution rate as defined in the subscription agreements. During the year ended 31 December 2021, the Group had paid dividend of HK\$87,235,000. In addition, the dividend scheduled to be paid in December 2022, which could not be elected for deferral by the Group, had been recognised as dividend payable amounting to HK\$89,007,000 as at 31 December 2021. The dividend payable was calculated using the best estimate of the floating distribution rate in December 2021.

During the year ended 31 December 2022, the dividend payable has been adjusted based on the actual distribution rate in December 2022 amounting to HK\$124,359,000 and settled in December 2022.

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

	HK\$'000
As at 1 January 2022	1,474,620
Profit for the year	142,731
As at 31 December 2022	1,617,351
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 income tax liabilities is as follows:

	As at 31 December 2022 HK\$'000	2021 HK\$'000
Deferred income tax liabilities:		
– To be settled within 12 months	199,545	173,938
– To be settled after 12 months	857,514	724,302
	1,057,059	898,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 DEFERRED INCOME TAX LIABILITIES (continued)

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

	Accelerated depreciation of leased assets HK\$'000
Deferred income tax liabilities	
As at 1 January 2022	898,240
Charged to profit or loss (Note 30)	160,872
Currency translation difference	(2,053)
As at 31 December 2022	1,057,059
As at 1 January 2021	788,716
Charged to profit or loss (Note 30)	111,472
Currency translation difference	(1,948)
As at 31 December 2021	898,240

As at 31 December 2022, certain subsidiaries of the Group had unused tax losses of approximately HK\$1,647,447,000 (2021: HK\$1,188,657,000) available to offset against future profits, for which deferred tax asset of HK\$299,869,000 (2021: HK\$195,865,000) had not been recognised as their future realisation is uncertain.

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

	As at 31 December 2022 HK\$'000	2021 HK\$'000
Year		
2022	–	12,655
2023	51,871	62,165
2024	91,383	91,383
2025	129,165	129,165
2026	158,633	158,633
2027	340,074	–
No expiry date	876,321	734,656
	1,647,447	1,188,657

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 income tax liability has been provided by the Group on the retained earnings of approximately HK\$1,583,148,000 as at 31 December 2022 (2021: HK\$1,593,028,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 BORROWINGS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	19,083,257	15,514,817
PDP financing (b)	7,180,254	6,303,373
Other bank borrowings (c)	6,821,180	5,600,145
	33,084,691	27,418,335
Long-term borrowings		
Borrowings from trust plans (d)	4,527,538	4,689,311
Other borrowings (e)	388,921	370,214
	4,916,459	5,059,525
	38,001,150	32,477,860

Bank and other borrowings

- (a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating rates (including US\$ LIBOR, US\$ SOFR and RMB LPR). As at 31 December 2022, 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\$288,439,000 (2021: HK\$46,498,000). As at 31 December 2022, bank and other borrowings of HK\$1,938,212,000 (2021: HK\$1,855,308,000) were unsecured.
- (b) As at 31 December 2022, PDP financing of HK\$7,180,254,000 was unsecured, of which HK\$6,532,430,000 was guaranteed by the Company.
- As at 31 December 2021, PDP financing of HK\$373,797,000 was secured by certain rights and benefits in respect of the acquisition of the aircraft, and guarantees from certain companies of the Group. The PDP financing of HK\$5,929,576,000 was unsecured and guaranteed by the Company.
- (c) As at 31 December 2022, other bank borrowings of HK\$753,678,000 (2021: Nil) were secured by pledged of deposits amounting to HK\$757,357,000 (2021: Nil). The remaining unsecured other bank borrowings amounted to HK\$6,067,502,000 (2021: HK\$5,600,145,000), of which HK\$4,073,926,000 (2021: HK\$4,586,834,000) were guaranteed by the Company or certain companies of the Group.

The bank and other borrowings are repayable as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Within 1 year	15,472,882	9,352,026
Between 1 and 2 years	6,866,922	5,471,783
Between 2 and 5 years	5,859,254	8,515,064
Over 5 years	4,885,633	4,079,462
	33,084,691	27,418,335

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 2022	2021
	HK\$'000	HK\$'000
Fixed-interest rate	7,134,151	7,052,252
Floating-interest rate	25,950,540	20,366,083
	33,084,691	27,418,335

The average effective interest rate as at 31 December 2022 of bank and other borrowings was 4.20% (2021: 2.96%). The carrying amounts of borrowings are principally denominated in US\$ and RMB.

The Group has the following undrawn borrowings facilities:

	As at 31 December 2022	2021
	HK\$'000	HK\$'000
– Expiring within one year	3,472,957	335,275
– Expiring beyond one year	3,227,830	2,781,717
	6,700,787	3,116,992

Long-term borrowings

- (d) As at 31 December 2022, 46 borrowings (2021: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposals of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (2021: 3.5% to 7.8%) per annum for remaining terms of one to seven years (2021: two to eight 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\$44,199,000 (2021: HK\$44,133,000).
- (e) As at 31 December 2022, four borrowings (2021: four borrowings) were obtained through a structured financing arrangement for four aircraft (2021: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2021: 3.9% to 5.7%) per annum for their remaining terms of two to three years (2021: three to four years) and are guaranteed by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 MEDIUM-TERM NOTES

In August 2019, the Group issued three-year senior unsecured medium-term notes in a principal amount of RMB800.0 million due in 2022, bearing coupon interest at 4.93% per annum. These medium-term notes had been fully repaid on maturity.

In April 2022, the Group issued three-year medium-term notes, with coupon rate adjustment option for the Group and sell-back option for investors exercisable at the end of the second year, in a principal amount of RMB1.5 billion due in 2025, bearing coupon interest at 4.5% per annum.

As at 31 December 2022, after deducting the issuing cost, the total carrying amount of these notes was HK\$1,696,509,000 (2021: HK\$979,816,000).

19 BONDS AND DEBENTURES

In March 2017, the Group issued five-year senior unsecured bonds of US\$300.0 million due in 2022. The bonds bore coupon interest at 4.7% per annum and were payable semi-annually. These bonds were listed on the Stock Exchange and were guaranteed by the Company. These bonds had been fully repaid on maturity.

In March 2017, the Group issued seven-year senior unsecured bonds of US\$200.0 million due in 2024. The bonds bear coupon interest at 5.5% per annum and are payable semi-annually. These bonds were listed on the Stock Exchange and were guaranteed by the Company.

In June 2019, the Group 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. These bonds 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\$70.0 million senior unsecured bonds, of which US\$35.0 million were issued in November 2020 and due in 2025 and US\$35.0 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%. These debentures had been fully repaid on maturity.

In August 2021, the Group issued three-year unsecured bonds, with coupon rate adjustment option for the Group and sell-back option for investors exercisable at the end of the second year, in a principal amount of RMB100.0 million due in 2024, bearing coupon rate of 4.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

In December 2021, the Group issued three-year US\$100.0 million unsecured guaranteed notes 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.

In February 2022, the Group issued three-year RMB1.2 billion private bonds due in 2025, bearing coupon rate of 4.4% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 BONDS AND DEBENTURES *(continued)*

In October 2022, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.56%.

During the year ended 31 December 2022, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US\$8,200,000 (2021: US\$122,306,000).

As at 31 December 2022, the total carrying amount of bonds and debentures was HK\$5,406,490,000 (2021: HK\$7,022,708,000).

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	2021
	2022	2021
	HK\$'000	HK\$'000
Derivative financial assets		
– Currency swap (a)	9,468	10,622
– Currency forward contracts (b)	376	100,725
– Interest rate swaps (c)	211,555	3,590
	221,399	114,937
Derivative financial liabilities		
– Currency forward contracts (b)	52,543	–
– Interest rate swaps (c)	–	143,226
	52,543	143,226

- (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\$122,458,000). As at 31 December 2022, the fair value of this currency swap contract amounted to HK\$9,468,000 (2021: HK\$10,622,000) and the fair value losses of HK\$1,172,000 (2021: HK\$6,382,000) was recognised in “Other gains, net (Note 29)” for the year ended 31 December 2022. As at 31 December 2022, this arrangement was secured by a pledged deposit of HK\$3,417,000 (2021: HK\$3,728,000).
- (b) As at 31 December 2022, the Group had 22 outstanding currency forward contracts with notional amount of RMB2,300,000,000 (equivalent to approximately HK\$2,604,290,000) (2021: 21 outstanding currency forward contracts with notional amount of RMB2,400,000,000 (equivalent to approximately HK\$2,942,880,000)) which will expire at various dates from 30 January 2023 to 15 March 2024 (2021: 20 December 2022 to 18 September 2023), 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, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- (c) As at 31 December 2022, the Group had 27 outstanding interest rate swap contracts (2021: 35 contracts) which will expire at various dates from 28 August 2023 to 24 December 2025 (2021: 21 March 2022 to 24 December 2025), to exchange floating interest rates from LIBOR or SOFR into fixed interest rates in a range of 0.4% to 3.0% (2021: 0.4% to 2.6%). As at 31 December 2022, this arrangement was secured by margin deposits of HK\$21,546,000 (2021: HK\$142,828,000).

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

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Recognised in other comprehensive income		
Change in fair value of interest rate swaps	303,455	62,823
Reclassified from other comprehensive income to profit or loss in respect of:		
– Hedged items that affected profit or loss	26,215	135,223
– Hedge ineffectiveness	(4,486)	(2,236)
	325,184	195,810
Recognised in other gains, net of profit or loss		
Fair value gains on interest rate swaps	9,452	16,281
Fair value (losses)/gains on currency forward contracts in RMB	(149,169)	99,610
Unrealised losses on currency swap	(1,172)	(6,382)
	(140,889)	109,509

21 OTHER LIABILITIES AND ACCRUALS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Deposits and fund received for lease and aircraft projects	1,680,254	1,419,777
Consultant and insurance premium payable	106,978	91,921
Value-added tax and other taxes	295,692	278,520
Operating lease rentals received in advance	230,142	151,298
Amounts due to related parties (Note 35(g))	12,256	1,442
Amount due to non-controlling interest of a subsidiary (Note 35(h))	17,149	25,455
Dividend payables to perpetual capital securities holders (Note 15(a))	–	89,007
Lease liabilities	28,907	34,736
Others (including salary and bonus payable)	147,195	147,316
	2,518,573	2,239,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2022, the Group was engaged in 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			
	2022		2021	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	811,233	23%	332,076	13%
Airline Company – B	510,091	14%	234,003	9%
Airline Company – C	231,659	7%	314,070	13%
Airline Company – D	182,880	5%	71,717	3%
Airline Company – E	181,712	5%	38,344	2%
Others	1,624,673	46%	1,510,233	60%
Total finance and operating lease income	3,542,248	100%	2,500,443	100%

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Aircraft transactions (a)	203,991	297,128
Aircraft components trading (b)	3,081	4,613
	207,072	301,741

(a) Aircraft transactions

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 35(a)(ii)) and the disposal of seven aircraft to third parties.

The net gain from aircraft transactions for the year ended 31 December 2022 included the gain from disposal of five aircraft, including the disposal of one aircraft to Feitian No.2 (Tianjin) (Note 35(e)) and the disposal of four aircraft to third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING *(continued)***(b) Aircraft components trading**

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Sales from aircraft components trading assets	8,845	29,422
Less: Cost of aircraft components trading assets	(5,764)	(24,809)
Profit from aircraft components trading assets	3,081	4,613

24 OTHER INCOME

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Government grants (a)	211,999	215,467
Interest income from loans to associates and joint ventures	100,065	105,385
Bank interest income	32,696	8,186
Asset management service fees income from CAG Group (Note 35(c))	19,192	12,102
Incidental income and others (b)	57,730	134,742
	421,682	475,882

- (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, net gains from bonds repurchase, compensation and government wage subsidies under a job support scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 INTEREST EXPENSES

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Interest expense on borrowings	1,609,472	988,332
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	26,215	135,223
Interest expense on medium-term notes	88,035	64,907
Interest expense on bonds and debentures	289,209	392,535
	2,012,931	1,580,997
Less: interest capitalised on qualifying assets (a)	(402,424)	(369,743)
	1,610,507	1,211,254

- (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 EXPENSE

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Employee benefit expenses (Note 28)	184,097	144,660
Value-added tax and other taxes	24,444	18,897
Professional service expenses	75,559	64,896
Rental and utilities expenses	5,281	5,229
Office and meeting expenses	11,355	14,840
Travelling and training expenses	10,565	4,697
Auditor's remuneration		
– Audit service	4,476	4,326
– Non-audit service	3,666	2,241
Others	25,892	22,232
	345,335	282,018

27 NET WRITE-OFF OF TWO AIRCRAFT REMAINED IN RUSSIA

In February 2022, the military activity in Ukraine happened and subsequent sanctions in relation to commercial activities with businesses in Russia were imposed by the European Union, the United States of America, the United Kingdom and other countries (the "Sanctions"). In March 2022, in compliance with the Sanctions, the Group terminated leasing arrangements with Russian lessees in respect of two owned aircraft, representing less than 2% of the number of the Group's owned fleet of 150 as at 31 December 2022. The Group has been maintaining dialogue with the Russian lessees, actively seeking to repossess the Aircraft. As at 31 December 2022, one of the engines located outside Russia (the "Engine") is under control by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 NET WRITE-OFF OF TWO AIRCRAFT REMAINED IN RUSSIA *(continued)*

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the Aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 31 December 2022, the Group has not recognised any claim receivables.

The Group has determined prudently that the net book value of the aircraft amounting to HK\$565.6 million (excluding the net book value of the Engine) should be fully written down, which is offset by the security deposit and maintenance reserves received amounting to HK\$126.6 million, resulting in a net write-off of HK\$439.0 million for the year ended 31 December 2022, which was a non-cash transaction.

28 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Wages, salaries and bonuses	164,403	129,281
Share-based compensation (Note 14(a))	3,000	–
Welfare, medical and other expenses	16,694	15,379
	184,097	144,660

29 OTHER GAINS, NET

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Unrealised losses on currency swap	(1,172)	(6,382)
Currency exchange losses in US\$	(11,219)	(21,912)
Currency exchange gains/(losses) in RMB	334,661	(113,060)
Fair value (losses)/gains on currency forward contracts in RMB	(149,169)	99,610
Changes in fair value attributable to interest rate	(25,900)	16,281
Fair value gains on financial assets at fair value through profit or loss	37,418	39,041
	184,619	13,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 INCOME TAX EXPENSES

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	146,909	93,464
Deferred income tax (Note 16)	160,872	111,472
	307,781	204,936

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25% (2021: 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

Certain subsidiaries incorporated in Hong Kong are subject to the standard Hong Kong profits tax rate of 16.5% on their assessable profits.

Profit tax concessions have been announced to the corporations carrying on business as aircraft lessors and aircraft lease managers which satisfy relevant conditions. The taxable amount of rentals derived from leasing of an aircraft to an 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.

Subsidiaries incorporated in Ireland which are taxed in accordance with Section 110 Taxes Consolidation Act 1997 under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 INCOME TAX EXPENSES *(continued)***Others** *(continued)*

The subsidiaries incorporated in the Netherlands are subject to income tax at 15% over the first EUR395,000 of its taxable income and a rate of 25.8% over its taxable income in excess of EUR395,000.

The subsidiaries incorporated in France maybe subject to income tax at rates of up to 27.5% plus social contribution tax.

The subsidiaries incorporated in Singapore are subject to income tax at rates of up to 17%.

The subsidiaries incorporated in Malta are subject to income tax at rates of up to 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 2022. The difference is analysed as follows:

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Profit before income tax	523,465	832,206
Tax calculated at a tax rate of 25%	130,866	208,052
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	(14,322)	(6,630)
– Income not subject to tax	(60,186)	(117,971)
– Non-deductible expenses	147,419	80,148
– Utilisation of previously unrecognised tax losses	(11,364)	(6,883)
– Tax losses for which no deferred income tax assets were recognised	115,368	48,220
Tax charge	307,781	204,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 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 2022 and 2021.

	Year ended 31 December	
	2022	2021
Profit attributable to shareholders of the Company (HK\$'000)	73,598	525,780
Weighted average number of ordinary shares in issue (number of shares in thousands)	743,897	728,291
Basic earnings per share (HK\$ per share)	0.099	0.722

(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 2022 and 2021, 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 earnings per share for the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 DIVIDENDS

A final dividend of HK\$0.26 per ordinary share totalling HK\$193.3 million for the year ended 31 December 2021 was paid by cash of HK\$189.1 million and by share issuance of HK\$4.2 million in July 2022.

An interim dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million was paid by cash in November 2022.

On 14 March 2023, the Board recommended a final dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million, which is calculated based on 744,355,352 issued shares as at 14 March 2023. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2022, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2023.

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Interim dividend paid of HK\$0.15 (2021: HK\$0.15) per ordinary share	111,653	110,032
Proposed final dividend of HK\$0.15 (2021: HK\$0.26) per ordinary share	111,653	193,319
Total	223,306	303,351

33 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	
	2022	2021
	HK\$'000	HK\$'000
Cash and cash equivalents	3,552,533	4,776,389
Restricted cash	1,114,958	237,187
Borrowings	(38,001,150)	(32,477,860)
Medium-term notes	(1,696,509)	(979,816)
Bonds and debentures	(5,406,490)	(7,022,708)
Derivative financial instruments	168,856	(28,289)
Other liabilities and accruals – lease liabilities	(28,907)	(34,736)
Other liabilities and accruals – amount due to non-controlling interest of a subsidiary	(17,149)	(25,455)
Net debt	(40,313,858)	(35,555,288)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 NET DEBT RECONCILIATION (continued)

	Liabilities from financing activities								
	Cash and cash equivalents HK\$'000	Restricted cash HK\$'000	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 2022	4,776,389	237,187	(32,477,860)	(34,736)	(25,455)	(979,816)	(7,022,708)	(28,289)	(35,555,288)
Cash flows	(1,172,400)	882,869	(5,674,412)	14,141	-	(878,422)	1,392,281	(42,793)	(5,478,736)
Acquisition – leases	-	-	-	(9,178)	-	-	-	-	(9,178)
Currency exchange adjustments	(51,456)	(5,098)	255,989	1,408	(59)	161,729	226,599	(607)	588,505
Other non-cash movements (a)	-	-	(104,867)	(542)	8,365	-	(2,662)	240,545	140,839
Net debt as at 31 December 2022	3,552,533	1,114,958	(38,001,150)	(28,907)	(17,149)	(1,696,509)	(5,406,490)	168,856	(40,313,858)
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.

34 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Year ended 31 December 2022

	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
<i>Chairman, executive director</i>							
Mr. ZHANG Mingao (i)	-	-	-	-	-	-	-
Dr. ZHAO Wei (ii)	-	-	-	-	-	-	-
<i>Executive directors</i>							
Mr. POON Ho Man	-	1,801	4,536	-	-	18	6,355
Ms. LIU Wanting	-	3,114	4,647	-	795	18	8,574
<i>Non-executive directors</i>							
Mr. WANG Hongyang (iii)	-	-	-	-	-	-	-
<i>Independent non-executive directors</i>							
Mr. FAN Yan Hok, Philip	380	70	-	-	-	-	450
Mr. NIEN Van Jin, Robert (iv)	146	30	-	-	-	-	176
Mr. CHEOK Albert Saychuan	400	70	-	-	-	-	470
Dr. TSE Hiu Tung, Sheldon	303	50	-	-	-	-	353
	1,229	5,135	9,183	-	795	36	16,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)**(a) Directors' emoluments** (continued)**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
<i>Chairman, executive director</i>							
Dr. ZHAO Wei (ii)	-	-	-	-	-	-	-
<i>Executive directors</i>							
Mr. POON Ho Man	-	1,748	7,516	-	-	18	9,282
Ms. LIU Wanting	-	3,024	10,516	-	-	18	13,558
<i>Non-executive directors</i>							
Mr. WANG Hongyang (iii)	-	-	-	-	-	-	-
Mr. TANG Chi Chun (v)	196	35	-	-	-	-	231
<i>Independent non-executive directors</i>							
Mr. FAN Yan Hok, Philip	380	85	-	-	-	-	465
Mr. NIEN Van Jin, Robert (iv)	370	85	-	-	-	-	455
Mr. CHEOK Albert Saychuan	400	85	-	-	-	-	485
Dr. TSE Hiu Tung, Sheldon	200	40	-	-	-	-	240
	1,546	5,102	18,032	-	-	36	24,716

Notes:

- (i) Appointed on 14 October 2022
- (ii) Resigned on 14 October 2022
- (iii) Appointed on 24 December 2021
- (iv) Retired on 23 May 2022
- (v) Resigned on 24 December 2021

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2022 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 2022 (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)***(b) Five highest paid individuals**

During the year ended 31 December 2022, the five individuals whose emoluments were the highest in the Group include two directors and three individuals (2021: two directors and three individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2022, the emoluments paid to three (2021: three) remaining individuals are as follows:

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Basic salaries and allowances	8,669	8,907
Discretionary bonuses	5,333	3,214
Share-based payments	663	–
Other benefits	280	396
	14,945	12,517

The emoluments of the above three (2021: three) individuals fell within the following bands:

	Year ended 31 December	
	2022	2021
HK\$3,000,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$5,000,000	2	2
HK\$5,000,001 to HK\$6,000,000	1	–

During the years ended 31 December 2022 and 2021, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 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 38.12% equity interest in the Company as at 31 December 2022.

(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	
	2022 HK\$'000	2021 HK\$'000
Interest income from CE Group	4,845	3,425
Interest expenses to CE Group	241,220	195,390
Loans upfront and arrangement fee to CE Group	7,121	1,278
Transactions handling charges to CE Group	6,171	4,395
	As at 31 December	
	2022 HK\$'million	2021 HK\$'million
Bank deposits placed in CE Group	676.2	1,796.9
Borrowings due to CE Group	4,238.2	3,653.9
Undrawn facilities provided by CE Group	1,380.6	697.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS *(continued)***(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries**
*(continued)***(ii) Disposals of aircraft to Everbright Financial Leasing Co., Ltd.**

During the year ended 31 December 2021, the Group disposed of two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. The total consideration from the disposals of aircraft was HK\$783.6 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	
	2022	2021
	HK\$'000	HK\$'000
Service fee charged by: ARI Group	8,837	9,906

(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 2022, the outstanding shareholders' loan balances receivable from ARI was amounted to HK\$1,181,449,000 (2021: HK\$1,162,453,000) (Note 6) and the interest income for the year ended 31 December 2022 was HK\$94,220,000 (2021: HK\$99,598,000).

Pursuant to the factoring arrangement with ARI Group dated 16 November 2020, which is secured by the receivables from a subsidiary of ARI, the Group provided the advance of RMB1.0 million (equivalent to approximately HK\$1.2 million), which is charged at 5% per annum and payable in arrears of three monthly intervals. The balance has been settled in 2022 (2021: HK\$618,000).

As at 31 December 2021, ARI Group held bonds issued by the Group with principal amount of US\$3,200,000. As at 31 December 2022, ARI Group did not hold any bonds issued by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 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).

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. During the year ended 31 December 2022, ARI Group delivered one engine to the Group and the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the remaining four engines to be no later than 2023. As at 31 December 2022, the Group had placed interest-free deposit amounting to HK\$189,808,000 (2021: HK\$234,796,000).

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). During the year ended 31 December 2022, the Group settled the remaining consideration and the transaction was completed.

During the year ended 31 December 2022, the Group entered into a letter of intent with ARI Group relating to the purchase of two aircraft, which would be delivered in 2023, with total consideration of US\$46,558,000 (equivalent to approximately HK\$363,516,000). As at 31 December 2022, the Group had placed deposit amounting to US\$16,440,000 (equivalent to approximately HK\$128,360,000) (2021: Nil).

(iii) Transaction with FLARI

Pursuant to the shareholders' credit line agreement, the Group granted several loans to FLARI, which are interest bearing from 6.6% to 8.5% per annum (2021: 6.6% to 6.7% per annum) and are calculated on quarterly basis on the actual amount of the shareholders' loan drawn down. As at 31 December 2022, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK\$56,445,000 (2021: HK\$4,809,000) (Note 6) and the interest income for the year ended 31 December 2022 was HK\$2,032,000 (2021: HK\$415,000).

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), the proceeds is bearing interest at 8% per annum and payable in arrears of three monthly intervals. As at 31 December 2022, the outstanding advance receivables from FLARI Group was amounted to HK\$12,551,000 (2021: HK\$24,376,000) and the interest income for the year ended 31 December 2022 was HK\$1,325,000 (2021: HK\$1,033,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS (continued)**(c) Transactions with CAG Group**

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Fair value gains of long-term investments in CAG Group	37,418	35,867
Asset management service fees income from CAG Group	19,192	12,102

(d) Transaction with HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin)

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

Pursuant to the shareholder's loan agreement signed in December 2022, the Group granted loan to Feitian No.2 (Tianjin), which was unsecured and interest bearing at 2.1% per annum.

As at 31 December 2022, the outstanding balance receivables from HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) were amounted to HK\$35,558,000 (2021: HK\$37,063,000), HK\$35,511,000 (2021: HK\$37,014,000) and HK\$18,036,000 (2021: Nil), respectively (Note 6), and the interest income for the year ended 31 December 2022 was HK\$1,290,000 (2021: HK\$1,399,000), HK\$1,288,000 (2021: HK\$1,397,000) and HK\$4,000 (2021: Nil), respectively.

(e) Disposal of aircraft to Feitian No.2 (Tianjin)

During the year ended 31 December 2022, the Group disposed of one aircraft to Feitian No.2 (Tianjin) at consideration of HK\$419.6 million and recorded net income from aircraft transactions in the consolidated statement of income.

(f) Prepayments and amounts due from related parties

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Prepayments to ARI Group (Note 35(b)(ii))	318,170	269,104
Amount due from ARI Group	1,210	502
FPAM Group	6	6
	319,386	269,612

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS (continued)**(g) Amounts due to related parties**

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
ARI Group	12,256	1,442

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

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

As at 31 December 2022, Linkasia Airlines, a non-wholly owned subsidiary of the Group has the outstanding balance due to its shareholder, Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) was HK\$17,149,000 (2021: HK\$25,455,000). The amount was unsecured, interest-free and repayable on demand.

(i) Transaction with TAM

As at 31 December 2022, the Group entered into a finance lease arrangement of one aircraft (2021: Nil) with TAM and the related finance lease receivable for the aircraft was HK\$15,967,000 (2021: Nil).

During the year ended 31 December 2022, the Group entered into finance lease and operating lease arrangement of three (2021: one) aircraft with TAM. The total finance lease and operating lease income earned during the year was HK\$13,854,000 (2021: HK\$2,384,000). As at 31 December 2022, the Group held rental deposits of US\$1,932,000 (equivalent to approximately HK\$15,085,000) from TAM (2021: US\$900,000 (equivalent to approximately HK\$7,017,000)) in relation to aircraft under finance leases and operating leases.

(j) Key management compensation

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

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Director fee, salaries, bonus and other short-term employee benefits	29,865	37,234
Share-based payments	1,458	–
	31,323	37,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 CONTINGENT LIABILITIES AND COMMITMENTS**(a) Contingencies**

As at 31 December 2022, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$604,011,000 (2021: HK\$681,467,000), of which HK\$274,358,000 (2021: HK\$273,982,000) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter-guarantee as mentioned above, the Group guaranteed HK\$329,653,000 (2021: HK\$407,485,000) of these bank borrowings.

(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
	2022	2021
	HK\$'000	HK\$'000
Contracted but not provided for:		
Purchase of aircraft (i)	85,359,348	93,930,570
Investment – aircraft modification (Note 8(b))	34,984	–
	85,394,332	93,930,570

- (i) The capital commitments were mainly related to acquisition of Airbus aircraft, Boeing aircraft, and COMAC aircraft in its order book, which will be delivered in stages by the end of 2027.

(c) Short term lease arrangement – 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
	2022	2021
	HK\$'000	HK\$'000
Not later than 1 year	103	570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)***(d) Operating lease arrangement – where the Group is the lessor**

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

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Not later than 1 year	3,408,488	2,772,322
Later than 1 year but not later than 2 years	3,102,561	2,790,358
Later than 2 year but not later than 3 years	2,690,833	2,628,356
Later than 3 year but not later than 4 years	2,128,425	2,346,342
Later than 4 year but not later than 5 years	1,819,982	1,873,918
Later than 5 years	7,698,693	6,537,183
	20,848,982	18,948,479

The above commitment included amount of HK\$1,021,163,000 (2021: HK\$465,592,000 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	
	2022	2021
	HK\$'000	HK\$'000
Not later than 1 year	48	44

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
ASSETS		
Investment in subsidiaries	5,446,158	5,446,158
Financial assets at fair value through profit or loss	–	15,495
Loans and interest receivables from subsidiaries	458,763	490,545
Amounts due from subsidiaries	294,151	995,317
Prepayments and other receivables	731	640
Cash and cash equivalents	174,426	648,368
Total assets	6,374,229	7,596,523
EQUITY		
Share capital	74,436	74,762
Reserves	2,221,573	2,214,004
Retained earnings	236,482	471,232
Total equity	2,532,491	2,759,998
LIABILITIES		
Amounts due to subsidiaries	744,872	2,536,959
Interest payables	35,876	9,855
Bank borrowings	2,509,050	1,735,992
Bonds and debentures	544,320	542,817
Other liabilities and accruals	7,620	10,902
Total liabilities	3,841,738	4,836,525
Total equity and liabilities	6,374,229	7,596,523

The balance sheet of the Company was approved by the Board of Directors on 14 March 2023 and was signed on its behalf.

ZHANG Mingao
Director

POON Ho Man
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 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 2022	2,214,004	471,232
Comprehensive income		
Profit for the year	–	70,222
Total comprehensive income	–	70,222
Transactions with shareholders		
Dividends	4,074	(304,972)
Cancellation of shares	495	–
Share option scheme: – Value of services	3,000	–
Total transactions with shareholders	7,569	(304,972)
Balance as at 31 December 2022	2,221,573	236,482
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 and cancellation 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

38 SUBSIDIARIES

As at 31 December 2022, 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\$584,000,000	100%	Investment/asset holding	Limited liability entity
Aircraft Recycling International Holdings Limited	BVI 24 February 2016	US\$1	100%	Investment holding	Limited liability entity
CALC Bond 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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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 PDP 3 Limited	BVI 15 May 2017	US\$1	100%	Provision of financing	Limited liability entity
CALC PDP 5 Limited	BVI 2 August 2018	US\$1	100%	Provision of financing	Limited liability entity
CALC PDP 8 Limited	Cayman Islands 12 June 2018	US\$1	100%	Provision of financing	Limited liability entity
CALC PDP 9 Limited	Cayman Islands 12 June 2018	US\$1	100%	Provision of financing	Limited liability entity
CALC PDP 10 Limited	Cayman Islands 15 December 2021	US\$10,000,000	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
ZF Ireland Aircraft 69 Limited	Ireland 9 January 2018	EUR1	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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 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 74 Limited	Ireland 20 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 Ireland Aircraft 98 Limited	Ireland 23 September 2019	EUR100	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 99 Limited	Ireland 23 September 2019	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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 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
CALC Enam Limited	Labuan 7 November 2014	US\$10,000	100%	Aircraft leasing	Limited liability entity
CALC Dua Belas Limited	Labuan 22 April 2021	US\$100	100%	Aircraft leasing	Limited liability entity
ZF Finance Limited	Malta 11 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
Linkasia Airlines Group Limited	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\$174,000,000	100%	Investment holding	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
中永崇寧二飛機租賃(上海)有限公司 (Zhongyong Chongning 2 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧三飛機租賃(上海)有限公司 (Zhongyong Chongning 3 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧四飛機租賃(上海)有限公司 (Zhongyong Chongning 4 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
建昭一號租賃(天津)有限公司 (Jianzhao 1 Leasing (Tianjin) Co. Ltd.)	PRC 3 November 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建昭二號租賃(天津)有限公司 (Jianzhao 2 Leasing (Tianjin) Co. Ltd.)	PRC 3 November 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建昭三號租賃(天津)有限公司 (Jianzhao 3 Leasing (Tianjin) Co. Ltd.)	PRC 3 November 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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
中永熙雍一飛機租賃(上海)有限公司 (Zhongyong Xiyong 1 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永熙雍二飛機租賃(上海)有限公司 (Zhongyong Xiyong 2 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永熙雍七飛機租賃(上海)有限公司 (Zhongyong Xiyong 7 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中龍元康租賃(天津)有限公司 (China Aero II Leasing (Tianjin) Company Limited)	PRC 12 October 2016	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
中飛天復租賃(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
中飛租融租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US\$1,000,000,000	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
建鳳五號租賃(天津)有限公司 (Jianfeng 5 Leasing (Tianjin) Co. Ltd.)	PRC 14 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳六號租賃(天津)有限公司 (Jianfeng 6 Leasing (Tianjin) Co. Ltd.)	PRC 16 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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
建鳳七號租賃(天津)有限公司 (Jianfeng 7 Leasing (Tianjin) Co. Ltd.)	PRC 16 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳八號租賃(天津)有限公司 (Jianfeng 8 Leasing (Tianjin) Co. Ltd.)	PRC 13 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳九號租賃(天津)有限公司 (Jianfeng 9 Leasing (Tianjin) Co. Ltd.)	PRC 16 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳十號租賃(天津)有限公司 (Jianfeng 10 Leasing (Tianjin) Co. Ltd.)	PRC 12 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機崇禎租賃(天津)有限公司 (ZJ Chongzhen Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機會昌租賃(天津)有限公司 (ZJ Huichang Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機靖康租賃(天津)有限公司 (ZJ Jingkang Leasing (Tianjin) Co.,Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機弘治租賃(天津)有限公司 (ZJ Hongzhi Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛開禧租賃(天津)有限公司 (CALC Kaixi Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嘉定租賃(天津)有限公司 (CALC Jiading Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天壽租賃(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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
中機治平租賃(天津)有限公司 (ZJ Zhiping Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大曆租賃(天津)有限公司 (ZJ Dali Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機皇慶租賃(天津)有限公司 (ZJ Huangqing Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機證聖租賃(天津)有限公司 (ZJ Zhengsheng Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Mingao (*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. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon
Mr. FAN Chun Wah, Andrew, J.P.

COMPOSITION OF COMMITTEES

Audit Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Mr. FAN Yan Hok, Philip
Dr. TSE Hiu Tung, Sheldon

Remuneration Committee

Mr. FAN Yan Hok, Philip (*Chairman*)
Mr. WANG Hongyang
Mr. POON Ho Man
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon

Nomination Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Mr. FAN Yan Hok, Philip
Dr. TSE Hiu Tung, Sheldon

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

32/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY'S WEBSITE

www.calc.com.hk

INVESTOR RELATIONS CONTACT

ir@calc.com.hk

PRINCIPAL BANKERS AND FINANCIAL INSTITUTIONS

Agricultural Bank of China Limited
Airbus Bank GmbH
AV Airfinance Limited
Bank of Beijing Co., Ltd.
Bank of China Limited
Bank of Communications Co., Ltd.
The Bank of East Asia, Limited
Bank of Jiangsu Co., Ltd.
Bank of Ningbo
BNP Paribas
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
CTBC Bank Co., Ltd.
Deutsche Bank AG
Evergrowing Bank Co., Ltd.
The Export-Import Bank of China
Far Eastern International Bank, Ltd.
Fubon Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
Industrial Bank Co., Ltd.
KB Kookmin Bank
Korea Development Bank
KfW IPEX-Bank GmbH
MUFG Bank, Ltd.
Nanyang Commercial Bank, Limited
Ping An Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
Société Générale
Tai Fung Bank Limited

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
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

01848