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CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED

中國飛機租賃集團控股有限公司

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

(Stock code: 1848)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The Board of Directors (the “**Board**”) of China Aircraft Leasing Group Holdings Limited (the “**Company**”) announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2023 as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2023	2022	
	<i>HK\$'Million</i>	<i>HK\$'Million</i>	
Total revenue	4,763.7	4,171.0	+14.2%
Profit attributable to shareholders of the Company	28.3	73.6	-61.5%
Profit for the year	220.2	215.7	+2.1%
EBITDA	4,377.0	3,490.6	+25.4%
Cash and cash equivalents (As at 31 December)	5,295.9	3,552.5	+49.1%
Final dividend per share (<i>HK\$</i>)	0.15	0.15	–
Full year dividend per share (<i>HK\$</i>)	0.30	0.30	–
Adjusted profit attributable to shareholders of the Company ^{Note}	184.9	36.2	+410.8%
Adjusted profit for the year ^{Note}	376.8	178.3	+111.3%

Note: Non-GAAP measures are defined in the “RECONCILIATIONS OF NON-GAAP MEASURES” section.

CHAIRMAN’S STATEMENT

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 2023.

RESULTS AND DIVIDEND

In 2023, while the global aviation market rebounded strongly with an encouraging pick-up in overall passenger traffic and the operating performance of airlines has significantly improved, the industry was still subject to the impact from various factors such as interest rate fluctuations, geopolitical conflicts, and supply chain issues. In the face of complex external environment, the Group has adhered to the high quality sustainable development philosophy, and proactively managed its fleet portfolio by leveraging its professional asset management advantages. On the one hand, the Group has grasped the business opportunities brought by the recovery of demand, and on the other hand, the Group has responded flexibly to various challenges and achieved a year of solid development by prudent operations.

During the twelve months ended 31 December 2023 (the “**Review Year**”), the Group’s total revenue was HK\$4,763.7 million, up 14.2% year-on-year (2022: HK\$4,171.0 million). During the Review Year, profit attributable to shareholders of the Company was HK\$28.3 million, representing a decrease year-on-year (2022: HK\$73.6 million).

The Board has recommended payment of a final dividend of HK\$0.15 per ordinary share. Together with the 2023 interim dividend of HK\$0.15 per share already paid, total dividend payout for the year 2023 amounted to HK\$0.30 (2022: HK\$0.30) per share. The Company has resumed its scrip dividend scheme for the final dividend for 2023. For details, please refer to “FINAL DIVIDEND” section.

DEVELOPMENT HIGHLIGHTS AND STRATEGIC DIRECTION

1) ACCELERATE GLOBAL FOOTPRINT TO PURSUE SUSTAINABLE DEVELOPMENT

During the Review Year, the Group continued to consolidate its solid foundation laid over the years, strengthen its role as a professional aircraft asset manager, deepen and expand the network of global airline partners with the aim to achieve long-term and high-quality sustainable development.

The Group is one of the few lessors worldwide which is capable of direct aircraft procurement from aircraft original equipment manufacturers (OEMs) and has been in close relationship with them. During the Review Year, we celebrated the 10th anniversary of our cooperation with the long-term strategic partner, Airbus S.A.S (“**Airbus**”) at our French delivery center in Toulouse. During the past decade, the Group has grown and thriven together with Airbus. As the first Chinese lessor to place bulk order of 100 A320 aircraft directly from Airbus, the Group has introduced the first batch of Airbus fleet to startup airlines in Mainland China and assisted the regional airlines in China to optimize their fleet through its full-value-chain business model. As at 31 December 2023, the Group was the sixth largest lessor customer of Airbus in terms of accumulated orders. During the Review Year, we also delivered the first brand-new Boeing B737 MAX aircraft from the order book, marking another milestone in the cooperation between the two parties.

Leveraging on the advantages of high-quality order book assets and full-value-chain operation, the Group continued to provide global airline customers with high value-added one-stop fleet solution during the Review Year. The Group set foot in the Africa, Central Asia and Oceania market for the first time and reached its first-ever new aircraft leasing collaboration with various top-tier airlines to explore the three new fast-growing regions and further diversify the geographical mix of its customer base.

At the same time, in line with the new industry trend in the context of “green aviation”, the Group cooperated with aviation partners to promote a low-carbon transition in the aviation industry. With a sufficient new generation aircraft on backlog, we assist airlines in optimizing their fleet portfolio, improving the levels of energy savings and emission reduction. Meanwhile, through the two major fully-licensed domestic and overseas aircraft recycling facilities, we provide global customers with one-stop aircraft full life-cycle green solutions. During the Review Year, the Group delivered 5 A320 CEO aircraft to and signed letter of intent for leasing 3 brand-new A320 NEO aircraft with a prominent airline group in South America, from whom China Aviation Aftermarket Holdings Limited (“**CAAM**”), the Group’s associate company, also purchased 6 airframes earlier to assist their retirement. Furthermore, the Group has made significant efforts to promote the development of green financing. By introducing green aviation finance products, we are able to offer investors a wider range of investment options while fulfilling our corporate responsibilities. These initiatives reflect the Group’s commitment to reducing carbon emissions and promoting sustainability in the aviation industry.

AWARDS

During the Review Year, the Group was awarded “Sustainability Debt Deal of the Year” by *Airline Economics* in 2023. This was a recognition of the Group’s success in issuing the first-ever low-carbon transition bond in the Chinese aviation and aircraft leasing industry. The Group supported the aviation industry to move towards a sustainable future through innovative deal, on top of its conventional aircraft leasing business.

2) COMMITTED TO SERVING THE NATION’S CIVIL AVIATION STRATEGY AS THE VANGUARD IN PROMOTING OVERSEAS EXPANSION OF CHINA-MADE COMMERCIAL JET

In December 2022, the Group delivered a COMAC ARJ21 aircraft to its associate company, PT Transnusa Aviation Mandiri (“**TransNusa**”) in Indonesia, witnessed and participated with honor in the successful launch and overseas operation of China’s domestically developed aircraft. In the Review Year, the Group continued to promote the healthy development of TransNusa. Following the completion of the first commercial debut flight of its first ARJ21 aircraft in April, the Group delivered its second ARJ21 aircraft to TransNusa to promote the regular operation of its overseas commercial flights, and it launched several popular routes consecutively such as routes to Bali, Yogyakarta, Kuala Lumpur and Johor Bahru of Malaysia. Accumulated number of passenger carried amounted to over 100,000 for the whole year.

As the China-made commercial jet has entered the new stage of commercialization and international expansion, in order to further realize the strategic cooperation spirit of the China Everbright Group, in recent years, the Group has also stepped up to assist COMAC to communicate and exchange with various government bodies and relevant departments, to strategically guide the development of cross-border trading and leasing of China-made aircraft, and enhanced components supply in overseas market, contributing to the development of China’s civil aviation industry.

3) STRIVE TO IMPROVE THE INTERNATIONAL RATING BY VARIOUS MEASURES

The Group has embarked on a new phase of high-quality development, and the upgrading of international credit rating has become one of the key development targets of the Group in this stage of its development. During the Review Year, the Group proactively strengthened its operational capability by optimizing its asset management strategy, and continued to optimize its debt structure by further expanding its onshore and offshore financing channels and proactive management of liabilities, etc., ensuring the healthy business growth and enhancing financial stability. During the Review Year, CALC was affirmed by major international rating agencies to maintain the existing BB+/Ba1 ratings, and China Asset Leasing Company Limited (“**CALC TJ**”), a wholly-owned subsidiary of the Group mainly operated in China market, received the highest AAA ratings from two major PRC rating agencies, where its operational strength and credit profile have been widely recognized.

The Group is confident, determined, well-planned and motivated to enhance the long-term profitability of the Company, and to enhance investors’ expectations for the long-term development. In the future, the Group will continue to take multiple measures to gather various effective resources, engage in rational planning and consolidation, and strive to achieve an investment-grade international credit rating.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to all members of the Board and the management team of the Company and the heartfelt appreciation to all the staff for their dedication and contribution in the past year. On behalf of the Board, I would also like to thank our partners and shareholders for their continuing support and trust to the Group.

ZHANG Mingao

Chairman of the Board of Directors

Hong Kong, 19 March 2024

CEO'S STATEMENT

Industry Overview

In 2023, the global air travel demand has been continuously in recovery and has been basically restored to the level in 2019. Latest air passenger data from International Air Transport Association (IATA) suggested a 36.9% year-on-year growth in total global air traffic (measured in revenue passenger kilometers or RPKs) in 2023, representing 94.1% of 2019 level. The civil aviation industry in China has also restored strong momentum and achieved robust growth. With favorable policies in place at the beginning of the year, there has been a release of travel demand. Domestic passenger transportation volume has already surpassed the level seen in 2019, indicating a return to normal growth. However, international routes have only partially recovered, reaching around 40% of pre-pandemic levels for the time being. Meanwhile, increasing attention has been drawn to the sustainable development of the aviation industry with more efforts in responding to and promoting the process of low-carbon transition.

Despite the overall positive industry trend, the performance of different regions and airlines varied. Additionally, the high-interest-rate environment persists throughout the year while challenges such as engine issues, labour shortages and unexpected safety incidents have sharpened the difficulties in aviation supply chain, posing certain challenges to the aviation industry. Against this backdrop, the Group has been operating prudently and steadily as high-quality fleet assets as well as flexible and versatile solutions have gained recognition from global aviation partners, and its meticulous risk management safeguarded asset value, achieving stable business operation throughout the year. With these efforts, the Group is moving towards sustainable growth in a better state.

Business Review 2023

1) Prudent Fleet Management

During the Review Year, the Group continued to provide new-generation fuel-efficient aircraft models to the airline customers from its order book to help them upgrade their fleet and reduce energy and emission. During the Review Year, the Group has delivered a total of 21 new aircraft, including 2 B737 MAX aircraft that first joined the Group's fleet. At the same time, the Group also injected 1 aircraft into the aircraft asset management joint venture platform and sold a total of 4 aircraft to third parties. As at 31 December 2023, CALC's fleet size increased by 16 to 192 compared to that at the end of 2022, including 165 owned aircraft and 27 managed aircraft.

In respect of aircraft asset allocation, CALC has maintained a modern fleet portfolio consisting of the most popular aircraft models. As at 31 December 2023, by number of aircraft, 90% of CALC's owned fleet were narrow-body models, a highly liquid asset class which was popular in the market and led this round industry recovery by surpassing 2019 level. With its quality fleet assets, as at 31 December 2023, except for 1 aircraft involving a Russian airline and 1 repossessed aircraft with a signed letter of intent for leasing, all CALC's owned fleet have been mandated for lease. As at 31 December 2023, the average age of CALC's own fleet was 8.5 years and the average remaining lease term was 5.7 years.

In terms of aircraft procurement, the Group is committed to investing in the new generation fuel-efficient aircraft models while actively participating in facilitating the commercial operation of China-made aircraft. Despite the purchase commitments of 64 aircraft had been novated to a third party during the year as detailed in the Company's announcement dated 14 August 2023, the Group still maintained a sufficient order book to support the long-term business growth. As at 31 December 2023, the Group had a total of 141 aircraft on backlog, including 113 Airbus A320 NEO and 28 COMAC ARJ21.

2) *Expansion and Optimization of Global Customer Base*

During the Review Year, the Group continued to maintain its leading position in the Chinese market. As at 31 December 2023, by number of aircraft, 71.5% of the Group's owned fleet were leased to Chinese airline customers (including Hong Kong, Macau and Taiwan), most of which were first-tier airlines with strong financial strength.

At the same time, the Group continued to accelerate global expansion and enhance the geographical diversification of its customer base: A total of 34 letters of intent for aircraft leasing was signed with overseas airline customers during the year. Among all the new deliveries during the year, 13 were leased to overseas airlines and 8 were leased to Chinese airlines, including cooperation with 6 first-tier airlines in new aircraft leasing for the first time. The Group also closely followed the operation of its airline customers, and, through the close collaboration of the risk management team, technical team and sales team, the Group successfully repossessed 9 aircraft during the Review Year and quickly redelivered them to several overseas leading airlines. Benefiting from the further improvement in the overall quality of our customers, the majority of airline customers have shown improved business performance during the year. The Group achieved an overall rent collection ratio of 101.4%.

As at 31 December 2023, the Group's overall customer base, including both owned and managed aircraft, had been enlarged to 41 airlines which widely spread over 20 countries and regions. In terms of order book placement, all aircraft scheduled to be delivered within 21 months from the beginning of 2024 have been mandated for lease, more than half of which will be leased to overseas airline customers, and the proportion of the Group's overseas airline customers is expected to further increase.

3) *Developing Green Financing and Enhancing International Ratings*

During the Review Year, the Group made full use of the advantages of onshore and offshore dual-market financing platforms to vigorously expanded high-quality funding sources, including green financing, to provide adequate liquidity for business development. Meanwhile, through proactive management of liabilities, the Group continued to improve debt structure, laying a solid foundation for achieving investment grade international rating in the next step.

During the Review Year, the Group obtained new financing facilities in excess of HK\$24.0 billion, including aircraft loans, Pre-Delivery Payments (PDP) financing, working capital loans, RMB bonds, etc. to provide strong support for business development. It also included an unsecured revolving syndicated loan, the first sustainability-linked PDP syndicated loan in the aviation leasing industry worldwide to provide an another green financing channel to the Group. As at 31 December 2023, the Group's cash and bank balances amounted to HK\$5,840.4 million.

In terms of bond issuance, during the Review Year, in view of the relatively stable interest rate environment and abundant liquidity supply in PRC market, the Group increased its financing in PRC capital market and actively expanded the green financing channels, successfully issued the first and second tranches of low-carbon transition corporate bonds of RMB1.5 billion and RMB500.0 million, respectively, each of which had a term of three years. Both issuances were oversubscribed by nearly 2 times, which fully demonstrated the extensive recognition of the Group's operational strength by Chinese bond investors and their strong support for the Group's strategy to promote low-carbon sustainable development. In terms of settlement, the Group has repaid the RMB1.0 billion super short-term debentures due in July 2023 and the RMB100.0 million corporate bonds due in August 2023 on a timely basis. At the same time, the Group also took the initiative to manage its liabilities by commencing tender offer for existing USD bonds in September 2023, and ultimately accepted all valid tenders in the principal amount of US\$51.1 million in full pursuant to the offer and completed the cash repurchase. In December 2023, the Group completed the redemption of the principal amount of US\$100.0 million perpetual bonds.

During the Review Year, the Group was again recognized by both the domestic and international rating agencies. In terms of international ratings, Fitch affirmed CALC's Long-Term Issuer Default Rating at BB+ with a stable outlook. Moody's affirmed CALC's Corporate Family Rating at Ba1 with a stable outlook. Moreover, CALC TJ, a wholly-owned subsidiary of the Group mainly operated in China market, received an AAA issuer rating from Dagong Global Credit Rating Co., Ltd and an upgrade to AAA rating from China Cheng Xin International Credit Rating Co., Ltd, both with a stable outlook. The Group has identified enhancing its international credit rating as one of its key development targets at this stage. In the future, the Group will continue to pay close attention to the changes in the onshore and offshore markets, actively explore various financing channels and innovative instruments including green financing, increase unsecured financing, and continue to optimize its debt structure, striving to achieve investment grade international rating so as to reduce its overall financing costs effectively.

4) *Strengthening the Capacity of Full-Value-Chain Services*

Adhering to its strategy of sustainable development, the Group actively made lay-out in the low-carbon cycle economy and continued to enhance the management capability of the aircraft full life cycle, making further progress in areas such as maintenance, repair and overhaul (“**MRO**”), aircraft disassembly and recycling during the Review Year.

During the year, the Group's MRO joint venture FL ARI Aircraft Maintenance & Engineering Company Ltd (“**FL ARI**”) successively obtained the base maintenance license from Civil Aviation Administration of China for 3C-check of A320 series aircraft and B737 NG series aircraft, improving its maintenance and overhaul capabilities further and provided airline MRO services to a total of 13 well-known Chinese airlines.

During the Review Year, CAAM, the Group's associate company, completed the comprehensive solutions to assist Air China Limited to retire 5 aged aircraft. CAAM successfully maximized the residual value of the assets through a series of complex sustainability solutions including parts swap, “passenger-to-freighter” conversions, portfolio trading, aircraft disassembly, component repair and sales.

Prospects

Following several positive adjustments in 2023, the global aviation industry is about to enter a new cycle of growth. The strong growth in demand and improvement of profitability in airlines will create enormous development opportunities for the airline industry. According to IATA data, the global air travel demand continued to grow strongly in the beginning of 2024, with RPK grew by 16.6% year-on-year in January 2024, reaching 99.6% of the 2019 level. IATA also significantly raised its profit forecast for the global aviation industry in 2023 in its latest December forecast. It also predicted further improvement in the overall industry profitability in 2024 when net profit was expected to rise by 10.3% to US\$25.7 billion.

Despite the rebound in demand, the aviation supply chain still faces challenges. Speed-up in aircraft OEMs' production capacity is below expectation, resulting the shortage of aircraft supply, particularly for narrow-body aircraft. The industry generally expects that the narrow-body aircraft shortage as represented by Airbus A320 series will persist at least until 2027, thereby boosting the demand of aircraft leasing. As a result, the penetration rate of aircraft leasing is expected to further increase, and the market value and lease rate of aircraft are expected to continue the growth momentum of the past two years and remain positive.

At the same time, the market is generally of the view that the USD interest rate has reached its peak, and the rate cut cycle is expected to start in 2024, which will help reduce market funding costs and speed up the recovery of the aircraft trading market.

In general, in the face of an increasingly loosen market environment, on the one hand, the Group will continue to capitalize on its advantages in the aircraft full-value-chain operation and grasp the business opportunities brought by the rapid recovery of China and overseas aviation markets as well as the opportunities emerging from airlines' accelerated fleet replacement and optimization in response to the trend of green aviation, so as to enhance its one-stop fleet upgrade service capabilities. Meanwhile, the Group will also continue to serve the national strategy with ARJ21 aircraft as a bridge to collaborate the government and the industry to promote China-made commercial jet to go globally and also help the Company to further explore global market, and become the world's leading aircraft lessor by seizing the opportunity. On the other hand, the Group will also actively explore the interests of aviation investment community in aircraft asset, seize quality trading opportunities in a timely manner to speed up portfolio trade to optimize fleet portfolio. Meanwhile, the Group will further optimize its financial structure and enhance its operational capabilities and credit standing comprehensively, so as to create higher value for our shareholders, bond investors, investors of managed aircraft asset, airline customers, aircraft OEMs, financiers, and other stakeholders.

Mr. POON Ho Man

Executive Director and Chief Executive Officer

Hong Kong, 19 March 2024

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 profit for the year, adjusted earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) and adjusted earnings per share (“**EPS**”) (Basic), which are calculated by excluding the fair value changes on CAG Group which 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	
	2023	2022
	<i>HK\$’Million</i>	<i>HK\$’Million</i>
Profit attributable to shareholders of the Company	28.3	73.6
<i>Add:</i> Fair value losses/(gains) on CAG Group	<u>156.6</u>	<u>(37.4)</u>
Adjusted profit attributable to shareholders of the Company	<u>184.9</u>	<u>36.2</u>
Profit for the year	220.2	215.7
<i>Add:</i> Fair value losses/(gains) on CAG Group	<u>156.6</u>	<u>(37.4)</u>
Adjusted profit for the year	<u>376.8</u>	<u>178.3</u>
EBITDA	4,377.0	3,490.6
<i>Add:</i> Fair value losses/(gains) on CAG Group	<u>156.6</u>	<u>(37.4)</u>
Adjusted EBITDA	<u>4,533.6</u>	<u>3,453.2</u>
EPS (Basic) (<i>HK\$</i>)	0.038	0.099
<i>Add:</i> Adjustment per share related to fair value losses/(gains) on CAG Group (<i>HK\$</i>)	<u>0.210</u>	<u>(0.050)</u>
Adjusted EPS (Basic) (<i>HK\$</i>)	<u>0.248</u>	<u>0.049</u>

The Company uses non-GAAP presentations in the consolidated statement of income as presented on page 12 in evaluating its operating results and for financial and operational decision-making purposes. The Company believes that the non-GAAP presentations provide more accurate presentations in its business by classifying the compensation received from aircraft remained in Russia as operating income and excluding the payments related to the trust plans or asset-backed securities programme from interest expenses.

1. CONSOLIDATED STATEMENT OF INCOME

	Year ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Total revenue		
Lease income		
Finance lease income	600,996	574,683
Operating lease income	<u>3,598,207</u>	<u>2,967,565</u>
	4,199,203	3,542,248
Other operating income		
Net income from aircraft transactions and aircraft components trading	124,501	207,072
Other income	<u>439,993</u>	<u>421,682</u>
	4,763,697	4,171,002
Compensation received from aircraft remained in Russia	<u>185,384</u>	–
	4,949,081	<u>4,171,002</u>
Expenses		
Interest expenses and payments to trust plans	(2,244,481)	(1,610,507)
– Interest expenses	(1,953,515)	(1,304,746)
– Payments to trust plans	(290,966)	(305,761)
Depreciation and impairment	(1,618,823)	(1,356,612)
Expected credit losses	(51,038)	(83,355)
Other operating expenses	<u>(341,044)</u>	<u>(345,335)</u>
	(4,255,386)	(3,395,809)
Operating profit	693,695	775,193
Net write-off of aircraft remained in Russia	–	(439,029)
Share of results from associates and joint ventures	(389)	2,682
Fair value (losses)/gains on CAG Group	(156,568)	37,418
Other (losses)/gains, net	<u>(23,003)</u>	<u>147,201</u>
Profit before income tax	513,735	523,465
Income tax expenses	<u>(293,578)</u>	<u>(307,781)</u>
Profit for the year	220,157	215,684
Profit attributable to		
Shareholders of the Company	28,256	73,598
Holders of perpetual capital securities and other non-controlling interests	<u>191,901</u>	<u>142,086</u>
	220,157	215,684
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$ per share)		
– Basic earnings per share	<u>0.038</u>	<u>0.099</u>
– Diluted earnings per share	<u>0.038</u>	<u>0.099</u>

RESULTS

Total revenue of the Group was HK\$4,763.7 million in 2023. After including compensation received from aircraft remained in Russia, it was HK\$4,949.1 million in 2023, an increase of HK\$778.1 million or 18.7% from HK\$4,171.0 million in 2022. Operating profit for the year in 2023 amounted to HK\$693.7 million, a decrease of HK\$81.5 million or 10.5% compared with HK\$775.2 million in 2022. Profit attributable to shareholders of the Company in 2023 amounted to HK\$28.3 million, a decrease of HK\$45.3 million or 61.5% compared with HK\$73.6 million in 2022. Profit for the year in 2023 amounted to HK\$220.2 million, an increase of HK\$4.5 million or 2.1% compared with HK\$215.7 million in 2022. EBITDA in 2023 amounted to HK\$4,377.0 million, an increase of HK\$886.4 million or 25.4% from HK\$3,490.6 million in 2022.

After excluding the fair value changes on CAG Group, adjusted profit attributable to shareholders of the Company in 2023 amounted to HK\$184.9 million, an increase of HK\$148.7 million or 410.8% compared with HK\$36.2 million in 2022. Adjusted profit for the year in 2023 amounted to HK\$376.8 million, an increase of HK\$198.5 million or 111.3% compared with HK\$178.3 million in 2022. Adjusted profit attributable to shareholders of the Company and adjusted profit for the year are calculated by excluding the fair value changes on CAG Group, which was an exceptional item and a non-cash transaction.

Total assets amounted to HK\$59,824.7 million as at 31 December 2023, compared with HK\$55,332.1 million as at 31 December 2022, an increase of HK\$4,492.6 million or 8.1%. The increase in assets was mainly due to the increase in the total fleet size of the Group from 150 aircraft as at 31 December 2022 to 165 aircraft as at 31 December 2023.

Total liabilities amounted to HK\$54,684.7 million as at 31 December 2023, an increment of HK\$5,608.8 million or 11.4% compared with HK\$49,075.9 million as at 31 December 2022, 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 by HK\$5,407.4 million, which mainly due to the increase in total fleet size of the Group. As at 31 December 2023, the interest-bearing debts of the Group amounted to HK\$50,511.5 million (2022: HK\$45,104.1 million).

1.1 Total Revenue

For the year ended 31 December 2023, the total revenue (after including compensation received from aircraft remained in Russia) amounted to HK\$4,949.1 million, compared with HK\$4,171.0 million in 2022, an increase of HK\$778.1 million or 18.7%.

Total lease income from finance leases and operating leases for the year 2023 amounted to HK\$4,199.2 million, compared with HK\$3,542.2 million in 2022, an increase of HK\$657.0 million or 18.5%. The increase in total lease income was mainly due to the increase in the fleet size of the Group from 150 aircraft as at 31 December 2022 to 165 aircraft as at 31 December 2023.

For the year ended 31 December 2023, the Group's average lease rental yield of the finance leases and operating leases was 13.2% (2022: 13.8%) and 11.4% (2022: 11.7%), respectively. 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 11.4% (2022: 11.9%).

1.2 Other Operating Income

1.2.1 Net Income from Aircraft Transactions and Aircraft Components Trading

During the year ended 31 December 2023, the Group recognised net gain from disposal of five aircraft, novation of aircraft purchase agreement and aircraft components trading amounted to HK\$124.5 million (2022: net gain from disposal of five aircraft and aircraft components trading amounted to HK\$207.1 million). The aggregated net book value of the aircraft disposed amounted to HK\$1,592.5 million (2022: HK\$2,136.8 million).

1.2.2 Other Income

During the year ended 31 December 2023, the Group had the following other income:

	Year ended 31 December		Change
	2023	2022	
	HK\$'Million	HK\$'Million	
Government grants	171.8	212.0	-19.0%
Interest income from loans to associates and joint ventures	110.7	100.1	+10.6%
Bank interest income	87.9	32.7	+168.8%
Asset management service fees income from CAG Group	18.4	19.2	-4.2%
Others	51.2	57.7	-11.3%
Total other income	<u>440.0</u>	<u>421.7</u>	<u>+4.3%</u>

Government grants for the year ended 31 December 2023 amounted to HK\$171.8 million, representing a decrease of HK\$40.2 million or 19.0% compared with HK\$212.0 million in 2022.

Others mainly related to interest received on deferred operating lease receivables, compensation and amounts received from suppliers.

1.2.3 Compensation Received from Aircraft Remained in Russia

Following the conflicts between Russia and Ukraine in February 2022 and subsequent sanctions in relation to commercial activities with businesses in Russia 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. The Group has been vigorously pursuing all available means to recover its losses.

The aircraft had been fully written off during the year ended 31 December 2022. During the year ended 31 December 2023, the Group received HK\$185.4 million insurance settlement and released its claim on one of the aircraft to a Russian lessee. As such, the compensation received would be recognised as other income during the year ended 31 December 2023.

The Group will continue to seek different ways to recover the losses on the remaining aircraft, including closely monitoring the insurance claims process, maintaining dialogue with the Russian lessee, and actively seeking to repossess the aircraft or disposing the aircraft directly to the lessee.

1.3 Expenses

1.3.1 Interest Expenses and Payments to Trust Plans

For the year ended 31 December 2023, interest expenses incurred by the Group amounted to HK\$1,953.5 million compared with HK\$1,304.7 million in 2022, an increase of HK\$648.8 million or 49.7%. The increase in interest expenses was mainly due to the increase in bank and other borrowings from HK\$33,084.7 million as at 31 December 2022 to HK\$38,240.0 million as at 31 December 2023 and the increase in average US\$ SOFR from 2.18% in 2022 to 4.84% in 2023. The average effective interest rate of bank and other borrowings during the year was 6.12% (2022: 4.20%).

The Group had entered into agreements with several independent trusts in realisation of the Group’s finance lease receivables. During the year ended 31 December 2023, payments to trust plans amounted to HK\$291.0 million, a decrease of HK\$14.8 million or 4.8% compared with HK\$305.8 million in 2022.

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 interest rate for the unhedged exposure as at 31 December 2023:

US\$ interest rate	Impact on	
	Cash outflow <i>HK\$'Million</i>	Profit attributable to shareholders of the Company <i>HK\$'Million</i>
Increased by 100 basis points	206	(149)
Decreased by 100 basis points	(206)	149

1.3.2 Depreciation and Impairment

The amount represented depreciation and impairment on aircraft under operating leases, leasehold improvements, office equipment, office building, right-of-use assets and other assets. Depreciation and impairment for the year ended 31 December 2023 was HK\$1,618.8 million compared with HK\$1,356.6 million in 2022, an increase of HK\$262.2 million or 19.3%. This was mainly attributable to the increase in the number of aircraft under operating leases, from 101 aircraft as at 31 December 2022 to 117 aircraft as at 31 December 2023, and impairment to aircraft during the year. The Group will closely monitor the aircraft book value and reassess the carrying amounts of the aircraft whenever there are events or changes in circumstances that would indicate that the carrying amounts of aircraft be adversely affected and would make appropriate provision when necessary.

The accumulated depreciation and impairment on aircraft under operating leases as at 31 December 2023 was HK\$5,275.6 million compared with HK\$4,174.9 million, an increase of HK\$1,100.7 million or 26.4%.

1.3.3 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.

1.4 Fair Value (Losses)/Gains on CAG Group

Pursuant to the announcements of the Company dated 28 December 2017 and 26 June 2018 and the Circular dated 29 December 2017, CAG Bermuda 1 Limited (“**CAG**”) and its subsidiaries (collectively, “**CAG Group**”) was established in 2018 by the Group with independent third parties for investing in a portfolio of lease-attached aircraft to support the continuing expansion of the Group’s business operations. These lease-attached aircraft were disposed to CAG Group by the Group.

CAG Group was held as to 20% by the Group and 80% by the independent third parties and was funded by way of shareholders’ loan and other debt financing from banks.

The establishment of CAG Group supported the Group’s strategy of developing an asset light business model that provides vast capacity for its continuing business expansion. By providing aircraft and leasing management service to CAG Group, the Group further expanded its asset management capabilities, hence strengthened its position as an aircraft full value chain solutions provider for the global aviation industry. CAG Group also enabled the Group to tap into the strong demand for quality aircraft assets with stable and long-term cash flow from investors.

The debt financing and shareholders’ loan in CAG Group had an original duration of six years, which would be expiring in June 2024. The extension of both the debt financing and shareholders’ loan is undergoing and the management of the Group is confident that the extension of the debt financing and shareholders’ loan in CAG Group would be successful.

As at 31 December 2023, CAG Group had a portfolio of 23 aircraft. The outstanding debt financing from banks was US\$586.6 million (equivalent to approximately HK\$4,580.2 million) and shareholders’ loan was US\$460.1 million (equivalent to approximately HK\$3,592.5 million). The total outstanding debt financing from banks and shareholders’ loan were US\$1,046.7 million (equivalent to approximately HK\$8,172.7 million).

Since the repayment of the shareholder's loan held by the Group is subordinated to the debt financing from banks and the shareholders' loan held by other independent third parties, the management of the Group would assess the recoverability of the shareholder's loan in CAG Group prudently, and reflect the fair value changes on CAG Group when necessary.

As at 31 December 2023, the Group's outstanding shareholder's loan in CAG Group was US\$94.2 million (equivalent to approximately HK\$735.4 million). Since the shareholder's loan was classified as a financial asset at fair value through profit or loss, the management of the Group was required to assess the fair value of the shareholder's loan periodically in accordance with the applicable accounting standard. Due to the continuous interest rate hikes and the expectation of the interest rate to be maintaining at a high level, after careful consideration by the Group's management, a prudent provision of US\$20.0 million (equivalent to approximately HK\$156.6 million) was provided on the shareholder's loan in CAG Group. The net carrying amount of the Group's outstanding shareholder's loan in CAG Group was US\$74.2 million (equivalent to approximately HK\$579.3 million), as included in financial assets at fair value through profit or loss as presented on page 44 of this announcement.

The management of the Group would continue to perform fair value assessment on the Group's outstanding shareholder's loan in CAG Group periodically. The amount of provision may be adjusted in the future according to the fair value assessment result.

The fair value changes on CAG Group were non-cash transactions and there was no impact on the cash flows of the Group for both years.

1.5 Other (Losses)/Gains, Net

	Year ended 31 December		Change
	2023	2022	
	<i>HK\$'Million</i>	<i>HK\$'Million</i>	
Currency exchange gains in RMB	73.3	334.7	-78.1%
Fair value losses on currency forward contracts in RMB	<u>(126.0)</u>	<u>(149.2)</u>	<u>-15.5%</u>
Net exchange (losses)/gains in RMB	(52.7)	185.5	N/A
Currency exchange losses in US\$	(1.3)	(11.2)	-88.4%
Fair value gains on investment in aircraft modification	27.6	–	N/A
Fair value losses on financial assets at fair value through profit or loss	(1.6)	–	N/A
Changes in fair value attributable to interest rate	0.5	(25.9)	N/A
Unrealised gains/(losses) on currency swap	<u>4.5</u>	<u>(1.2)</u>	<u>N/A</u>
Total	<u><u>(23.0)</u></u>	<u><u>147.2</u></u>	<u><u>N/A</u></u>

The net exchange losses arising from net financial liabilities denominated in RMB was mainly due to the appreciation of US\$ exchange rate against RMB from 6.90 as at 31 December 2022 to 7.07 as at 31 December 2023. The following table illustrates the foreign currency exposure in RMB as at 31 December 2023 and the related gains/ (losses) in RMB for the year ended 31 December 2023.

Balance of RMB exposure	As at	Related gains/(losses)	arising from RMB exposure
	31 December		Year ended
	2023		31 December
	<i>HK\$'Million</i>		2023
			<i>HK\$'Million</i>
Net financial liabilities denominated in RMB exposed to currency exchange risk	(8,102.9)	Currency exchange gains in RMB	73.3
<i>Less:</i> Hedged by notional amount of RMB currency forward contracts	<u>2,595.8</u>	Fair value losses on currency forward contracts in RMB	<u>(126.0)</u>
Unhedged RMB currency exchange risk exposure <i>(note)</i>	<u>(5,507.1)</u>	Net exchange losses in RMB	<u>(52.7)</u>

Note: Equivalent to RMB4,985.6 million.

The following table summarises the sensitivity test on change in US\$ against RMB exchange rate for the year ended 31 December 2023:

RMB against US\$	Impact on profit attributable to shareholders of the Company HK\$'Million
RMB appreciates by 10%	(550.7)
RMB depreciates by 10%	550.7

1.6 Income Tax Expenses

Income tax for the year ended 31 December 2023 was HK\$293.6 million compared to HK\$307.8 million in 2022. Certain deferred tax credit had not been recognised in respect of certain tax losses incurred. The Group would evaluate regularly to consider the recognition of the deferred tax credit in future.

2. CONSOLIDATED BALANCE SHEET

2.1 Assets

As at 31 December 2023, the Group's total assets amounted to HK\$59,824.7 million compared with HK\$55,332.1 million as at 31 December 2022, an increase of HK\$4,492.6 million or 8.1%.

	As at 31 December		Change
	2023 <i>HK\$'Million</i>	2022 <i>HK\$'Million</i>	
Property, plant and equipment and right-of-use assets (mainly "Aircraft under operating leases")	33,493.8	27,354.4	+22.4%
Finance lease receivables – net ("Aircraft under finance leases")	8,577.3	8,172.1	+5.0%
Assets classified as held for sale ("Aircraft under operating leases for trading")	1,425.3	1,425.2	–
Pre-Delivery Payments ("PDP") and other prepayments and receivables relating to aircraft acquisition	7,626.3	10,445.4	-27.0%
Prepayments and other assets	649.1	922.2	-29.6%
Investments in and loans to associates and joint ventures	1,529.6	1,354.4	+12.9%
Financial assets at fair value through profit or loss	621.7	769.5	-19.2%
Derivative financial assets	61.2	221.4	-72.4%
Restricted cash	544.5	1,115.0	-51.2%
Cash and cash equivalents	5,295.9	3,552.5	+49.1%
Total assets	<u>59,824.7</u>	<u>55,332.1</u>	<u>+8.1%</u>

2.1.1 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 and impairment. 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 97 aircraft as at 31 December 2022 to 113 aircraft as at 31 December 2023, netted-off by the depreciation and impairment 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. There was a disposal of one aircraft under finance lease in the current year. The fleet size of the Group under finance lease decreased from 49 aircraft as at 31 December 2022 to 48 aircraft as at 31 December 2023.

Assets classified as held for sale represented the cost of assets expected to be disposed in the next twelve months. The number of aircraft classified as held for sale remained unchanged at four aircraft in the current year.

The total fleet size of the Group under property, plant and equipment and right-of-use assets, finance lease receivables – net and assets classified as held for sale is summarised as follows:

	As at 31 December	
	2023	2022
	Owned Aircraft	Owned Aircraft
Property, plant and equipment and right-of-use assets (Operating leases)	113	97
Finance lease receivables – net (Finance leases)	48	49
Assets classified as held for sale (Operating leases)	4	4
	<hr/>	<hr/>
Total <i>(note)</i>	<u>165</u>	<u>150</u>

Note: Including one aircraft remained in Russia as at 31 December 2023 (2022: two).

The total fleet size of the Group under property, plant and equipment and right-of-use assets, finance lease receivables – net and assets classified as held for sale increased from 150 aircraft as at 31 December 2022 to 165 aircraft as at 31 December 2023.

As at 31 December 2023, the aggregate net book value of the aircraft was HK\$42,826.9 million.

2.1.2 Aircraft Portfolio

Aircraft portfolio by number of aircraft is as follows:

	As at 31 December	
	2023	2022
	Owned Aircraft	Owned Aircraft
Aircraft Type		
Airbus A320 CEO family	82	85
Airbus A320 NEO family	43	27
Airbus A330 CEO family	13	13
Boeing B737 NG family	22	23
Boeing B737 MAX family	2	–
Boeing B787	1	1
COMAC ARJ21 series	2	1
	<hr/>	<hr/>
Total <i>(note)</i>	165	150
	<hr/> <hr/>	<hr/> <hr/>

Note: Including one aircraft remained in Russia as at 31 December 2023 (2022: two).

2.1.3 PDP and other Prepayments and Receivables Relating to Aircraft Acquisition

PDP and other prepayments and receivables relating to aircraft acquisition mainly represented PDP made to aircraft manufacturers for aircraft acquisition from order book. The decrease is mainly due to the novation of aircraft purchase agreement.

2.1.4 Prepayments and other Assets

Prepayments and other assets mainly include operating lease receivables.

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

	As at 31 December			
	2023		2022	
	HK\$'Million	%	HK\$'Million	%
Current/deferral	135.6	30%	253.2	52%
Less than 30 days past due	4.2	1%	5.4	1%
30 to 90 days past due	19.3	4%	16.7	3%
More than 90 days past due	<u>289.5</u>	<u>65%</u>	<u>217.1</u>	<u>44%</u>
	<u>448.6</u>	<u>100%</u>	<u>492.4</u>	<u>100%</u>
Less: Accumulated expected credit losses allowance	<u>(203.6)</u>		<u>(187.5)</u>	
Total	<u>245.0</u>		<u>304.9</u>	

With the recovery of aviation industry, there is improvement in the rent collection. The operating lease receivables as at 31 December 2023 amounted to HK\$448.6 million compared with HK\$492.4 million in 2022, a decrease of HK\$43.8 million or 8.9%.

The rent collection ratio, represented by the cash received over the amount of invoice billing, for the year ended 31 December 2023 was 101.4% (2022: 102.4%). The decrease in operating lease receivables is mainly due to the rent collection ratio exceeding 100% and the repayment from the lessees on the overdue rent. The Group would prudently and consistently assess the credit losses allowance on the operating lease receivables, leading to an increase in the expected credit losses allowance.

2.2 Liabilities

As at 31 December 2023, the Group's total liabilities amounted to HK\$54,684.7 million, compared with HK\$49,075.9 million as at 31 December 2022, an increase of HK\$5,608.8 million or 11.4%.

An analysis is given as follows:

	As at 31 December		Change
	2023	2022	
	<i>HK\$'Million</i>	<i>HK\$'Million</i>	
Borrowings	42,911.8	38,001.1	+12.9%
Bonds and debentures	5,943.5	5,406.5	+9.9%
Medium-term notes	1,656.2	1,696.5	-2.4%
Total interest-bearing debts	50,511.5	45,104.1	+12.0%
Deferred income tax liabilities	1,191.5	1,057.1	+12.7%
Interest payables	392.7	297.7	+31.9%
Income tax payables	66.1	45.9	+44.0%
Derivative financial liabilities	147.7	52.5	+181.3%
Other liabilities and accruals	2,375.2	2,518.6	-5.7%
Total liabilities	54,684.7	49,075.9	+11.4%

2.2.1 Borrowings

The analysis of borrowings is as follows:

	As at 31 December		
	2023	2022	Change
	HK\$'Million	HK\$'Million	
Bank and other borrowings			
Bank and other borrowings for aircraft acquisition financing	23,309.6	19,083.2	+22.1%
PDP financing	6,127.8	7,180.3	-14.7%
Other bank borrowings	8,802.6	6,821.2	+29.0%
	38,240.0	33,084.7	+15.6%
Other long-term borrowings			
Borrowings from trust plans	4,263.8	4,527.5	-5.8%
Other borrowings	408.0	388.9	+4.9%
	4,671.8	4,916.4	-5.0%
Total borrowings	42,911.8	38,001.1	+12.9%

The total borrowings increased from HK\$38,001.1 million as at 31 December 2022 to HK\$42,911.8 million as at 31 December 2023 was mainly due to (i) the increase in bank and other borrowings for aircraft acquisition financing by HK\$4,226.4 million as the fleet size increased from 150 aircraft as at 31 December 2022 to 165 aircraft as at 31 December 2023, (ii) the decrease in PDP financing by HK\$1,052.5 million due to the decrease of payment of PDP made to aircraft manufacturers for aircraft acquisition from order book and (iii) the increase in other bank borrowings by HK\$1,981.4 million. The increase in total borrowings is in line with the increase in total assets.

2.2.2 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	1,162.1	(a)&(b)
November 2020	Five years	November 2025	5.90%	US\$35.0	272.4	(d)
January 2021	Five years	January 2026	5.90%	US\$35.0	272.7	(d)
December 2021	Three years	December 2024	4.85%	US\$100.0	708.9	(a)&(c)
				<u>US\$370.0</u>	<u>2,416.1</u>	
February 2022	Three years	February 2025	4.40%	RMB1,200.0	1,323.4	(d)
June 2023	Three years	June 2026	3.85%	RMB1,500.0	1,653.2	(e)
November 2023	Three years	November 2026	3.58%	RMB500.0	550.8	(e)
				<u>RMB3,200.0</u>	<u>3,527.4</u>	
Total bonds and debentures as at 31 December 2023					<u>5,943.5</u>	(f)
Total bonds and debentures as at 31 December 2022					<u>5,406.5</u>	

The bonds and debentures increased from HK\$5,406.5 million as at 31 December 2022 to HK\$5,943.5 million as at 31 December 2023 was mainly due to the net effect of (i) the proceeds from issuance of two three-year RMB corporate bonds with an aggregate carrying amount of HK\$2,204.0 million during the current year; (ii) the repayment of a total of RMB1.1 billion bonds and debentures upon maturity, with an aggregate carrying amount of HK\$1,217.8 million and (iii) the repurchase of US\$51.1 million bonds on the Stock Exchange with an aggregate carrying amount of HK\$400.0 million.

Notes:

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

- (b) During the year ended 31 December 2023, the Group completed bonds repurchase on the Stock Exchange for an aggregate and principal amount of US\$50.7 million.
- (c) During the year ended 31 December 2023, the Group completed bonds repurchase on the Stock Exchange for an aggregate and principal amount of US\$0.4 million.
- (d) The bonds and debentures are unlisted and subscribed by an independent third party.
- (e) The bonds are listed on the Shanghai Stock Exchange.
- (f) Upon maturity in July 2023, the Group fully repaid the super short-term debentures with outstanding principal amount of RMB1.0 billion, bearing coupon interest at 3.56% per annum.

Upon maturity in August 2023, the Group fully repaid the three-year unsecured bonds with outstanding principal amount of RMB100.0 million, bearing coupon interest at 4.2% per annum.

2.2.3 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 <i>(RMB'Million)</i>	Carrying amount <i>(HK\$'Million)</i>
April 2022	Three years	April 2025	4.50%	<u>1,500.0</u>	<u>1,656.2</u>
Total medium-term notes as at 31 December 2023				<u><u>1,500.0</u></u>	<u><u>1,656.2</u></u>
Total medium-term notes as at 31 December 2022					<u><u>1,696.5</u></u>

The senior unsecured medium-term notes issued by the Group remain unchanged at RMB1,500.0 million in the current year.

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

For the year ended 31 December 2023, 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		
	2023	2022	Change
	<i>HK\$'Million</i>	<i>HK\$'Million</i>	
Interest-bearing debts included			
in total liabilities	50,511.5	45,104.1	+12.0%
Total liabilities	54,684.7	49,075.9	+11.4%
Total assets	59,824.7	55,332.1	+8.1%
Total equity	5,140.0	6,256.2	-17.8%
Gearing ratio	84.4%	81.5%	+2.9p.p.
Asset-liability ratio	91.4%	88.7%	+2.7p.p.
Interest-bearing debts to equity ratio	9.8:1	7.2:1	+36.1%

4. HUMAN RESOURCES

As at 31 December 2023, staff of the Group numbered 185 (2022: 169). Total remuneration of employees for 2023 amounted to HK\$171.2 million (2022: HK\$184.1 million).

The Group has established effective employee incentive schemes to link the remuneration of its employees with their overall performance and contributions, and has established a merit-based remuneration awards system. It has also adopted share option schemes for the purpose of recognising the contribution of eligible employees to the growth of the Group.

5. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

5.1 Contingent Liabilities

As at 31 December 2023, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$564.1 million (2022: HK\$604.0 million), of which HK\$217.0 million (2022: HK\$274.4 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\$347.1 million (2022: HK\$329.6 million) of these bank borrowings.

5.2 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\$52.8 billion as at 31 December 2023 (2022: HK\$85.4 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 31 December 2023, the Group had 141 aircraft in its order book, comprising 113 Airbus A320 aircraft family and 28 COMAC ARJ21 series aircraft.

During the year ended 31 December 2023, the Group completed the delivery of 21 aircraft.

During the year ended 31 December 2023, the Group completed the disposal of five aircraft, which included disposal of one aircraft to a joint venture.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2023	2022
		HK\$'000	HK\$'000
ASSETS			
Property, plant and equipment and right-of-use assets		33,493,826	27,354,373
Investments in and loans to associates and joint ventures		1,529,629	1,354,410
Finance lease receivables – net	3	8,577,339	8,172,086
Financial assets at fair value through profit or loss	4	621,749	769,462
Derivative financial assets		61,157	221,399
Pre-Delivery Payments (“PDP”) and other prepayments and receivables relating to aircraft acquisition	5(a)	7,626,274	10,445,430
Prepayments and other assets	5(b)	647,166	916,985
Assets classified as held for sale		1,425,254	1,425,199
Aircraft components trading assets		1,934	5,245
Restricted cash		544,524	1,114,958
Cash and cash equivalents		5,295,875	3,552,533
Total assets		59,824,727	55,332,080
EQUITY			
Share capital		74,436	74,436
Reserves		2,173,544	2,314,613
Retained earnings		2,081,560	2,276,247
Equity attributable to shareholders of the Company		4,329,540	4,665,296
Perpetual capital securities and other non-controlling interests		810,422	1,590,921
Total equity		5,139,962	6,256,217
LIABILITIES			
Deferred income tax liabilities		1,191,479	1,057,059
Borrowings	6	42,911,870	38,001,150
Medium-term notes	7	1,656,173	1,696,509
Bonds and debentures	8	5,943,499	5,406,490
Derivative financial liabilities		147,735	52,543
Income tax payables		66,056	45,850
Interest payables		392,690	297,689
Other liabilities and accruals		2,375,263	2,518,573
Total liabilities		54,684,765	49,075,863
Total equity and liabilities		59,824,727	55,332,080

CONSOLIDATED STATEMENT OF INCOME

		Year ended 31 December	
	Note	2023	2022
		HK\$'000	HK\$'000
Total revenue			
Lease income			
Finance lease income		600,996	574,683
Operating lease income		<u>3,598,207</u>	<u>2,967,565</u>
	9	4,199,203	3,542,248
Other operating income			
Net income from aircraft transactions and aircraft components trading	10	124,501	207,072
Other income	11	<u>439,993</u>	<u>421,682</u>
		<u>4,763,697</u>	<u>4,171,002</u>
Expenses			
Interest expenses		(2,244,481)	(1,610,507)
Depreciation and impairment		(1,618,823)	(1,356,612)
Expected credit losses		(51,038)	(83,355)
Other operating expenses		<u>(341,044)</u>	<u>(345,335)</u>
		<u>(4,255,386)</u>	<u>(3,395,809)</u>
Compensation received from aircraft remained in Russia		185,384	–
Net write-off of aircraft remained in Russia		–	(439,029)
Share of results from associates and joint ventures		(389)	2,682
Other (losses)/gains, net	12	<u>(179,571)</u>	<u>184,619</u>
Profit before income tax		513,735	523,465
Income tax expenses	13	<u>(293,578)</u>	<u>(307,781)</u>
Profit for the year		<u><u>220,157</u></u>	<u><u>215,684</u></u>

	Year ended 31 December	
<i>Note</i>	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to		
Shareholders of the Company	28,256	73,598
Holder of perpetual capital securities and other non-controlling interests	<u>191,901</u>	<u>142,086</u>
	<u>220,157</u>	<u>215,684</u>
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$ per share)		
– Basic earnings per share	<i>14(a)</i> <u>0.038</u>	<u>0.099</u>
– Diluted earnings per share	<i>14(b)</i> <u>0.038</u>	<u>0.099</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	220,157	215,684
Other comprehensive (loss)/income for the year:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges	(149,126)	325,184
Currency translation differences	6,539	(5,990)
	(142,587)	319,194
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Currency translation differences attributed to non-controlling interests	383	1,813
Total other comprehensive (loss)/income for the year, net of tax	(142,204)	321,007
Total comprehensive income for the year	77,953	536,691
Total comprehensive (loss)/income for the year attributable to		
Shareholders of the Company	(114,331)	392,792
Holder of perpetual capital securities and other non-controlling interests	192,284	143,899
	77,953	536,691

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				Perpetual capital securities and other non-controlling interests	Total equity
	Share capital	Reserves	Retained earnings	Total		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2023	74,436	2,314,613	2,276,247	4,665,296	1,590,921	6,256,217
Comprehensive income						
Profit for the year	-	-	28,256	28,256	191,901	220,157
Other comprehensive (loss)/income						
Cash flow hedges	-	(149,126)	-	(149,126)	-	(149,126)
Currency translation differences	-	6,539	-	6,539	383	6,922
Total comprehensive (loss)/income	-	(142,587)	28,256	(114,331)	192,284	77,953
Transactions with shareholders and non-controlling interests						
Redemption of perpetual capital securities	-	-	-	-	(806,115)	(806,115)
Dividends (<i>Note 15</i>)	-	-	(223,306)	(223,306)	-	(223,306)
Dividends distributed to perpetual capital securities	-	-	-	-	(166,668)	(166,668)
Share option scheme:						
– Value of services	-	1,881	-	1,881	-	1,881
– Share options lapsed	-	(363)	363	-	-	-
Total transactions with shareholders and non-controlling interests	-	1,518	(222,943)	(221,425)	(972,783)	(1,194,208)
Balance as at 31 December 2023	74,436	2,173,544	2,081,560	4,329,540	810,422	5,139,962

	Attributable to shareholders of the Company				Perpetual capital securities and other non-controlling interests	Total equity
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2022	<u>74,762</u>	<u>1,987,850</u>	<u>2,507,621</u>	<u>4,570,233</u>	<u>1,447,022</u>	<u>6,017,255</u>
Comprehensive income						
Profit for the year	-	-	73,598	73,598	142,086	215,684
Other comprehensive income/(loss)						
Cash flow hedges	-	325,184	-	325,184	-	325,184
Currency translation differences	-	(5,990)	-	(5,990)	1,813	(4,177)
Total comprehensive income	<u>-</u>	<u>319,194</u>	<u>73,598</u>	<u>392,792</u>	<u>143,899</u>	<u>536,691</u>
Transactions with shareholders and non-controlling interests						
Cancellation of shares	(408)	495	-	87	-	87
Dividends (<i>Note 15</i>)	82	4,074	(304,972)	(300,816)	-	(300,816)
Share option scheme: - Value of services	-	3,000	-	3,000	-	3,000
Total transactions with shareholders and non-controlling interests	<u>(326)</u>	<u>7,569</u>	<u>(304,972)</u>	<u>(297,729)</u>	<u>-</u>	<u>(297,729)</u>
Balance as at 31 December 2022	<u><u>74,436</u></u>	<u><u>2,314,613</u></u>	<u><u>2,276,247</u></u>	<u><u>4,665,296</u></u>	<u><u>1,590,921</u></u>	<u><u>6,256,217</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Profit before income tax	513,735	523,465
Adjustments for:		
– Depreciation and impairment	1,618,823	1,356,612
– Net income from aircraft transactions	(118,276)	(203,991)
– Expected credit losses	51,038	83,355
– Net write-off of aircraft remained in Russia	–	439,029
– Interest expenses	2,244,481	1,610,507
– Share-based payments	1,881	3,000
– Unrealised currency exchange gains	(67,522)	(311,674)
– Fair value changes attributable to interest rate and fair value changes on currency swap and currency forward contracts	121,045	176,241
– Share of results from associates and joint ventures	389	(2,682)
– Interest income	(198,553)	(132,761)
– Fair value losses/(gains) on financial assets at fair value through profit or loss	130,555	(37,418)
	<u>4,297,596</u>	<u>3,503,683</u>
Changes in working capital:		
– Finance lease receivables – net	(389,132)	(448,782)
– Prepayments and other assets	113,966	(98,954)
– Aircraft components trading assets	3,311	4,891
– Other liabilities and accruals	(202,721)	529,082
	<u>3,823,020</u>	<u>3,489,920</u>
Cash generated from operations	3,823,020	3,489,920
Income taxes paid	(137,146)	(141,333)
	<u>3,685,874</u>	<u>3,348,587</u>
Net cash flows generated from operating activities	<u>3,685,874</u>	<u>3,348,587</u>

	Year ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,090,351)	(7,059,005)
Proceeds from disposal of aircraft and novation of aircraft purchase agreement	6,284,570	2,465,665
PDP and prepayments paid for acquisition of aircraft	(4,970,414)	(3,875,665)
PDP refunded	821,911	1,920,401
Interest received	212,681	119,290
Payments relating to financial assets at fair value through profit or loss	(62,280)	(30,696)
Proceeds from distribution of financial assets at fair value through profit or loss	97,592	53,907
Investment in associates and joint ventures	–	(5,152)
Payments relating to loans to associates and joint ventures	(611,795)	(335,498)
Repayments of loans to associates and joint ventures	352,635	217,488
Net cash flows used in investing activities	<u>(3,965,451)</u>	<u>(6,529,265)</u>
Cash flows from financing activities		
Proceeds from borrowings	27,425,312	19,391,991
Issue of bonds and debentures, net of transaction costs	2,207,221	2,649,260
Issue of medium-term notes, net of transaction costs	–	1,834,982
Repayments of borrowings	(22,536,927)	(13,717,579)
Repurchase and repayment of bonds and debentures, including transaction costs	(1,617,779)	(4,041,541)
Repayment of medium-term notes	–	(956,560)
Repayment of lease liabilities	(17,154)	(14,141)
Interest received/(paid) in respect of derivative financial instruments	101,049	(42,793)
Interest paid in respect of borrowings, notes, bonds and debentures	(2,861,613)	(1,787,297)
Proceeds from disposal of derivative financial instruments	29,958	–
Pledge of deposits placed in respect of borrowings	(678,919)	(1,057,223)
Pledge of deposits released in respect of borrowings	1,356,199	52,526
Pledge of deposits placed in respect of derivative financial instruments	(203,796)	(100,393)
Pledge of deposits released in respect of derivative financial instruments	97,907	222,221
Redemption of perpetual capital securities	(806,115)	–
Dividends paid to holders of perpetual capital securities	(166,668)	(124,359)
Dividends paid to shareholders	(223,306)	(300,816)
Net cash flows generated from financing activities	<u>2,105,369</u>	<u>2,008,278</u>
Net increase/(decrease) in cash and cash equivalents	1,825,792	(1,172,400)
Cash and cash equivalents at beginning of the year	3,552,533	4,776,389
Currency exchange difference on cash and cash equivalents	(82,450)	(51,456)
Cash and cash equivalents at end of the year	<u>5,295,875</u>	<u>3,552,533</u>

NOTES

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 the Mainland China and other countries or regions globally.

The consolidated financial statements for the year ended 31 December 2023 are presented in Hong Kong dollar ("**HK\$**"), unless otherwise stated.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material 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 and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. 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.

(a) Going concern

As at 31 December 2023, the Group's current liabilities exceeded its current assets by HK\$12,805.3 million. The Group had total capital commitments of HK\$52,752.4 million as at 31 December 2023, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years until the end of 2028. Out of the total capital commitments, HK\$7,818.5 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 2023, the Group had cash and bank balances of HK\$5,840.4 million.

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 2023. The directors have taken into account the following plans and measures for the purposes of their assessment:

- 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 usually be confirmed by the banks before the delivery of the relevant aircraft. In 2023, the Group has successfully obtained aircraft project loans or loan facilities from certain banks at one or two years preceding the lease-attached aircraft delivery. In view of favourable interest rate, the Group has drawn down or plans to draw down these loans before the aircraft delivery. Besides, the Group sometimes finances the new aircraft with internal resources or short-term bridging financing depending on the financial situation and the progress of bank approvals. Subsequently, the Group may seek refinancing for these aircraft through new aircraft project loans. During the year ended 31 December 2023, the Group has obtained 43 aircraft project loan facilities of US dollar ("US\$")1,439.8 million (equivalent to approximately HK\$11,271.4 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 three aircraft project loan facilities after 31 December 2023. Based on the previous experience and practices in the industry, 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 2023.
- According to the relevant aircraft purchase agreements, the scheduled payment of PDP for the next twelve months from 31 December 2023 amounts to HK\$3,326.1 million. In addition, one PDP facility is set to expire and the utilised facility drawdowns of HK\$647.8 million will need to be repaid by the end of April 2024.

For the scheduled payment of PDP and repayment of utilised facility drawdowns under the facility expiring in the next twelve months from 31 December 2023, certain portion will be repaid by the PDP facilities to be released when aircraft is delivered and related PDP financing is repaid. As at 31 December 2023, the Group had already obtained PDP financing facilities from banks to provide financing up to HK\$6,501.3 million to satisfy the forecasted committed PDP payments in the next twelve months from 31 December 2023. With such facilities, internal resources and/or facilities obtained from other financing channels of the Group, the Group will be able to satisfy payments of the committed PDP and repayment of PDP facilities at maturity in the next twelve months from 31 December 2023.

- As at 31 December 2023, the Group had working capital loan and revolving loan facilities of HK\$9,498.9 million out of which HK\$8,340.6 million has been utilised. The directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK\$1,158.3 million as and when required and will be able to renew substantially all the existing revolving facilities and further secure new working capital loan facilities. The Group has also initiated the process to obtain new working capital loan and renew working capital loan facilities with certain banks.
- 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 June and November 2023, the Group issued three-year corporate bonds of Renminbi (“RMB”)1.5 billion and RMB0.5 billion in the People’s Republic of China (“PRC”), respectively. In particular, the Group has obtained approval from the National Association of Financial Market Institutional Investors for the issuance of medium-term notes with a capped principal amount of RMB1.5 billion in the PRC within a two-year period from 6 February 2024. Additionally, the Group renewed the guaranteed medium-term note programme of US\$3.0 billion in February 2024. The Group will continue to review the market conditions and may issue additional RMB medium-term notes, RMB bonds and US\$ bonds when needed. 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.
- 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 2023, of which, as at the approval date of the consolidated financial statements, the Group has signed letters of intent or sale and purchase agreements for the disposals of ten aircraft. During the year ended 31 December 2023, the Group completed five aircraft disposals and received net proceeds from relevant disposals of HK\$637.8 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 2023.

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 2023. 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 2023:

- Definition of Accounting Estimates – amendments to HKAS 8
- International Tax Reform – Pillar Two Model Rules – amendments to HKAS 12
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12
- HKFRS 17 Insurance Contracts
- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2023.

	Effective Date
Classification of Liabilities as Current or Non-current – Amendments to HKAS 1	1 January 2024 (deferred from 1 January 2023)
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”
Non-current liabilities with covenants – Amendments to HKAS 1	1 January 2024
Lease Liability in a Sale and Leaseback – Amendments to HKFRS 16	1 January 2024
Lack of Exchangeability – Amendments to HKAS 21	1 January 2025
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to HKFRS 10 and HKAS 28	To be determined

The new and revised HKFRSs are not expected to have a material impact on the Group's financial performance and position.

3 FINANCE LEASE RECEIVABLES – NET

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Lease payments receivables		
– Not later than one year	159,498	108,711
– Later than one year but not later than two years	1,044,011	188,519
– Later than two years but not later than three years	1,812,018	1,072,186
– Later than three years but not later than four years	1,501,718	1,836,468
– Later than four years but not later than five years	249,815	1,511,864
– Later than five years	669,808	806,670
Total	5,436,868	5,524,418
Less: Unearned finance lease income relating to lease payment receivables	(1,018,333)	(1,319,554)
Present value of lease payment receivables	4,418,535	4,204,864
Add: Present value of unguaranteed residual value	4,165,724	3,979,063
Net investment in leases	8,584,259	8,183,927
Less: Accumulated expected credit losses allowance	(6,920)	(11,841)
Finance lease receivables – net	8,577,339	8,172,086

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

	As at 31 December			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	6,061,740	71%	5,811,896	71%
Others	2,515,599	29%	2,360,190	29%
Finance lease receivables – net	8,577,339	100%	8,172,086	100%

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Shareholder's loan to CAG Group (a)	579,296	735,429
Shareholder's loan to Feitian No.2 Leasing (Tianjin) Company Limited ("Feitian No.2 (Tianjin)") (b)	38,160	–
Investment – Aircraft modification (c)	–	27,479
Others	4,293	6,554
	<u>621,749</u>	<u>769,462</u>

- (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 shareholder's loan agreement and a subordinated fee agreement with Feitian No.2 (Tianjin). Pursuant to the shareholder's loan agreement and subordinated fee agreement, the Group injected RMB34,065,000 (equivalent to approximately HK\$36,800,000) into Feitian No. 2 (Tianjin) in June 2023.
- (c) The Group entered into several cooperation agreements with Aircraft Recycling International Limited and its subsidiaries (collectively as "ARI Group") for an investment project to modify airliner into cargo. The investment projects were completed during the year ended 31 December 2023.

5 PREPAYMENTS AND OTHER ASSETS

- (a) **PDP and other prepayments and receivables relating to aircraft acquisition**

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
PDP and prepayments and receivables relating to aircraft acquisition	6,677,187	9,559,283
PDP interest capitalised	949,087	886,147
	<u>7,626,274</u>	<u>10,445,430</u>

(b) **Prepayments and other assets**

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Operating lease receivables <i>(Note)</i>	448,625	492,425
Deposits paid	48,705	28,380
Prepayments and amounts due from related parties	98,649	319,386
Deductible input value-added taxes	63,986	68,745
Others	190,757	195,565
	<u>850,722</u>	<u>1,104,501</u>
Less: Accumulated expected credit losses allowance <i>(Note)</i>	<u>(203,556)</u>	<u>(187,516)</u>
	<u>647,166</u>	<u>916,985</u>

Note:

The Group recognised an allowance for impairment losses by providing for expected credit losses when the lessee is expected as not being able to 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			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Current/deferral	135,656	30%	253,239	52%
Less than 30 days past due	4,180	1%	5,403	1%
30 to 90 days past due	19,277	4%	16,672	3%
More than 90 days past due	<u>289,512</u>	<u>65%</u>	<u>217,111</u>	<u>44%</u>
Total	<u>448,625</u>	<u>100%</u>	<u>492,425</u>	<u>100%</u>

As at 31 December 2023, the accumulated expected credit losses allowance against operating lease receivables amounted to HK\$203,556,000 (2022: HK\$187,516,000) and the net carrying amount of operating lease receivables was HK\$245,069,000 (2022: HK\$304,909,000).

6 BORROWINGS

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	23,309,584	19,083,257
PDP financing (b)	6,127,842	7,180,254
Other bank borrowings (c)	8,802,585	6,821,180
	<u>38,240,011</u>	<u>33,084,691</u>
Other long-term borrowings		
Borrowings from trust plans (d)	4,263,795	4,527,538
Other borrowings (e)	408,064	388,921
	<u>4,671,859</u>	<u>4,916,459</u>
	<u><u>42,911,870</u></u>	<u><u>38,001,150</u></u>

Bank and other borrowings

- (a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating rates (including US\$ SOFR and RMB LPR). As at 31 December 2023, 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 pledged deposits amounting to HK\$56,323,000 (2022: HK\$288,439,000). As at 31 December 2023, bank and other borrowings of HK\$903,557,000 (2022: HK\$1,938,212,000) were unsecured.
- (b) As at 31 December 2023, PDP financings of HK\$6,127,842,000 (2022: HK\$7,180,254,000) were unsecured, of which HK\$6,127,842,000 (2022: HK\$6,532,430,000) were guaranteed by the Company.
- (c) As at 31 December 2023, other bank borrowings of HK\$312,324,000 were secured by pledged deposits amounting to HK\$313,495,000 (2022: other bank borrowings of HK\$753,678,000 were secured by pledged deposits amounting to HK\$757,357,000). The unsecured other bank borrowings amounted to HK\$8,490,261,000 (2022: HK\$6,067,502,000), of which HK\$3,937,290,000 (2022: HK\$4,073,926,000) were guaranteed by the Company or certain companies of the Group.

Other long-term borrowings

- (d) As at 31 December 2023, 45 borrowings (2022: 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% (2022: 3.5% to 7.8%) per annum for remaining terms of one to six years (2022: one to seven years). These long-term borrowings were secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledged deposits amounting to HK\$44,183,000 (2022: HK\$44,199,000).
- (e) As at 31 December 2023, four borrowings (2022: four borrowings) were obtained through a structured financing arrangement for four aircraft (2022: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2022: 3.9% to 5.7%) per annum for their remaining terms of one to two years (2022: two to three years) and were guaranteed by the Company.

7 MEDIUM-TERM NOTES

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 2023, after deducting the issuing cost, the total carrying amount of these notes was HK\$1,656,173,000 (2022: HK\$1,696,509,000).

8 BONDS AND DEBENTURES

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 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 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. These bonds had been fully repaid at the end of the second year.

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.

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%. These debentures had been fully repaid on maturity.

In June 2023, the Group issued three-year RMB1.5 billion corporate bonds due in 2026, bearing coupon rate of 3.85% per annum. These bonds were listed on the Shanghai Stock Exchange.

In November 2023, the Group issued three-year RMB0.5 billion corporate bonds due in 2026, bearing a coupon rate of 3.58% per annum. These bonds were listed on the Shanghai Stock Exchange.

During the year ended 31 December 2023, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US\$51,120,000 (2022: US\$8,200,000).

As at 31 December 2023, the total carrying amount of bonds and debentures was HK\$5,943,499,000 (2022: HK\$5,406,490,000).

9 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2023, 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			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	1,088,094	26%	811,233	23%
Airline Company – B	669,591	16%	510,091	14%
Airline Company – C	252,442	6%	182,880	5%
Airline Company – D	213,045	5%	231,659	7%
Airline Company – E	181,668	4%	181,712	5%
Others	1,794,363	43%	1,624,673	46%
Total finance and operating lease income	<u>4,199,203</u>	<u>100%</u>	<u>3,542,248</u>	<u>100%</u>

10 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aircraft transactions (a)	118,276	203,991
Aircraft components trading (b)	<u>6,225</u>	<u>3,081</u>
	<u>124,501</u>	<u>207,072</u>

(a) Aircraft transactions

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) and the disposal of four aircraft to third parties.

The net gain from aircraft transactions for the year ended 31 December 2023 included the gain from disposal of five aircraft, including the disposal of one aircraft to Feitian No.2 (Tianjin) and the disposal of four aircraft to third parties, and the gain from the novation of aircraft purchase agreement.

(b) Aircraft components trading

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales from aircraft components trading assets	9,832	8,845
<i>Less: Cost of aircraft components trading assets</i>	<u>(3,607)</u>	<u>(5,764)</u>
Profit from aircraft components trading assets	<u>6,225</u>	<u>3,081</u>

11 OTHER INCOME

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants (a)	171,773	211,999
Interest income from loans to associates and joint ventures	110,675	100,065
Bank interest income	87,878	32,696
Asset management service fees income from CAG Group	18,381	19,192
Others	<u>51,286</u>	<u>57,730</u>
	<u>439,993</u>	<u>421,682</u>

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

12 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Unrealised gains/(losses) on currency swap	4,456	(1,172)
Currency exchange losses in US\$	(1,253)	(11,219)
Currency exchange gains in RMB	73,282	334,661
Fair value losses on currency forward contracts in RMB	(125,962)	(149,169)
Changes in fair value attributable to interest rate	461	(25,900)
Fair value (losses)/gains on financial assets at fair value through profit or loss	<u>(130,555)</u>	<u>37,418</u>
	<u>(179,571)</u>	<u>184,619</u>

13 INCOME TAX EXPENSES

	Year ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	157,352	146,909
Deferred income tax	<u>136,226</u>	<u>160,872</u>
	<u>293,578</u>	<u>307,781</u>

14 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 2023 and 2022.

	Year ended 31 December	
	2023	2022
	Profit attributable to shareholders of the Company (<i>HK\$'000</i>)	28,256
Weighted average number of ordinary shares in issue (<i>number of shares in thousands</i>)	<u>744,355</u>	<u>743,897</u>
Basic earnings per share (<i>HK\$ per share</i>)	<u>0.038</u>	<u>0.099</u>

(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 2023 and 2022, 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 2023 and 2022.

15 DIVIDENDS

A final dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million for the year ended 31 December 2022 was paid by cash in July 2023.

An interim dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million was paid by cash in October 2023.

On 19 March 2024, the Board recommended a final dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million and proposed a scrip dividend option to be offered, which is calculated based on 744,355,352 issued shares as at 19 March 2024. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2023, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2024.

	Year ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Interim dividend paid of HK\$0.15 (2022: HK\$0.15) per ordinary share	111,653	111,653
Proposed final dividend of HK\$0.15 (2022: HK\$0.15) per ordinary share	111,653	111,653
Total	223,306	223,306

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.15 per share in respect of the year ended 31 December 2023 (2022: HK\$0.15 per share) to shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company (the “**Register of Members**”) on 21 June 2024. The proposed final dividends will be payable in cash, with an option given to the Shareholders to receive the proposed 2023 final dividend in new shares in lieu of cash in whole or in part under the scrip dividend scheme (the “**Scrip Dividend Scheme**”). The Scrip Dividend Scheme is subject to: (1) approval of the proposed 2023 final dividend at the annual general meeting of the Company to be held on 21 May 2024 (the “**AGM**”); and (2) the Stock Exchange granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

A circular containing details of the Scrip Dividend Scheme will be despatched to the Shareholders together with the form of election for scrip dividend in July 2024. Cheques for cash dividend and/or definitive certificates for the scrip shares in respect of the proposed 2023 final dividend are expected to be despatched to the Shareholders on or about 14 August 2024.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders’ eligibility to attend and vote at the 2024 AGM and entitlement to the 2023 final dividend, the Register of Members will be closed in accordance with the following timetable:

- (i) For determining Shareholders’ eligibility to attend and vote at the 2024 AGM:
 - a) Latest time to lodge transfer documents for registration 4:30 pm on 14 May 2024
 - b) Closure of Register of Members 16 May 2024 to 21 May 2024
(both dates inclusive)

- (ii) For determining entitlement to the 2023 final dividend:
 - a) Latest time to lodge transfer documents for registration 4:30 pm on 17 June 2024
 - b) Closure of Register of Members 18 June 2024 to 21 June 2024
(both dates inclusive)
 - c) Record date 21 June 2024

During the above closure periods, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2024 AGM, and to qualify for the proposed 2023 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.

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

On 6 September 2023, the Company as the offeror (the "**Offeror**") launched a tender offer (the "**Offer**") to purchase for cash each of the U.S.\$200,000,000 5.50 PER CENT. guaranteed bonds due 2024 (Stock Code: 05391) issued by CALC Bond 3 Limited (the "**CALC 3 Bonds**") at a price of U.S.\$982 per U.S.\$1,000 principal amount of the CALC 3 Bonds and the U.S.\$100,000,000 4.85 PER CENT. guaranteed notes due 2024 (Stock Code: 40972) issued by CALC Bonds Limited (the "**CALC Notes**" and together with the CALC 3 Bonds, the "**Notes**") at a price of U.S.\$935 per U.S.\$1,000 principal amount of the CALC Notes. Upon settlement of the Offer, U.S.\$50,720,000 in aggregate principal amount of the CALC 3 Bonds and U.S.\$400,000 in aggregate principal amount of the CALC Notes were purchased and redeemed by the Offeror on 19 September 2023 and cancelled pursuant to the terms and conditions of the respective Notes. U.S.\$148,880,000 in aggregate principal amount of the CALC 3 Bonds and U.S.\$91,400,000 in aggregate principal amount of the CALC Notes remain outstanding as at 31 December 2023. For details, please refer to the announcement of the Company dated 20 September 2023.

Save as disclosed above, during the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to attaining and maintaining high standards of corporate governance and applies corporate governance practices appropriate to the conduct and growth of business of the Group that emphasise a quality board, accountability to all stakeholders, open communication and fair disclosure. It is the firm belief of the Company that a good and solid corporate governance framework is essential to the successful growth of the Company and the enhancement of shareholder value.

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 C1 of the Listing Rules as its corporate governance practices.

The Company has complied with all applicable code provisions as set out in Part 2 of the CG Code during the year ended 31 December 2023.

In respect of environmental, social and governance (“**ESG**”) aspect, the Company’s first ESG report for the year of 2014 was published in 2015. The 2023 ESG report is the 10th report the Company will produce focusing on its ESG efforts.

The 2023 ESG report, setting out the Group’s ESG performance, will be available at the Company’s website (www.calc.com.hk) and the website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (www.hkexnews.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 C2 of the Listing Rules in preparation of its 2023 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.

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 C3 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.

AUDIT COMMITTEE REVIEW

As at the date of this announcement, the Company’s Audit Committee consisted of Mr. FAN Chun Wah, Andrew (chairman of the Audit Committee), Mr. CHEOK Albert Saychuan and Dr. TSE Hiu Tung, Sheldon, all of them are Independent Non-executive Directors. During the year, the Audit Committee has reviewed with the management team and PricewaterhouseCoopers (“**PwC**”), the external auditor of the Company, 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 consolidated financial statements of the Group for the year ended 31 December 2023.

SCOPE OF WORK PERFORMED BY INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2023 have been audited by PwC in accordance with Hong Kong Financial Reporting Standards.

The figures in respect of the Group's consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by PwC to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this announcement.

2024 AGM AND PUBLICATION OF 2023 RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company (www.calc.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2024 AGM is scheduled to be held on 21 May 2024. The notice of the 2024 AGM and the 2023 annual report will be dispatched to the Shareholders and available on the same websites in due course.

By order of the Board
China Aircraft Leasing Group Holdings Limited
POON HO MAN
Executive Director and Chief Executive Officer

Hong Kong, 19 March 2024

As at the date of this announcement, (i) the Executive Directors are Mr. ZHANG Mingao (Chairman), Mr. POON Ho Man (Chief Executive Officer), Ms. LIU Wanting (President and Chief Commercial Officer) and Mr. LI Guohui (Chief Financial Officer and Chief Strategy Officer); (ii) the Non-executive Director is Ms. WANG Yun; and (iii) the Independent Non-executive Directors are Mr. CHEOK Albert Saychuan, Dr. TSE Hiu Tung, Sheldon and Mr. FAN Chun Wah, Andrew, J.P.