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CHINA DEVELOPMENT BANK LEASING

國銀金融租賃股份有限公司*

CHINA DEVELOPMENT BANK FINANCIAL LEASING CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1606)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND
RE-DESIGNATION OF DIRECTOR**

The Board of China Development Bank Financial Leasing Co., Ltd. hereby announces the audited consolidated results of the Company and its subsidiaries for the year ended December 31, 2016 together with the comparative figures for the corresponding period in 2015, which should be read in conjunction with the following management discussion and analysis.

* *CHINA DEVELOPMENT BANK FINANCIAL LEASING CO., LTD. is (a) not an authorized institution within the meaning of the Banking Ordinance; (b) not authorized to carry on banking/ deposit-taking business in Hong Kong; and (c) not subject to the supervision of the Hong Kong Monetary Authority.*

FINANCIAL HIGHLIGHTS

1. Summary of Income Statements

<i>(RMB in thousands)</i>	For the year ended December 31,	
	2016	2015
Finance lease income	5,363,827	5,994,754
Operating lease income	5,453,157	4,646,164
Total revenue	10,816,984	10,640,918
Net investment (losses)/gains	(52,359)	77,209
Other income, gains or losses	676,180	263,162
Total revenue and other income	11,440,805	10,981,289
Total expenses	(9,373,074)	(9,681,663)
Of which: Depreciation and amortisation	(2,476,525)	(2,034,732)
Interest expense	(4,400,071)	(5,055,233)
Impairment losses	(1,825,773)	(2,008,170)
Profit before income tax	2,067,731	1,299,626
Profit for the year	1,561,339	1,052,506
Basic and diluted earnings per share (RMB)	0.14	0.11

2. Summary of Balance Sheet

<i>(RMB in thousands)</i>	As at December 31,	
	2016	2015
Total assets	166,512,149	155,695,092
Of which: Cash and bank balances	9,336,415	6,313,850
Accounts receivable	6,841,777	13,827,135
Finance lease receivables	88,464,050	80,945,115
Prepayments	7,911,502	6,862,803
Property and equipment	47,344,054	42,248,688
Total liabilities	144,210,475	140,702,176
Of which: Borrowings	106,198,168	102,494,469
Notes payable	17,793,886	13,834,811
Total equity	22,301,674	14,992,916
Net assets per share (RMB)	1.76	1.58

3. Selected Financial Ratios

	For the year ended December 31/ As at December 31,	
	2016	2015
Return on average total assets ⁽¹⁾	0.97%	0.71%
Return on average equity ⁽²⁾	8.44%	7.26%
Net interest spread of finance lease business ⁽³⁾	2.10%	2.21%
Net interest margin of finance lease business ⁽⁴⁾	2.70%	2.61%
Net lease yield of operating lease business ⁽⁵⁾	8.74%	8.56%
Profit margin before income tax of operating lease business ⁽⁶⁾	21.77%	20.64%
Cost-to-income ratio ⁽⁷⁾	5.76%	5.05%
Net profit margin before tax and impairment losses ⁽⁸⁾	35.99%	31.09%
Net profit margin ⁽⁹⁾	14.43%	9.89%
Non-performing asset ratio ⁽¹⁰⁾	0.98%	1.39%
Non-performing asset ratio of finance lease business ⁽¹¹⁾	1.63%	2.21%
Credit ratings		
Standard & Poor's	A+	A+
Moody's	Aa3	A1
Fitch	A+	A+

(1) Calculated by dividing net profit for the year by average balance of total assets at the beginning and the end of the year.

(2) Calculated by dividing net profit for the year by average balance of total shareholders' equity at the beginning and the end of the year.

(3) Calculated as the difference between the average yield on the finance lease related assets and the average cost of the interest-bearing liabilities of finance lease business.

(4) Calculated by dividing net interest income of finance lease business by the average monthly balance of the finance lease related assets.

(5) Calculated by dividing net lease income of operating lease business by the average monthly balance of total operating lease assets. Net lease income of operating lease business is calculated as the difference between operating lease income and interest expense of operating lease business.

(6) Calculated by dividing profit before income tax of operating lease business by operating lease income.

(7) Calculated by dividing the sum of the depreciation and amortisation expenses of property and equipment held for administrative purposes, staff costs and other operating expenses by total revenue and other income.

- (8) Calculated by dividing profit before tax and impairment losses for the year by the total revenue for the year.
- (9) Calculated by dividing net profit for the year by the total revenue for the year.
- (10) Calculated based on the percentage of non-performing assets over total assets before allowance for impairment losses as of the dates indicated.
- (11) Calculated based on the percentage of non-performing finance lease related assets over finance lease related assets before allowance for impairment losses as of the dates indicated.

The following table sets forth, as at the dates indicated, information relating to the Group's certain regulatory indicators, calculated in accordance with the requirements of the CBRC and applicable accounting standards.

	Regulatory requirement	As at December 31,		
		2016	2015	2014
Capital adequacy indicators⁽¹⁾				
Core tier-one capital adequacy ratio ⁽²⁾	≥6.7% ⁽³⁾	13.42%	9.54%	10.03%
Tier-one capital adequacy ratio ⁽⁴⁾	≥7.7% ⁽³⁾	13.42%	9.54%	10.03%
Capital adequacy ratio ⁽⁵⁾	≥9.7% ⁽³⁾	14.03%	10.23%	10.34%
Asset quality indicators				
Allowance to non-performing finance lease related assets ⁽⁶⁾	≥150% ⁽³⁾	164.28%	150.47%	127.48%

(1) Calculated based on the Capital Administrative Measures published by CBRC on June 7, 2012, which became effective on January 1, 2013 and replaced the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (CBRC Order [2004] No. 2 (《商業銀行資本充足率管理辦法》(中國銀監會令2004年第2號))).

(2) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets.

(3) Indicator requirements to be met by the end of 2016.

(4) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets.

(5) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.

(6) Calculated by dividing allowance for impairment losses on finance lease related assets by non-performing finance lease related assets.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Situation and Company's Responses

1.1 Business Environment

1.1.1 Macro-Economy

In 2016, a slow recovery was seen in the global economy and there was a further slowdown in the growth rate in trade and investment, etc., along with increasing uncertainties in geopolitics. There was a continuous diversification in the recovery pace among major economies, of which the United States performed better in economic recovery with a hike in interest rate again in December 2016 after the interest rate hike in December 2015. Though a slight recovery was seen in the economy of the Eurozone, it was still experiencing the refugee issue and risks exposed to the banking industry with the uncertainties brought by “Brexit” in politics, economy and diplomatic affairs. With the backdrop of slow growth in the aggregate demand in the world, a number of emerging market economies were still facing various risks, such as weak external demand and fluctuation in the movement in foreign investment, which resulted in pressure on economic adjustment and transition. Under the influence of macro-economy worldwide, interest rates and exchange rates in major countries were undergoing volatilities to a certain extent.

In 2016, the PRC government adhered to the keynote of “seeking progress while ensuring stability”, focused on pushing forward supply-side structural reform, moderately increased aggregate demand, firmly promoted reform and properly responded to risk challenges. The economic society had maintained a stable and healthy development amid the moderate and steady trend towards favorable momentum in the economy. During the year, economic growth remained at a reasonable level, economic structure was continuously optimized and the layout of opening-up policy was further improved. The adjustment and optimization of industrial structure encouraged an increasing demand of enterprises for the transformation of production model, diversified financing channels and other aspects.

1.1.2 Industry Environment

In general, leasing industry was encountering favorable opportunities for development. Regarding demand, the local leasing business was still in a rapid development stage with only around 6% of market penetration rate of the leasing market, which was far behind developed countries in Europe and the United States that recorded a market penetration rate of 15% to 30%. Regarding policies, the government improved the position of the leasing industry to a strategic level of serving the real economy. By promulgating the Guiding Opinions on Accelerating the Development of Finance Lease Industry (《關於加快融資租賃業發展的指導意見》) and the Guiding Opinions on Promoting the Sound Development of Financial Leasing Industry (《關於促進金融租賃行業健康發展的指導意見》), the General Office of the State Council proposes to include leasing business in the consideration of overall strategy for the development of national economy, requires a higher market penetration rate of the leasing market and assists enterprises in equipment investment and technology upgrade, strives for achieving a leadership in market scale and competitiveness among all operators in the leasing markets worldwide, which in turn greatly facilitates the development of the finance lease industry of the PRC under favorable policies on, among others, the market access, taxation and business operation of the leasing market. Regarding leasing business segment, in recent years, the PRC maintained a relatively high growth rate of investment in infrastructures, proactively implemented the strategy of the “Belt and Road Initiatives” and made great efforts in the transformation and upgrade of economic structure. With the inherent nature of “financing capitals” and “financial goods” of leasing business, enormous opportunities were provided for market development in leasing business of infrastructures and relevant equipment.

In 2016, the overall leasing industry was characterized by accelerated capital influx, rapid development, concentration on specific industries, more normative and reinforced regulations, etc. Firstly, various sources of capital were pouring into the financial leasing industry. According to the statistics published by the CBRC, by the end of the third quarter of 2016, there were 52 financial leasing companies in the PRC (excluding three specialized subsidiaries), 12 of which were newly-established. Financial institutions of all kinds led by commercial banks, insurance companies and asset management companies have accelerated their layout in the financial leasing industry. Secondly, the industry was developing in a rapid manner. According to the statistics published by the CBRC, by the end of the third quarter of 2016, the total assets of the financial leasing industry amounted to RMB1.94 trillion with paid-in capital of RMB154.597 billion, representing an increase of approximately RMB310 billion (or 19%)

and RMB25.642 billion (or 20%), respectively, as compared with those by the end of 2015, which indicated an expanding scale of the industry. Thirdly, financing to lessees mainly focused on aircraft, ship, infrastructure, construction machinery and medical equipment, etc. and the degree of professionalism and internationalization of the industry was further improved. Fourthly, the industry regulations have been standardized and reinforced. With the rapid development of the financial leasing industry, financial leasing has become a vital element in the non-banking financing industry. The CBRC has sped up the establishment of a mature regulatory system for the financial leasing industry so as to reinforce supervision over the industry and ensure the orderly and solid development of the financial industry.

1.2 Our Responses

In 2016, faced with the weak growth of the global economy and the rapid development of the leasing industry, the Group focused on operation and management improvements and risk control, and actively conducted various works, such as business exploration, risk management, treasury management, and internal management. Meanwhile, leveraging the opportunities after listing, the Group pressed forward the development of mechanism and system, accelerated the establishment of a market-oriented operation mechanism so as to improve the competitiveness in the market.

Regarding business development, the Group further optimized its business layout, and the business structure mainly featured by Aircraft Leasing and Infrastructure Leasing became clearer. In 2016, the Group continued to make more lease financing on aircraft and infrastructure segments and achieved steady growth in the asset scale of core business segments with low risks. Regarding Aircraft Leasing, the Group was pursuing a more professional development under which an international business team was basically set up and an Irish subsidiary of aircraft leasing was approved for establishment, which has turned CDB Leasing into the first financial leasing company that owns an overseas specialized subsidiary. Regarding Infrastructure Leasing, the Group made more efforts in developing infrastructure leasing businesses through business referral and strategic cooperation agreements and processed sale-and-leaseback transactions of infrastructure projects mainly with existing clients of China Development Bank and government clients. Meanwhile, the Group innovated its business model, which enriched the profile of leasing products and broadened sources of business and income. In addition, the group proactively explored paths for the development of Ship, Commercial Vehicle and Construction Machinery Leasing segment under the premise that assets safety is ensured. Regarding Ship Leasing, the Group realized the cooperation with large foreign cargo owners for the first

time. Meanwhile, it also acquired ship assets at a low price in the market to develop business on ships under operating lease. Regarding Commercial Vehicle and Construction Machinery Leasing, the Group made agreements on the cooperation intention of asset portfolios transaction amounting to RMB5 billion with leasing companies of domestic major manufacturers and the cooperation intention of performance insurance business for vehicles with various insurance companies, and reinforced its leasing business of new energy vehicles.

Regarding risk management, the Group further optimized the comprehensive risk management system and improved the risk management level. The release of the Basic Provisions on Comprehensive Risk Management (Provisional) (《全面風險管理基本規定(試行)》) further consummated the risk management framework and system. The Group also achieved a multi-level risk management with full coverage by optimizing assessment mechanism, standardizing lending procedures, strengthening post-lease management, improving audit supervision and implementing liability identification and investigation of non-performing assets. In the face of severe industry risk situation, the Group achieved “double decreases” in both the amount and ratio of non-performing assets and stabilized asset quality by strengthening beforehand research, judgment and alert of risks and mitigating non-performing and risky projects through multiple channels. Regarding compliance risk, the Group established and improved the internal control and compliance system with the assistance of the professional intermediary, which pushed forward standard and professional compliance management, and improved the capability of prevention and control of compliance risk. Meanwhile, in response to the domestic and overseas double regulations upon listing, the Group enhanced proactive compliance and implemented full coverage of compliance so as to prevent compliance risks.

Regarding financing, the Group further expanded financing sources and reduced financing cost. The Company was successfully listed in Hong Kong on July 11, 2016, which has connected itself to financing channels in international capital markets and turned itself the first listed domestic financial leasing company. The Group was approved to issue financial bonds of RMB10 billion on the National Inter-bank Bonds Market and successfully issued the first tranche of RMB-denominated three-year bonds of RMB3 billion at fixed interest rate and the interest rate of such issuance reached the most favorable level in the financial leasing industry. Moreover, the Group has made successful application to the National Development and Reform Commission for medium- and long-term foreign debt quota of USD1 billion and completed filings under the macroprudential management of full-coverage cross-border financing in State Administration of Foreign Exchange, which enabled the Group to commence its cross-border coordinated management of funding resources denominated in foreign

currency. Regarding credit rating, the Group was appraised by Moody's a rating of Aa3, which reaches the national sovereignty rating while remaining international ratings of A+ by Standard & Poor's and Fitch as well as the highest issuer rating of AAA by China Chengxin International Credit Rating Company Limited, having international ratings higher than all other listed leasing companies in the world. In 2016, the average cost of interest-bearing liabilities of the Group was 3.43%, decreased significantly as compared with that in 2015.

Regarding internal management, the Group further bolstered the foundation of operation and management. The Group improved standardization and efficiency of the work by enhancing the establishment and implementation of the system, as well as the adjustment and reconstruction of procedure. It completed the overall planning for informationization and strived to establish a relatively comprehensive information-based management system in three years so as to provide strong support for the development of the Company. It also initiated the establishment of the management accounting system as well as financial sharing service center to improve level of delicate management. The Company's operation and management foundation was further consolidated, thus providing adequate safeguard for the business development.

In addition, seizing the opportunities upon listing, the Group accelerated the construction of market-oriented mechanism and system to improve its competitiveness in the market, as the mechanism and system construction concerned the long-term stable development of the Group in the future. Taking into account its strategic and development requirements, the Group studied and formulated an implementation scheme for the human resources management reform and thus provided mechanism for market-oriented development. The Group also improved the talents development and cultivation system, optimizing the performance assessment system, and establishing a sound performance-oriented incentive and restrictive mechanism. The Group would formulate a personnel career development system that is in line with its development requirements under such scheme, to construct and deepen the human resources management system that conforms to the market-oriented demands. The market-oriented system construction further inspired the initiative of the staff, which would enhance internal driving force for the Group development and help improve and strengthen the competitiveness of the Group in the market.

To sum up, in 2016, the Group achieved a new leapfrog in its reform and development through active and effective responsive strategies, demonstrating a favorable development trend in all respects.

2. Financial Review

2.1 Analysis on Income Statement

2.1.1 Overview of Income Statement

In 2016, the Group maintained a steady increase in results. Total revenue and other income amounted to RMB11,440.8 million, representing an increase of RMB459.5 million, or 4.2% as compared with that of last year; profit for the year amounted to RMB1,561.3 million, representing an increase of RMB508.8 million, or 48.3% as compared with that of last year, due primarily to substantial increases in operating lease income and other income and gains as well as a decrease in interest expense. The increase was partially offset by increases in depreciation and amortisation as well as staff costs.

The following table sets forth the income statement of the Group for the years indicated and the changes:

(RMB in millions, except percentages)	For the year ended December 31,		Change
	2016	2015	
Revenue			
Finance lease income	5,363.8	5,994.7	(10.5%)
Operating lease income	5,453.2	4,646.2	17.4%
Total revenue	10,817.0	10,640.9	1.7%
Net investment (losses)/gains	(52.4)	77.2	(167.9%)
Other income, gains or losses	676.2	263.2	156.9%
Total revenue and other income	11,440.8	10,981.3	4.2%
Depreciation and amortisation	(2,476.5)	(2,034.7)	21.7%
Staff costs	(229.0)	(123.1)	86.0%
Fee and commission expenses	(55.9)	(55.9)	0.0%
Interest expense	(4,400.1)	(5,055.2)	(13.0%)
Other operating expenses	(385.8)	(404.6)	(4.6%)
Impairment losses	(1,825.8)	(2,008.2)	(9.1%)
Total expenses	(9,373.1)	(9,681.7)	(3.2%)
Profit before income tax	2,067.7	1,299.6	59.1%
Income tax expense	(506.4)	(247.1)	104.9%
Profit for the year	1,561.3	1,052.5	48.3%

2.1.2 Total Revenue

Revenue of the Group was primarily derived from finance lease income and operating lease income. In 2016, total revenue of the Group amounted to RMB10,817.0 million, representing an increase of RMB176.1 million, or 1.7% as compared with that of last year, due primarily to an increase in operating lease income, which was partially offset by a decrease in finance lease income.

2.1.2.1 Finance Lease Income

The following table sets forth the segment finance lease income of the Group for the years indicated:

(RMB in millions, except percentages)	For the year ended December 31,		Change
	2016	2015	
Finance lease income			
Aircraft Leasing	227.1	228.9	(0.8%)
Infrastructure Leasing	3,315.0	3,306.0	0.3%
Ship, Commercial Vehicle and Construction Machinery Leasing	1,004.3	1,193.0	(15.8%)
Other Leasing Business	817.4	1,266.8	(35.5%)
Total	5,363.8	5,994.7	(10.5%)

In 2016, finance lease income of the Group amounted to RMB5,363.8 million, accounting for 49.6% of total revenue and representing a decrease of RMB630.9 million, or 10.5% as compared with that of last year, due primarily to (1) the lower interest rate of finance lease projects for the whole year of 2016 resulting from the great reduction of the benchmark interest rates by the PBOC for five times in 2015, amounting to 125 basis points in aggregate as well as (2) the decrease in income from finance lease projects, resulting from the impact of overall transformation of business tax to value-added tax.

With respect to Aircraft Leasing, in 2016, finance lease income of the Group amounted to RMB227.1 million, representing a decrease of RMB1.8 million, or 0.8% as compared with that of last year, due primarily to a decrease in finance lease interest rate, which was partially offset by the finance lease income generated from the new aircraft finance lease projects in 2016.

With respect to Infrastructure Leasing, in 2016, finance lease income of the Group amounted to RMB3,315 million, representing an increase of RMB9.0 million, or 0.3% as compared with that of last year, due primarily to an increase in lease financing to lessees in the Infrastructure Leasing throughout the year, which was partially offset by the lower interest rate of finance lease projects.

With respect to Ship, Commercial Vehicle and Construction Machinery Leasing, in 2016, finance lease income of the Group amounted to RMB1,004.3 million, representing a decrease of RMB188.7 million, or 15.8% as compared with that of last year, due primarily to the lower interest rate of finance lease projects as well as a decrease in the business scale of Commercial Vehicle and Construction Machinery segment.

With respect to Other Leasing Business, in 2016, finance lease income of the Group amounted to RMB817.4 million, representing a decrease of RMB499.4 million, or 35.5% as compared with that of last year, due primarily to (1) the Group's proactive control over the lease business scale of this segment; (2) a decrease in interest rates of finance lease projects; and (3) a further reduction of the segment assets resulting from the sale of certain assets.

2.1.2.2 Operating Lease Income

The following table sets forth the segment operating lease income of the Group for the years indicated:

(RMB in millions, except percentages)	For the year ended December 31,		Change
	2016	2015	
Operating lease income			
Aircraft Leasing	5,227.0	4,500.3	16.1%
Infrastructure Leasing	123.0	119.8	2.7%
Ship, Commercial Vehicle and Construction Machinery Leasing	86.7	3.8	2,181.6%
Other Leasing Business	16.5	22.3	(26.0%)
Total	5,453.2	4,646.2	17.4%

In 2016, operating lease income of the Group amounted to RMB5,453.2 million, accounting for 50.4% of total revenue and representing an increase of RMB807.0 million, or 17.4% as compared with that of last year, due primarily to an increase of aircraft for operating lease in light of the expansion of Aircraft Leasing business by the Group with the gross lease yield of Aircraft Leasing business stable.

The operating lease income of the Group is mainly derived from Aircraft Leasing business. In 2016, operating lease income generated by Aircraft Leasing amounted to RMB5,227.0 million, accounting for 95.9% of the total operating lease income. Meanwhile, the Group explored the opportunity in operating lease business in ship area with caution, which contributed to substantial increase in operating lease income from Ship, Commercial Vehicle and Construction Machinery Leasing segment with an operating lease income of RMB86.7 million for 2016, representing an increase of 21.8 times than last year.

2.1.2.3 Net Investment (Losses)/Gains

In 2016, net investment losses of the Group amounted to RMB52.4 million, representing a decrease of RMB129.6 million as compared with RMB77.2 million of net investment gains in last year, due primarily to losses of RMB81.7 million in the closing of derivative instrument contracts at maturity resulting from the depreciation of RMB against US dollar.

2.1.2.4 Other Income, Gains or Losses

In 2016, other income and gains of the Group amounted to RMB676.2 million, representing an increase of RMB413.0 million, or 156.9% as compared with that of last year, due primarily to (1) an increase in exchange gains received by retaining partial net US dollar assets exposure; and (2) an increase in income from intermediary business generated by sale of operating lease assets and business innovation.

2.1.3 *Total Expenses*

In 2016, total expenses of the Group amounted to RMB9,373.1 million, representing a decrease of RMB308.6 million, or 3.2% as compared with that of last year, due primarily to a decrease in interest expense. Such decrease in total expenses was partially offset by the increase in depreciation and amortisation and increase in staff costs.

2.1.3.1 Depreciation and Amortisation

In 2016, depreciation and amortisation of the Group amounted to RMB2,476.5 million, representing an increase of RMB441.8 million, or 21.7% as compared with that of last year, due primarily to an increase in operating lease assets, in particular those for Aircraft Leasing. The number of owned aircraft held for operating lease increased from 140 as at the end of 2015 to 158 as at the end of 2016.

2.1.3.2 Staff Costs

In 2016, staff costs of the Group amounted to RMB229.0 million, representing an increase of RMB105.9 million, or 86.0% as compared with that of last year. The increase was mainly because the Group strengthened the high-level talents reserve and construction of professional team, and intensified the role of incentive and restriction mechanism in order to better implement the Company's development strategies and enhance the market competitiveness. Therefore, the Group accordingly expanded the size of professionals team, introduced internationalized and professional aeronautical team and established a more market-oriented remuneration and incentive system.

2.1.3.3 Fee and Commission Expenses

In 2016, fee and commission expenses of the Group amounted to RMB55.9 million, which remained basically unchanged as compared with that of last year.

2.1.3.4 Interest Expense

In 2016, interest expense of the Group amounted to RMB4,400.1 million, representing a decrease of RMB655.1 million, or 13.0% as compared with that of last year, due primarily to (1) a decrease in average cost of interest-bearing liabilities resulting from relatively loose monetary policy in China for the first three quarters of 2016 and sufficient liquidity of US dollar market; (2) the lower overall funding costs due to Group's proactive adjustment of debt financing strategies; and (3) overall transformation of business tax to value-added tax, leading to an increase in deductible value-added tax by interest expense, resulting in a decrease in interest expense after being offset.

2.1.3.5 Other Operating Expenses

In 2016, other operating expenses of the Group amounted to RMB385.8 million, representing a decrease of RMB18.8 million, or 4.6% as compared with that of last year, due primarily to a decrease in taxes and additional resulting from overall transformation of business tax to value-added tax in 2016.

2.1.3.6 Impairment Losses

In 2016, impairment losses of the Group amounted to RMB1,825.8 million, representing a decrease of RMB182.4 million, or 9.1% as compared with that of last year, due primarily to the Group's effective risk control over leased assets by virtue of its prudent risk management, as well as the disposal and resolving of non-performing assets by the Group through multiple channels during the year.

2.1.4 Profit before Income Tax

In 2016, profit before income tax of the Group amounted to RMB2,067.7 million, representing an increase of RMB768.1 million, or 59.1% as compared with that of last year, due primarily to (1) a greater increase in operating lease income than in operating lease costs; (2) an increase in exchange gains generated from net US dollar asset exposure; and (3) an increase in income from intermediary business.

2.1.5 Income Tax Expense

In 2016, income tax expense of the Group amounted to RMB506.4 million, representing an increase of RMB259.3 million, or 104.9% as compared with that of last year, due primarily to an increase in profit before income tax.

2.1.6 Profit for the Year

In 2016, profit for the year of the Group amounted to RMB1,561.3 million, representing an increase of RMB508.8 million, or 48.3% as compared with that of last year.

2.1.7 Net Interest Spread and Net Interest Margin of Finance Lease Business

The following table sets forth, among others, interest income, interest expense, net interest income, net interest spread and net interest margin of finance lease business of the Group for the years indicated:

	For the year ended December 31,	
<i>(RMB in millions, except percentages)</i>	2016	2015
Finance lease business		
Interest income ⁽¹⁾	5,363.8	5,994.7
Interest expense ⁽²⁾	2,805.6	3,623.2
Net interest income	2,558.2	2,371.5
Average balance of finance lease related assets ⁽³⁾	94,713.3	90,980.8
Average balance of interest-bearing liabilities ⁽⁴⁾	78,779.7	82,755.7
Average yield ⁽⁵⁾	5.66%	6.59%
Average cost ⁽⁶⁾	3.56%	4.38%
Net interest spread of finance lease business ⁽⁷⁾	2.10%	2.21%
Net interest margin of finance lease business ⁽⁸⁾	2.70%	2.61%

- (1) Interest income represents finance lease income.
- (2) Interest expense is the cost of interest-bearing liabilities of finance lease business.
- (3) Average balance of finance lease related assets represents the average monthly balance of finance lease related assets.
- (4) Average balance of interest-bearing liabilities is the average monthly balance of the interest-bearing liabilities of finance lease business.
- (5) Calculated by dividing finance lease income by the average monthly balance of finance lease related assets.
- (6) Calculated by dividing the cost of the interest-bearing liabilities of finance lease business by the average monthly balance of interest-bearing liabilities of finance lease business.
- (7) Calculated by the difference between the average yield of finance lease related assets and the average cost of the interest-bearing liabilities of finance lease business.
- (8) Calculated by dividing net interest income by the average monthly balance of finance lease related assets for finance lease business.

In 2016, net interest spread of finance lease business of the Group was 2.10%, representing a decrease of 0.11 percentage point as compared with that of last year, due primarily to the narrowing of net interest spread of finance lease business of the Group against a downward interest rate and increasingly intensive industry competition environment. Net interest margin of finance lease business was 2.70%, representing an increase of 0.09 percentage point as compared with that of last year, due primarily to the partial contribution of additional capital from the listing of the Company to finance lease business for the year, which in turn decreased interest expense and increased net interest revenue.

2.1.8 *Net Lease Yield and Profit Margin before Income Tax of Operating Lease Business*

The following table sets forth the net lease yield and profit margin before income tax of operating lease business of the Group for the years indicated:

	For the year ended December 31,	
	2016	2015
Operating lease business		
Net lease yield of operating lease business ⁽¹⁾	8.74%	8.56%
Profit margin of operating lease business before income tax of operating lease business ⁽²⁾	21.77%	20.64%

⁽¹⁾ Calculated by dividing the net lease income of operating lease business by the monthly average balance of total operating lease assets. Net lease income of operating lease business is calculated as the difference between operating lease income and the interest expense of operating lease business.

⁽²⁾ Calculated by dividing profit before income tax of operating lease business by operating lease income.

In 2016, net lease yield and profit margin before income tax of operating lease business of the Group were 8.74% and 21.77%, respectively, representing an increase of 0.18 percentage point and 1.13 percentage points as compared with those of last year, respectively, due primarily to a decrease in the level of US dollar financing cost resulting from the gradual repayment of existing high-cost US dollar debts upon maturity in this year while the operating lease financing of the Group are mainly denominated in US dollar. Moreover, partial contribution of additional capital from the listing of the Company decreases the interest expense of operating lease.

2.2 Analysis on Balance Sheet

The following table sets forth the balance sheet of the Group, as at the dates indicated, and the changes:

(RMB in millions, except percentages)	As of December 31,		Change
	2016	2015	
Assets			
Cash and bank balances	9,336.4	6,313.9	47.9%
Placement to banks and other financial institutions	1,100.0	1,100.0	0.0%
Financial assets at fair value through profit or loss	2,133.7	1,558.6	36.9%
Derivative financial assets	9.7	2.0	385.0%
Accounts receivable	6,841.8	13,827.1	(50.5%)
Finance lease receivables	88,464.1	80,945.1	9.3%
Prepayments	7,911.5	6,862.8	15.3%
Available-for-sale financial assets	274.6	122.4	124.3%
Assets held-for-sale	994.0	0.0	–
Investment properties	356.6	376.2	(5.2%)
Property and equipment	47,344.1	42,248.7	12.1%
Deferred tax assets	591.0	703.1	(15.9%)
Other assets	1,154.6	1,635.2	(29.4%)
Total assets	166,512.1	155,695.1	6.9%
Liabilities			
Borrowings	106,198.2	102,494.5	3.6%
Due to banks and other financial institutions	4,000.0	4,900.0	(18.4%)
Financial assets sold under repurchase agreements	3,136.0	5,922.3	(47.0%)
Derivative financial liabilities	199.3	435.9	(54.3%)
Accrued staff costs	94.2	33.5	181.2%
Tax payable	132.3	242.0	(45.3%)
Notes payable	17,793.9	13,834.8	28.6%
Deferred tax liabilities	441.6	266.9	65.5%
Other liabilities	12,215.0	12,572.3	(2.8%)
Total liabilities	144,210.5	140,702.2	2.5%
Total equity	22,301.6	14,992.9	48.7%

2.2.1 Total Assets

The principal components of the Group's assets were accounts receivable, finance lease receivables, prepayments and property and equipment, collectively representing 90.4% of the Group's total assets as at December 31, 2016. As at December 31, 2016, total assets of the Group amounted to RMB166,512.1 million, representing an increase of RMB10,817.0 million, or 6.9% as compared with that as at the end of last year, due primarily to further expansion of the Group's business size, which was partially offset by sale of non-performing asset portfolios.

2.2.1.1 Accounts Receivable

The Group's accounts receivable includes operating lease receivables, advances for finance lease projects and other accounts receivable. Operating lease receivables refer to accruals for the operating lease rentals receivable as at December 31, 2016; advances for finance lease projects refer to the payments in advance for those finance lease projects which were contracted but had not yet met all leasing conditions; and other accounts receivable refers to the accounts receivable incurred by the sale of leased assets. As at December 31, 2016, accounts receivable of the Group amounted to RMB6,841.8 million, representing a decrease of RMB6,985.3 million, or 50.5% as compared with that as at the end of last year, due primarily to the transfer of the Group's advances for finance lease projects to finance lease receivables when all leasing conditions were met upon conclusion and handover of finance lease assets.

2.2.1.2 Finance Lease Receivables

<i>(RMB in millions, except percentages)</i>	As of December 31,		
	2016	2015	Change
Finance lease receivables – gross	114,536.2	104,171.4	9.9%
Less: Unearned finance income	(23,676.0)	(20,262.8)	16.8%
Finance lease receivables – net	90,860.2	83,908.6	8.3%
Less: Allowance for impairment losses	(2,396.1)	(2,963.5)	(19.1%)
Finance lease receivables – carrying value	88,464.1	80,945.1	9.3%

As at December 31, 2016, finance lease receivables of the Group amounted to RMB88,464.1 million, representing an increase of RMB7,519.0 million, or 9.3% as compared with that as at the end of last year, due primarily to the continuous increase in finance lease business of the Group, which was partially offset by sale of non-performing asset portfolios.

2.2.1.3 Prepayments

As at December 31, 2016, prepayments of the Group amounted to RMB7,911.5 million, representing an increase of RMB1,048.7 million, or 15.3% as compared with that as at the end of last year, due primarily to the increase in prepayments for aircraft purchase.

2.2.1.4 Property and Equipment

Property and equipment is composed of equipment held for operating lease and property and equipment held for administrative purpose. As at December 31, 2016, equipment held for operating lease of the Group amounted to RMB46,857.8 million, representing an increase of RMB4,986.8 million, or 11.9% as compared with that as at the end of last year, due primarily to an increase in the number of aircraft for operating lease.

As at December 31, 2016, property and equipment held for administrative purpose of the Group amounted to RMB486.3 million, representing an increase of RMB108.6 million, or 28.8% as compared with that as at the end of last year, due primarily to the increase in the number of construction in progress resulting from the construction of new office building of the Group.

The following table sets forth the breakdown of its property and equipment as at the dates indicated:

<i>(RMB in millions, except percentages)</i>	As of December 31,		
	2016	2015	Change
Property and equipment			
Equipment held for operating lease	46,857.8	41,871.0	11.9%
Property and equipment held for administrative purpose	486.3	377.7	28.8%
Property and equipment – carrying value	<u>47,344.1</u>	<u>42,248.7</u>	<u>12.1%</u>

2.2.1.5 Cash and Bank Balances

As at December 31, 2016, cash and bank balances of the Group amounted to RMB9,336.4 million, representing an increase of RMB3,022.5 million, or 47.9% as compared with that as at the end of last year, due primarily to sufficient retained liquidity reserve at the end of the year by the Group for ensuring the capital needs for business in early 2017 in response to tight liquidity in domestic capital market in the fourth quarter of 2016.

2.2.1.6 Placement to Banks and Other Financial Institutions

As at December 31, 2016, placement to banks and other financial institutions of the Group amounted to RMB1,100.0 million, which remained unchanged as compared with that as at the end of last year.

2.2.1.7 Financial Assets at Fair Value through Profit or Loss

As at December 31, 2016, financial assets at fair value through profit and loss of the Group amounted to RMB2,133.7 million, representing an increase of RMB575.1 million, or 36.9% as compared with that as at the end of last year, due primarily to the additional fixed income products with a principle of RMB500.0 million invested by the Group through asset management plan, and the increase in fair value at the end of the year.

2.2.1.8 Other Assets

Other assets primarily included interest receivable, other receivables, prepaid expenses, deductible value-added tax and land use rights. As at December 31, 2016, other assets of the Group amounted to RMB1,154.6 million, representing a decrease of RMB480.6 million, or 29.4% as compared with that as at the end of last year, due primarily to the refund of aircraft prepayments and a decrease in deductible input value-added tax in 2016.

2.2.2 Leased Assets

The following table sets forth the breakdown of the Group's finance lease related assets as at the dates indicated:

<i>(RMB in millions, except percentages)</i>	As of December 31,		
	2016	2015	Change
Finance lease related assets			
Finance lease receivables	88,464.1	80,945.1	9.3%
Accounts receivable – advances for finance lease projects	6,499.0	12,845.6	(49.4%)
Total	<u>94,963.1</u>	<u>93,790.7</u>	<u>1.3%</u>

The following table sets forth the breakdown of the Group's operating lease assets as at the dates indicated:

<i>(RMB in millions, except percentages)</i>	As of December 31,		
	2016	2015	Change
Operating lease assets			
Investment properties	356.6	376.2	(5.2%)
Property and equipment – equipment held for operating lease	46,857.8	41,871.0	11.9%
Total	<u>47,214.4</u>	<u>42,247.2</u>	<u>11.8%</u>

2.2.3 *Liabilities*

As at December 31, 2016, total liabilities of the Group amounted to RMB144,210.5 million, representing an increase of RMB3,508.3 million, or 2.5% as compared with that as at the end of last year, due primarily to the increases in borrowings and notes payable, which were partially offset by decreases in balance of due to banks and other financial institutions, financial assets sold under repurchase agreements, derivative financial liabilities, tax payable and other liabilities.

2.2.3.1 Borrowings

As at December 31, 2016, borrowings of the Group amounted to RMB106,198.2 million, representing an increase of RMB3,703.7 million, or 3.6% as compared with that as at the end of last year, due primarily to the increase in financing for expansion of business size.

2.2.3.2 Due to Banks and Other Financial Institutions

The Group is a member of the interbank lending market in China and is able to obtain interbank lending with a term within three months. As at December 31, 2016, the balance of the due to banks and other financial institutions of the Group amounted to RMB4,000.0 million, representing a decrease of RMB900.0 million, or 18.4% as compared with that as at the end of last year, due primarily to repayment of partial stock of due to banks and other financial institutions upon maturity at the end of the year.

2.2.3.3 Notes Payable

As at December 31, 2016, notes payable of the Group amounted to RMB17,793.9 million, representing an increase of RMB3,959.1 million, or 28.6% as compared with that as at the end of last year, due primarily to the issue of RMB3 billion three-year RMB financial bond by the Group in the National Inter-bank Bonds Market in 2016. Moreover, the balance of notes denominated in US dollars was also partially affected by the fluctuation in exchange rates.

2.2.3.4 Other Liabilities

As at December 31, 2016, other liabilities of the Group amounted to RMB12,215.0 million, representing a decrease of RMB357.3 million, or 2.8% as compared with the that as at end of last year, due primarily to the decrease in related liabilities resulting from conclusion of certain transactions of leased assets.

2.3 Analysis on Statement of Cash Flow

The following table sets forth the Group's statement of cash flow for the years indicated and the changes:

<i>(RMB in millions, except percentages)</i>	For the year ended December 31,		Change
	2016	2015	
Net cash flow from operating activities	4,085.3	11,841.9	(65.5%)
Net cash flow from investing activities	(8,908.5)	(9,903.9)	(10.1%)
Net cash flow from financing activities	7,796.7	(584.2)	—
Net increase/(decrease) in cash and cash equivalents	<u>2,973.5</u>	<u>1,353.8</u>	<u>119.6%</u>

In 2016, net cash inflow from operating activities of the Group amounted to RMB4,085.3 million, representing a decrease of 65.5% as compared with that of last year, due primarily to the decrease in accumulated borrowings throughout the year. For the same period, net cash outflow from investing activities of the Group amounted to RMB8,908.5 million, representing a decrease of 10.1% as compared with that of last year, due primarily to the decrease in the amount of asset management plan invested by the Group as compared with that of last year. Furthermore, in 2016, net cash inflow from financing activities of the Group amounted to RMB7,796.7 million, representing an increase of RMB8,380.9 million as compared with that of last year, due primarily to funding through issue of new Shares from the successful listing of the Company in Hong Kong, and issue of RMB3 billion RMB financial bond in 2016.

3. Business Operation

The major business segments of the Group include Aircraft Leasing, Infrastructure Leasing, Ship, Commercial Vehicle and Construction Machinery Leasing and Other Leasing Business. Although the economic growth in mainland China continued to slow down in 2016, the Group achieved stable growth in business scale and revenue by accurately capturing the economic situation and effectively and consistently implementing development strategies. In 2016, the Group further facilitated development of Aircraft Leasing and Infrastructure Leasing business with mature business operation models, good asset quality and strong growth potential. The Group carried out Ship, Commercial Vehicle and Construction Machinery Leasing in a prudent manner. The Group also proactively controlled the scale of Other Leasing Business and gradually exited from industries with higher credit risk exposure, thereby further optimized its business layout. In 2016, the total lease financing to lessees throughout the year amounted to RMB40.58 billion, and the lease financings to lessees in Aircraft Leasing, Infrastructure Leasing, Ship, Commercial Vehicle and Construction Machinery Leasing and Other Leasing Business were RMB8.08 billion, RMB22.13 billion, RMB8.45 billion and RMB1.92 billion respectively.

The following table sets forth the segment assets of the Group as of the dates indicated:

<i>(RMB in millions, except percentages)</i> Segment assets	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Aircraft Leasing	62,606.3	37.7%	55,788.3	36.0%
Infrastructure Leasing	68,676.6	41.4%	60,660.9	39.2%
Ship, Commercial Vehicle and Construction Machinery Leasing	20,246.1	12.2%	20,070.1	12.9%
Other Leasing Business	14,392.1	8.7%	18,472.7	11.9%
Total	<u>165,921.1</u>	<u>100.0%</u>	<u>154,992.0</u>	<u>100.0%</u>

The following table sets forth the segment revenue and other income for the years indicated:

<i>(RMB in millions, except percentages)</i>	For the year ended December 31,			
	2016		2015	
Segment revenue and other income	Amount	Percentage	Amount	Percentage
Aircraft Leasing	5,896.5	51.5%	4,916.6	44.8%
Infrastructure Leasing	3,535.2	30.9%	3,520.2	32.1%
Ship, Commercial Vehicle and Construction Machinery Leasing	1,116.3	9.8%	1,211.7	11.0%
Other Leasing Business	892.8	7.8%	1,332.8	12.1%
Total	<u>11,440.8</u>	<u>100.0%</u>	<u>10,981.3</u>	<u>100.0%</u>

The following table sets forth the segment profit/(loss) before income tax for the years indicated:

<i>(RMB in millions)</i>	For the year ended December 31,	
	2016	2015
Segment profit/(loss) before income tax	Amount	Amount
Aircraft Leasing	1,359.1	1,121.2
Infrastructure Leasing	1,503.8	1,220.8
Ship, Commercial Vehicle and Construction Machinery Leasing	(207.5)	(9.0)
Other Leasing Business	(587.7)	(1,033.4)
Total	<u>2,067.7</u>	<u>1,299.6</u>

The following table sets forth the segment profit margin before income tax for the years indicated:

	For the year ended December 31,	
	2016	2015
Segment profit margin before income tax⁽¹⁾		
Aircraft Leasing	24.92%	23.71%
Infrastructure Leasing	43.74%	35.64%
Ship, Commercial Vehicle and Construction		
Machinery Leasing	(19.02%)	(0.75%)
Other Leasing Business	(70.48%)	(80.16%)

⁽¹⁾ Calculated by dividing the segment profit before income tax by the segment lease income. Lease income includes finance lease income and operating lease income.

The following table sets forth the segment return on assets before income tax for the years indicated:

	For the year ended December 31,	
	2016	2015
Segment return on assets before income tax⁽²⁾		
Aircraft Leasing	2.30%	2.20%
Infrastructure Leasing	2.33%	2.17%
Ship, Commercial Vehicle and Construction		
Machinery Leasing	(1.03%)	(0.04%)
Other Leasing Business	(3.58%)	(5.25%)

⁽²⁾ Calculated by dividing the segment profit before income tax by the average balance of segment assets at the beginning and the end of the year.

3.1 Aircraft Leasing

Leasing companies have been playing an important role in financing the global aviation industry. At present, with rapid growth momentum in global aviation industry, the demand for aircraft has been increasing, resulting in greater demand for aircraft leasing. Compared with finance lease, operating lease can effectively reduce the leverage level of the lessee and avoid residual value risk. Hence, the proportion of operating leases in the Aircraft Leasing segment has been increasing gradually. As the unit value of aircraft is high and the business operation of aircraft leasing is relatively complicated, most of the companies currently engaging in aircraft leasing business in the PRC are large-scale leasing companies with strong capital base and outstanding business capabilities. The Group insists Aircraft Leasing as the core business segment, and focuses on building and maintaining a portfolio of young, modern and fuel-efficient commercial aircraft, with a view to maximizing long-term earnings growth and delivering superior risk-adjusted returns.

In 2016, in order to further promote the development of internationalization and professionalization of the Aircraft Leasing segment, the Group established a specialized aviation subsidiary in Ireland and introduced overseas talents and advanced management experience. As such, the Group preliminarily established an international aviation team as well as an international aviation management system, laying a foundation of organization structure, human resources and market mechanism for deepening the internationalized reform of the aviation business. The establishment of a specialized aviation subsidiary in Ireland was approved, making the Company become the first financial leasing company to establish an overseas specialized leasing subsidiary under the approval of CBRC. We planned to develop the specialized aviation subsidiary in Ireland into a platform of business development and asset management in Aircraft Leasing segment, and further expand into the global market based on the overseas platform, thereby providing strong support to further optimizing the global allocation of aircraft leasing assets, supporting the national strategy of the “the Belt and Road Initiatives”, and promoting the leading position of the PRC aircraft leasing industry in the global market.

The Group continued to expand its own aircraft portfolio, business scale and client network, consistently enhanced the leased assets trading capability, accumulated experience in the industry, and further consolidated its leading position in the PRC aircraft leasing industry. As of December 31, 2016, total assets of the Aircraft Leasing segment amounted to RMB62,606.3 million, representing an increase of RMB6,818.0 million, or 12.2%, as compared with that as at the end of last year. Total revenue and other income of the Aircraft Leasing segment in 2016 amounted to RMB5,896.5 million, representing an increase of RMB979.9 million, or 19.9%, as compared with that of last year.

Benefiting from the aircraft portfolio which was in conformity with the demand in the industry, high-quality lease contracts and excellent management capability, profitability of the Group's Aircraft Leasing business remained at a stable level. In 2016, the segment return on assets before income tax of the Aircraft Leasing was 2.30%, which increased by 0.10 percentage point as compared with that of last year.

In 2016, the Group delivered 29 aircraft, 25 of which were under operating leases. The Group completed lease extensions for 12 aircraft and re-leases for 3 aircraft. Currently, the Group has established a leading-in-scale, young and diversified aircraft portfolio which adapts to the industry development trend. As of December 31, 2016, the Group had a portfolio of 403 aircraft, consisting of 192 owned aircraft, 11 managed aircraft and 200 committed aircraft (including 65 potential orders of aircraft on non-binding letters of intent). Among the portfolio, the Group's owned aircraft portfolio consisted primarily of narrow-body aircraft, including Airbus A320 and Boeing 737NG, and wide-body aircraft, including Airbus A330 and Boeing 777. As of December 31, 2016, in terms of the net carrying amount before allowance for impairment losses of aircraft portfolio, Airbus and Boeing aircraft collectively represented 92.4% of total owned aircraft of the Group.

The following table sets forth the breakdown of owned aircraft portfolio of the Group by type of manufacturer as of the dates indicated:

Manufacturers	As of December 31,			
	Percentage by net carrying amount before allowance for impairment losses of owned aircraft portfolio		Percentage by numbers of owned aircraft portfolio	
	2016	2015	2016	2015
Airbus	56.9%	58.6%	49.5%	44.4%
Boeing	35.5%	32.9%	29.2%	27.2%
Others	7.6%	8.5%	21.3%	28.4%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Aircraft Leasing segment of the Group is primarily operated under operating leases with owned aircraft portfolio maintaining a 100% fleet utilization. As of December 31, 2016, 158 of the Group's owned aircraft were under operating leases, while 34 of owned aircraft were under finance leases. In terms of the net carrying amount of leased assets, finance leases and operating leases accounted for 7.7% and 92.3%, respectively. During the year, the Group conducted its Aircraft Leasing business primarily through placement of new aircraft on orders and selectively through sale-and-leaseback transactions.

The Group maintains a young aircraft fleet portfolio to sustain its competitiveness. Meanwhile, the Group mitigates risk exposures and uncertainties by entering into long-term contracts. As of December 31, 2016, the average age of the Group's owned aircraft fleet on operating leases by the Group was 4.8 years.

Through prudent client selection and effective management over leased assets, the Group was able to maintain excellent asset quality of Aircraft Leasing segment. As of December 31, 2016, the non-performing asset ratio of the Group's Aircraft Leasing segment was nil.

The Group is expanding its Aircraft Leasing business globally via five aircraft leasing business platforms in Tianjin Free Trade Zone, Shanghai Free Trade Zone, Xiamen Area in Fujian Free Trade Zone, Ireland and Cayman Islands. Currently, the Group has 41 clients in 22 countries and regions, including the PRC, Asia Pacific (excluding the PRC), Europe, the Middle East and Africa, as well as Latin America, of which 28 were overseas clients.

The following table sets forth the breakdown of the Group's percentage of lease revenue and percentage of net carrying amount of underlying leased assets in Aircraft Leasing by region of lessees for the years indicated and as of the dates indicated:

Region	Percentage of lease revenue		Percentage of net carrying amount of underlying leased assets	
	For the year ended December 31, 2016	2015	As of December 31, 2016	2015
The PRC	52.0%	45.6%	58.8%	51.3%
Asia Pacific (excluding the PRC)	18.0%	20.9%	12.9%	16.7%
Europe	17.6%	20.1%	16.1%	19.5%
Middle East and Africa	7.8%	8.6%	6.2%	7.9%
Latin America	4.6%	4.8%	6.0%	4.6%
Total	100.0%	100.0%	100.0%	100.0%

The Group continued to expand its sales network and strengthen aircraft asset management and leased asset trading capabilities. In 2016, the Group sold a total of 11 aircraft to different buyers, optimizing the composition of aircraft portfolio, and also capturing gains in advance, thereby enhanced the profitability of the intermediary business and liquidity of the portfolio. Gains realized from the aircraft sales of the Group in 2016 represented an increase of 155% as compared with that of last year.

In 2017, the Group will promote the progress of the internationalization of Aircraft Leasing, continue to recruit sophisticated professional talents in the industry across the world, develop a global marketing network covering the Asia-Pacific, Europe, Middle East, Africa and the Americas through the global layout in Ireland and Hong Kong, and further improve the management efficiency and business performance in Aircraft Leasing through adequately leveraging international team experience, optimization of process, establishment of system and utilization of automation system. The Group will continue to focus on the core business of placing new aircraft on orders and re-leasing aircraft upon expiration of the lease, prudently carry out sale-and-leaseback transactions with high-quality customers. The Group will also strengthen proactive management on the aircraft portfolio, vigorously increase the sale of aircraft, develop the superior aircraft portfolio composition with different aircraft models, ages, lessees and leasing terms, and enhance the liquidity and the yield of aircraft portfolios according to the portfolio management goal. The Group will develop long-term strategic cooperative relationships with aircraft manufacturers and financing institutions, and strengthen business synergy with China Development Bank, the substantial Shareholder, to provide the customers with more extensive and attractive products. In 2017, the Group will keep deepening the reform and development in the Aircraft Leasing segment and establish a set of operation and management mechanism in line with the industry norms and the international conventions with a view to progressively achieving the strategic goal of building a professional, international and market-oriented Aircraft Leasing business.

3.2 *Infrastructure Leasing*

2016 was the starting year under the “Thirteenth Five-Year” Plan when China further promoted urbanization and took extensive efforts in the construction of infrastructure, including transportation, municipal facilities and energy, etc., which increased the demand for infrastructure investments, indicating the huge potential for infrastructure market. Infrastructure Leasing projects were normally led by the government and the projects are of low credit risks and high asset quality. In general, such projects are of large size and long-term which required leasing companies to have a strong capital base. In light of the huge market potential and assets with premium quality

and favourable profitability in Infrastructure Leasing, the Group considers Infrastructure Leasing as one of its core business segments. By making full use of its strengths of extensive financing channels, ample capital and low capital costs and leveraging the long-term accumulated experience in Infrastructure Leasing, the Group has been continuously increasing investments in selected regions and promoting business development.

In 2016, the Group continued to increase its investments in Infrastructure Leasing segment. Lease financing to lessees for such business segment represented 54.5% of the total lease financing to lessees of the Group, achieving a relatively significant growth on a year-on-year basis. With regard to the strategy of business development, the Group provided relatively flexible comprehensive financial services to its clients, mainly through the business collaboration with branches of China Development Bank, by leveraging the extensive government clients base and the infrastructure projects experience of China Development Bank, as well as its first-mover advantage of medium- and long-term loan projects in the infrastructure financing. The Group developed its business with a focus on China Development Bank's clients and government clients through business referral and strategic cooperation agreements.

The Group had established a relatively mature business model for the Infrastructure Leasing segment, accumulated extensive experience and gradually enhanced business scale and profitability. As of December 31, 2016, the total assets of the Infrastructure Leasing segment of the Group amounted to RMB68,676.6 million, representing an increase of RMB8,015.7 million, or 13.2%, as compared with that as at the end of last year. In 2016, such business segment realized revenue and other income of RMB3,535.2 million, representing an increase of RMB15.0 million, or 0.4%, as compared with that of last year, and segment return on assets before income tax of 2.33%, which increased by 0.16 percentage point as compared with that of last year.

A majority of the Infrastructure Leasing business of the Group was under finance leases, while a minority was under operating leases. As of December 31, 2016, in terms of the net carrying amount of leased assets, finance leases and operating leases accounted for 99.3% and 0.7%, respectively. Currently, Infrastructure Leasing of the Group is carried out primarily through sale-and-leaseback transactions, which effectively helps local governments and enterprises in activating the existing infrastructure assets.

The Group maintained stable future cash flows by entering into long-term contracts with lessees. Meanwhile, the Group maintained sound asset quality for such business segment by virtue of its outstanding risk management capability. As of December 31, 2016, the non-performing asset ratio of the Infrastructure Leasing segment of the Group was nil.

The Group continued to expand its business network and accumulate client resources, and has currently built up a broad client base nationwide. As of December 31, 2016, clients of Infrastructure Leasing reached throughout 24 provinces, autonomous regions and direct-controlled municipalities in the PRC.

Infrastructure Leasing business comprises Transportation Infrastructure Leasing (toll roads, rail transit), Urban Infrastructure Leasing (municipal facilities, affordable housing) and Energy Infrastructure Leasing (energy and electric power equipment) as classified by the type of leased assets.

Transportation Infrastructure Leasing

Transportation Infrastructure Leasing business primarily comprises the leasing of toll roads and rail transit equipment. In order to obtain stable leasing income, the Group provides sale-and-leaseback services on fixed assets for highways, toll roads and bridges operating companies with stable toll revenue as well as rail transit operating companies with stable income from tickets, advertising, real estate rental and other rail transit management. Meanwhile, the Group requires the lessees to pledge the toll-collecting rights as a security so as to reduce business risks.

In 2016, the Group proactively carried out business innovation and made a breakthrough in the business model of asset circulation. Under such model, the Group successfully executed the finance lease factoring project for a highway, which explored a new source of income for intermediary businesses.

As of December 31, 2016, the existing leasing projects of the Group include toll roads in 10 provinces and rail transit equipment in five cities in the PRC.

Urban Infrastructure Leasing

Urban Infrastructure Leasing business primarily comprises the leasing of municipal facilities and affordable housing. The municipal facilities leases are serviced mainly by revenues from the operation of municipal facilities. In addition, the Group typically requires companies owned or controlled by the government to provide joint liability guarantee in order to reduce business risks. With regard to the leasing of affordable housing, the Group strictly follows relevant government policies to render leasing services for affordable housing. Affordable housing leases are serviced mainly by rents and government fiscal support. In addition, to mitigate credit risk, the Group usually enters into repurchase agreements with the local governments where the lessees are located, under which the local governments agree to repurchase leased affordable housing of the Group in the event of default.

Urban Infrastructure Leasing business developed rapidly for the year. The business network was further expanded, covering 13 provinces, autonomous regions and direct-controlled municipalities in the PRC. Classes of the new clients exploited included urban asset investment companies, water supply and environmental protection companies as well as tourism companies.

While solidifying the advantages of traditional businesses, the Group proactively sought for business innovations in 2016. Through cooperation with commercial banks on executing factoring business of urban infrastructure leasing, the Group innovated business models, which efficiently enhanced the revenue of the intermediary business. Meanwhile, the Group proactively explored joint leasing model so as to expand sources of business and income.

As of December 31, 2016, the Group provided leasing services for municipal roads, water, gas, heating, pipelines and other municipal facilities in 15 provinces, autonomous regions and direct-controlled municipalities in the PRC. In addition, the Group collaborated with local governments in affordable housing leasing services in five provinces, autonomous regions and direct-controlled municipalities in the PRC, providing financing for an aggregate of over 37,000 affordable housing properties.

Energy Infrastructure Leasing

Building on our experience in providing equipment leasing services to traditional power enterprises in China, the Group has been providing leasing services to clean energy enterprises with promising growth potential, which is in line with the national policy orientation of energy structure optimization of the PRC.

In 2016, the Group reinforced the market trend analysis and industry research, and primarily promoted clean energy and electric power equipment businesses. The Group put greater efforts on the business development with leading enterprises in the industry and signed cooperation framework agreements with several key clients, and also reserved, decided and invested a batch of leasing projects of clean energy and electric power equipment with promising future. Meanwhile, the Group explored diversified leasing models, promoted cooperation on subleasing within the same industry, and carried out direct leasing transactions of clean energy power stations, which enhanced market competitiveness of the Group. In 2016, the clean energy projects exploited by the Group mainly involved power equipment leasing of nuclear power, wind power and solar power, etc.

As of December 31, 2016, the Group mainly provided energy and electric power equipment leasing services to a number of enterprises in 15 provinces, autonomous regions and direct-controlled municipalities in the PRC.

Currently, in respect of the Infrastructure Leasing segment, the Group has formed a business layout mainly focusing on Transportation Infrastructure Leasing and Urban Infrastructure Leasing, while developing quality projects of Energy Infrastructure Leasing.

The following table sets forth the net carrying amount and proportion of lease related assets of each sub-segment in Infrastructure Leasing of the Group as of the dates indicated:

	Net carrying amount of lease related assets as of December 31, 2016	Percentage of net carrying amount of lease related assets as of December 31, 2016
<i>(RMB in millions, except percentages)</i>		
Transportation Infrastructure Leasing	28,295.8	41.2%
Urban Infrastructure Leasing	34,133.3	49.7%
Energy Infrastructure Leasing	6,247.5	9.1%
Total	68,676.6	100.0%

In 2017, the Group will continue to promote Infrastructure Leasing business, closely follow the changes in national policies, and reinforce researches on supply-side structural reform, new urbanization, regional development, interconnection and other policies. Specifically, the Group will mainly choose to cooperate with regions with promising economic environment and clients with effective financial support from the government by proactively developing various leasing projects on metro, inter-city railway, municipal roads, underground comprehensive pipeline network, nuclear power, wind power and other aspects of transportation infrastructure, urban infrastructure and clean energy. Meanwhile, with regard to innovation, the Group will not solely rely on the traditional credit structure and financing model under the credit enhancement measures but also proactively promote the adoption of PPP business model, hence gradually increasing the proportion of PPP projects in Infrastructure Leasing business.

3.3 Ship, Commercial Vehicle and Construction Machinery Leasing

In 2016, the Group focused on optimizing its business layout, selected quality leased assets and quality clients with a prudent approach for Ship, Commercial Vehicle and Construction Machinery Leasing. As of December 31, 2016, total assets of the Ship, Commercial Vehicle and Construction Machinery Leasing segment amounted to RMB20,246.1 million, representing an increase of RMB176.0 million, or 0.9%, as compared with that as at the end of last year. In 2016, total revenue and other income of the Ship, Commercial Vehicle and Construction Machinery Leasing segment amounted to RMB1,116.3 million, representing a decrease of RMB95.4 million, or 7.9%, as compared with that of last year, and the segment return on assets before income tax was -1.03%, which decreased by 0.99 percentage point as compared with that of last year. The decrease in profitability of such business segment was primarily due to the loss arising from the significant increase in provision for the Construction Machinery Leasing in response to the severe industrial risk tendency, while Ship and Commercial Vehicle Leasing have generated profits before income tax.

Ship Leasing

An obvious cyclical feature exists in shipping market. In light of the sluggish recovery of the global economy and the fact that China's economy has entered a "new normal" period, the growth in demand of shipping market was relatively slow and the oversupply of shipping capacity continued, resulting in a negative impact on the shipping freight and ship's unit value, both of which have fallen to a two-decade low. As affected by the continuous downturn in the shipping market, orders for new ships dropped significantly in 2016 and reached a new low of recent two decades. The significant fall in orders for new ships has provided a certain support to the gradual stability of the shipping market. In 2016, among all sub-segments of shipping, the dry bulk carrier market saw an outstanding performance. The Baltic Dry Index (BDI) has steadily increased by 103% from 473 points at the beginning of the year to 961 points at the end of the year and reached 1,257 points, the peak of the year, in November 2016. The operating results of dry bulk carrier companies achieved a significant improvement and the market value of dry bulk carriers also increased conspicuously, while the performances of container ships, oil tankers, liquefied gas carriers and other ship types remained stable.

As there was no significant improvement in the overcapacity of shipping market, in 2016, the Group continued to provide Ship Leasing services worldwide with a prudent approach, constantly optimized the asset structure of the vessel fleet, and selected the mainstream ships with features of energy conservation, environmental protection and high technology as the leased assets, so as to push forward the upgrade of large-scale, high-tech and energy conserving vessel fleet. In 2016, the Group successfully cooperated with Fortescue Metals, the fourth largest mining company in the world, and entered into a finance lease contract amounting to US\$473 million for eight ultra-large ore carriers, representing the largest transaction in terms of direct financing from a major Chinese financial institution by a non-Chinese enterprise in Australia. Meanwhile, the Group acquired ship assets at a low price in the market and carried out cooperation with high quality clients under ship operating leases. In addition, the Group was trying to find opportunities of superior projects though active market exploration and completed the delivery of 10 new ships in 2016, including five container ships and five dry bulk carriers.

The Group deploys vessel fleet based on the market condition, and has established a diversified composition of vessel fleet. As of December 31, 2016, the Groups owned and leased 45 vessels of different types, consisting of 18 container ships, 13 dry bulk carriers, two liquefied gas carriers, four chemical tankers, five oil tankers and three dredgers.

The Group's Ship Leasing is mainly carried out under finance leases, while also gradually exploring operating leases. As of December 31, 2016, 36 of the Group's vessel fleet were held under finance leases while nine of the vessel fleet were under operating leases. In terms of the net carrying amount of leased assets, finance leases and operating leases accounted for 92.2% and 7.8%, respectively (the delivery of the property rights for four operating lease ships was completed on December 30, 2016. As the four ships were not leased as of December 31, 2016, they were not included in the net carrying amount of operating lease assets, but were then leased and recorded in operating lease assets from January 2017). With regard to the business model, the Group mainly conducted Ship Leasing business through sale-and-leaseback transactions.

The Group maintained a young vessel fleet to improve business competitiveness, while locking steady cash flow through entering into long-term leases with lessees. As of December 31, 2016, the average age of the Group's owned vessel fleet was 6.3 years.

Target clients of the Group mainly include large state-owned shipping groups and their subsidiaries, as well as high-quality domestic and overseas cargo owners and shipping companies. While optimizing the domestic business, the Group proactively expanded its overseas business and participated in the competition in international market. As of December 31, 2016, the Group provided Ship Leasing services to 34 clients from four countries, among which 30 were overseas clients.

In 2017, it is estimated that the global shipping market will remain at the digesting stage of the previously accumulated excessive shipping capacity and therefore the fundamentals of the overcapacity in general will be unlikely to improve significantly. In the sluggish market environment, the Group will proactively reserve its strength by utilizing the market adjustment period and explore future market development opportunities in order to build Ship Leasing into a new growth driver with "distinct features, outstanding advantages and quality assets". With regard to the business development, by insisting on the guiding ideology of "being strong before expansion", the Group will focus on the mid- and high-end clients as well as the major projects, meanwhile adhere to the principle of balancing business development and risk management, so as to fight for quality client resources and project resources and increase the market influence and market share. Meanwhile, the Group will proactively optimize the composition of ship portfolios and explore high-end special shipping business such as large liquefied gas carriers, luxury cruise ships and marine engineering equipment with a prudent approach on the basis of consolidating the predominance of traditional commercial ships such as container ships, dry bulk carriers and oil tankers. Leveraging previous successful execution experience in

operating lease projects, the Group will proactively conduct ship operating lease business with cargo owners and shipping companies with sound reputation and strong capital base.

Commercial Vehicle Leasing

Along with the continuous growth of China's economy, the demand for commercial vehicles continued to rise. As an important financing channel for transportation companies, leasing has a broad market space. According to the statistics of China Association of Automobile Manufactures, the sales volume of commercial vehicle in China in 2016 was 3.65 million, representing a year-on-year increase of 5.8%. In order to mitigate pollution, the national policies have been promulgated consecutively in recent years to encourage the development of new energy vehicles. By combining the market demand and the policy orientation, the Group vigorously promoted the new-energy bus business in 2016 and carried out in-depth cooperation with various large bus companies in China. In addition, by matching the actual demand of major manufacturers, the Group selectively developed other types of commercial vehicle leasing business. Upon in-depth discussion with numerous manufacturers and distributors, the Group promoted asset portfolio model step by step with varieties of products to adequately satisfy the demands of manufacturers for different products, and further enhanced the cooperative relationship with major manufacturers. Currently, the Group has conducted cooperation dialogues with various leasing companies and came to intention of cooperation.

All Commercial Vehicle Leasing business of the Group is under finance leases, which is an ancillary financing service provided for the end-sales primarily through a wholesale business model with credit line granted for manufacturers or distributors and repurchase guarantee by manufacturers or joint and several liability guarantee by distributors. Under such model, sale-and-leaseback transactions and direct leasing transactions are conducted based on the nature of the leased assets. In addition, by carrying out the asset portfolio sale-and-leaseback transactions with the leasing platforms of manufacturers, the Group achieved a diversified cooperation with major manufacturers, and therefore enhanced the coherence between the Group and major manufacturers.

In 2017, the Group will enhance the innovation of business variety, expand the scope of cooperation, and further improve professional expertise in order to satisfy various financing needs of the market under the new situation. At the same time, the Group will pay close attention to the policy orientation relating to new energy so as to capture opportunities in new energy industry, emphatically study and develop businesses relating to new energy vehicles, deepen cooperation with high-quality public transport companies, and press forward energy conservation and emission reduction of urban transportation.

Construction Machinery Leasing

Facing the downturn of macro-economy, the sale of construction machineries was under certain pressure, and hence the demand for end-consumer financing was robust. As one of the professional segments, the Construction Machinery Leasing business gained the popularity among numerous leasing companies and as a result, the competition of such market was relatively fierce. In this regard, the Group adhered to the principle of “seeking progress while ensuring stability” in 2016, focused on strengthening and enhancing cooperation with key manufacturers, explored innovative business models, and deepened vertical business development, so as to support the development of natural persons and SMEs.

All Construction Machinery Leasing business of the Group is under finance leases. Similar to commercial vehicles, such business is mainly carried out through the cooperation with manufacturers and distributors under wholesale business model, while minority of such business is carried out through sale-and-leaseback transactions and direct leasing transactions after procuring from manufacturers.

In 2017, the Group will continue to strengthen risk management and prevent the asset risks of Construction Machinery Leasing effectively. Meanwhile, on the basis of continuously optimizing business management process, the Group will focus on the priorities of national strategy, deepen the innovation of business model and extend the creative model of asset portfolio transactions with key manufacturers’ leasing platforms, so as to enhance the capabilities in financial services.

The following table sets forth the net carrying amount and proportion of lease related assets of each sub-segment in Ships, Commercial Vehicle and Construction Machinery Leasing of the Group as of the dates indicated:

	Net carrying amount of lease related assets as of December 31, 2016	Percentage of net carrying amount of lease related assets as of December 31, 2016
<i>(RMB in millions, except percentages)</i>		
Ship Leasing	11,617.7	57.4%
Commercial Vehicle Leasing	1,512.4	7.5%
Construction Machinery Leasing	7,116.0	35.1%
Total	<u>20,246.1</u>	<u>100.0%</u>

3.4 Other Leasing Business

Owing to the slowdown of China's economy in recent years, certain traditional manufacturing industries face challenges of overcapacity, which resulted in poor operating performance of many companies. The proportion of small and medium enterprises in traditional manufacturing industries is relatively large and the fluctuations in operating results of such enterprises are highly volatile. Affected by the overall environment of lessees' industries, assets of Other Leasing Business invested by the Group are exposed to relatively higher credit risk. To mitigate the risk of Other Leasing Business segment and improve operating results, in 2016, the Group actively controlled the scale of Other Leasing Business segment, reduced the balance of leased assets in the industries with relatively high credit risks, and shifted the business focus of such segment to strategic emerging industries, environmental protection industry and manufacturing sectors supported by national policies. In addition, the Group further enhanced risk management by strengthening the research in macro-economy and industry, improving credit enhancement measures, consolidating post-lease management and collateral management, as well as mitigating risks through the whole process of the business. The Group has achieved sound results in adjustment initiatives in Other Leasing Business segment.

As of December 31, 2016, total assets of Other Leasing Business segment amounted to RMB14,392.1 million, representing a decrease of RMB4,080.6 million, or 22.1%, as compared with that as at the end of last year, indicating an overall shrinking trend. In terms of the net carrying amount of leased assets, finance leases and operating leases accounted for 97.1% and 2.9%, respectively.

With effective measures of the Group to prevent and control risks, the performance results of Other Leasing Business segment slightly improved. In 2016, total revenue and other income of such segment amounted to RMB892.8 million, representing a decrease of RMB440.0 million, or 33.0%, as compared with that of last year. Segment return on assets before tax was -3.58%, which increased by 1.67 percentage points as compared with that of last year.

In 2017, with regard to Other Leasing Business, the Group will strengthen industry research and business model innovation, and design leases products tailored to clients' needs. In addition, the Group will implement differentiated strategy, improve the ability of project development and risk management. Besides, the Group will prudently explore business of other industries and expand business in projects operated independently which generate stable cash flows with leased assets having the nature of value preservation or value creation, so as to explore new drivers for business growth.

4. Financing

On August 31, 2016, Moody's increased the rating of the Group to Aa3. Due to its high credit ratings ("Aa3" by Moody's, "A+" by Standard & Poor's, and "A+" by Fitch), the Group continuously enhanced its funding capability and diversified its financing channels. The Group continued to deepen its cooperation with domestic and overseas banks and other financial institutions to ensure that there would be sufficient funds available for business development. As of December 31, 2016, the Group had established business relationships with 85 banks and was granted uncommitted credit facilities amounting to a total of approximately RMB416.21 billion including unused uncommitted credit facilities of approximately RMB300.27 billion. Meanwhile, the Group continued to explore financing options including domestic debt financing, asset securitization financing and equity financing, and other more diversified financial instruments. The Group obtained the approval for the issuance of RMB10 billion financial bonds from the Shenzhen CBRC and the PBOC in February 2016 and September 2016, respectively, and successfully issued the first tranche of the 3-year RMB3 billion financial bonds at an interest rate of 3.0% on October 26, 2016 which was the lowest interest rate issued by financial leasing companies historically. In addition, the Group has submitted application documents for the qualification in relation to asset securitization to the Shenzhen CBRC in September 2016. On July 11, 2016, the Company was successfully listed on the Hong Kong Stock Exchange, which further expanded its financing channels in the capital markets and enhanced the financing capability of the Group.

In 2016, in light of the complex and ever-changing domestic and international macro economy and financial market condition, the Group actively implemented corresponding measures regarding financing activities in response to the changes in macro environment. Through proactive adjustment of financing strategies and optimization of financing structure, the financing costs of the Group decreased significantly. In 2016, the average cost of interest-bearing liabilities of the Group was 3.43%, which decreased by 89 basis points as compared with that of last year. In respect of interest structure, the Group actively shortened the duration of liabilities denominated in RMB to match with that of leased assets denominated in RMB to ensure the stability of interest spread. In respect of exchange rates, the Group continued to implement its existing strategy on exchange rate risk management and maintain basically matching of assets and liabilities in terms of currency type. In addition, the Group also actively retained certain volume of net exposure to assets denominated in US dollar according to its study and judgment on market trend.

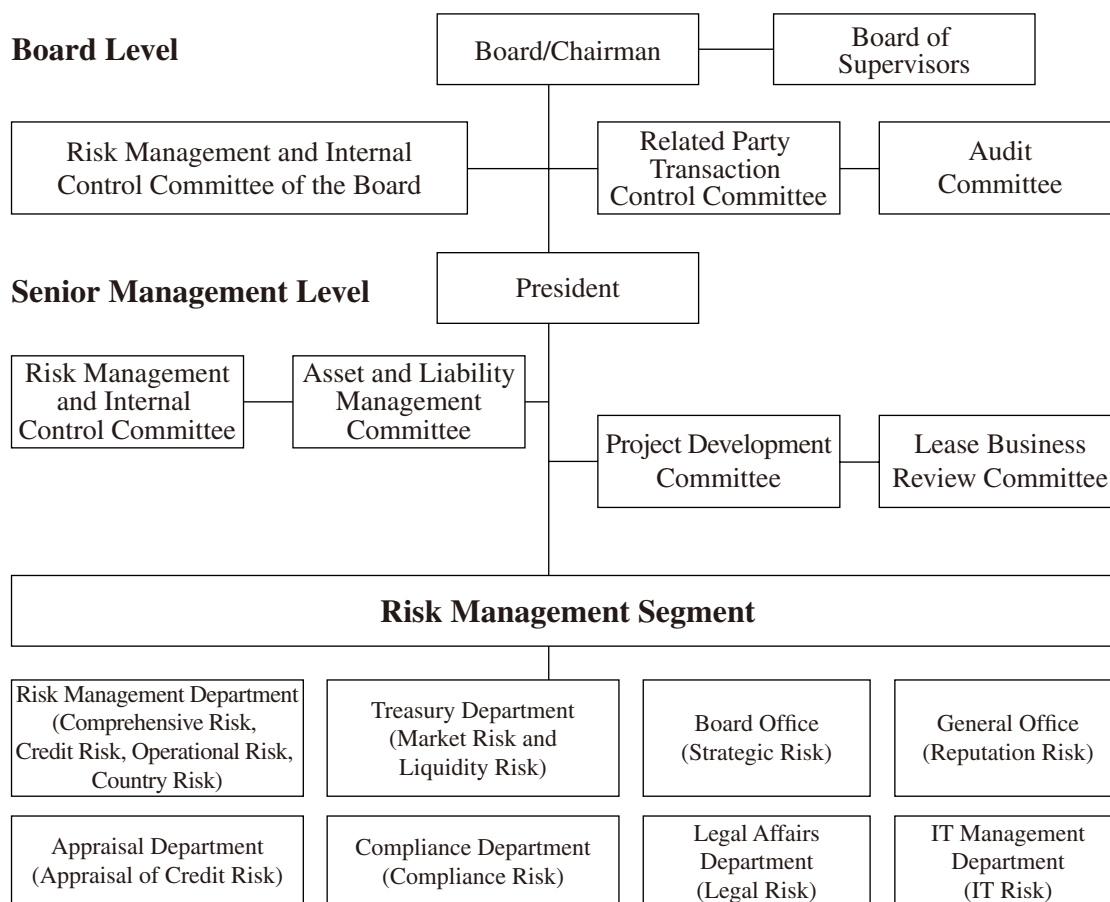
In 2016, the major financing sources of the Group included bank borrowings, issuance of notes, interbank lending and sales under repurchase agreements. As of December 31, 2016, the Group's borrowings, notes payable, due to banks and other financial institutions, and financial assets sold under repurchase agreements were RMB106,198.2 million, RMB17,793.9 million, RMB4,000.0 million and RMB3,136.0 million, respectively.

5. Risk Management

The Group is exposed to various risks in the normal course of its business, including credit risk, interest rate risk, exchange rate risk, liquidity risk, information technology risk and reputation risk. The Group has established a comprehensive risk management system which forms an impeccable risk management framework and system with a detail-defined division among all business segments, risk management department and internal audit department to constantly identify, evaluate and monitor the risks in the normal course of the Group's operation, so as to achieve an appropriate balance between risks and benefits while reducing the potential negative impact on the Group's financial performance. The Group deploys the abundant data resources and credit experience of CDB to enhance its risk management and carries out post-lease management under the assistance of the branches of CDB, allowing it to identify and defuse risks.

In 2016, the Group strengthened its comprehensive risk management and control with optimization of the establishment of comprehensive risk management system, and drafted a programmatic document for risk management, namely the Basic Provisions on Comprehensive Risk Management (Provisional) (《全面風險管理基本規定（試行）》), which has been approved by the management. The document specifies the responsibility of the Board, the Board of Supervisors and the Senior Management on risk management and redraws the boundary of the risk management responsibility of each department in each segment, which further improved the risk management infrastructure of the Company.

The following graph illustrates our risk management framework:



The Board fulfils risk management responsibility in compliance with the Articles of Association and relevant regulatory requirements. The Risk Management and Internal Control Committee under the Board is responsible for the formulation of risk strategy, risk appetite and limitation, continuous supervision over the Company's risk management and internal monitoring systems as well as evaluation and determination of the Company's risk nature and acceptance level. The Board of Supervisors undertakes the supervision responsibility of comprehensive risk management, and the supervision and evaluation of the duties and responsibility fulfilment of the Board and the Senior Management in respect of risk management and urges rectification. The Senior Management of the Company undertakes the implementation responsibility of the comprehensive risk management and the execution of the Board resolutions and is responsible for the organization and implementation of comprehensive risk management of the Company.

The Risk Management Department is the overall planning and management department of the Company's comprehensive risk management, which is responsible for the management of the comprehensive risk, credit risk, operational risk and country risk; the Board Office is responsible for the management of strategic risk; the Appraisal Department is responsible for comprehensive review and assessment of credit risks; the Treasury Department is responsible for the management of market risk and liquidity risk; the Compliance Department is responsible for the management of the compliance risk, connected transaction risk and internal control; the General Office is responsible for the management of reputation risk; the Legal Affairs Department is responsible for the management of legal risk; the IT Management Department and the Risk Management Department are responsible for the management of information technology risk.

5.1 Credit Risk

Credit risk refers to the risk of loss incurred by the group due to the failure of fulfilment of contractual obligations by counterparties when due. The credit risk to which the Group is exposed primarily derives from leasing business. Credit risk is considered as one of the most significant risks in the Group in its business operation. Management therefore carefully manages the exposure to credit risk adhering to prudent principles and mitigates the overall credit risk through portfolio management across different countries, regions and various industries.

The Group selects clients based on industries and regions and carries out credit risk management based on its own development strategy, market condition and the national policy. The Group has established an impeccable project management procedure, including pre-lease due diligence, project examination and approval, contract signing and provision of lease financing and post-lease inspection. The Group strengthens control and management of credit risk by conducting industrial research, implementing credit rating, monitoring lessees' business status and evaluation of the impact of changes in technology on leased assets.

The Group employs a range of policies and measures to mitigate credit risks. For Aircraft and Ship Leasing, as the second-hand market of leased items is relatively mature and the market value is relatively stable, the Group normally does not require lessees to provide additional collaterals when carrying out leasing business in those fields. For Ship Leasing businesses, the Group normally requires the de facto controller of the lessees to provide guarantees to further mitigate credit risks. For Aircraft operating leases, the Group manages its credit risks through rental fees received in advance. For Commercial Vehicle and Construction Machinery Leasing, the Group adopts either the manufacturer or the distributor credit model under which manufacturer partners are required to provide a repurchase guarantee, or distributor partners to provide a joint and several liability guarantee for each lease. As commercial vehicles and construction machinery have relatively established second-hand markets for used equipment, we do not require additional security for such leasing businesses from the lessees. For Infrastructure Leasing and Other Leasing Business, the most typical measures for the Group to control credit risks are taking of collateral, margin deposits and guarantees by third parties. The Group provides guidelines on acceptable types of collateral, which mainly includes civil aircrafts and engines, vessels, machinery and equipment, highway toll rights, land use rights and properties.

In 2016, the Group further improved the risk alert and limitation management, and enhanced the risk monitoring of major clients and industries by paying close attention to the impact of the industry and market trend as well as regulatory policies on leasing risk. Meanwhile, the Group further optimized the procedure, method and standard of credit risk rating, increased the capability of measuring credit risk, developed and finished the model building of debt rating loss given default in aviation, ship, infrastructure, construction machinery and commercial vehicle businesses, improved the risk-based pricing program and ensured that the price has covered the risk cost. In addition, the Group proactively carried out the on-site post-lease inspection for leasing projects which allows it to uncover and disclose risks in a timely manner and gradually normalize and improve the level of post-lease management. Regarding the elimination of non-performing and risk-bearing projects, the Group stabilized the assets quality and safeguarded the bottom line against risk through various channels such as enhancing collection, collecting according to laws, bulk transfer and entrusting CDB's branches for management over the entire process.

The following table sets forth the Group's maximum exposure to credit risk before collateral held and other credit enhancement as of the dates indicated:

(RMB in millions)	As of December 31,	
	2016	2015
Financial assets		
Cash and bank balances	9,336.4	6,313.9
Placement to banks and other financial institutions	1,100.0	1,100.0
Financial assets at fair value through profit and loss	2,133.7	1,558.6
Derivative financial assets	9.7	2.0
Accounts receivable	6,841.8	13,827.1
Finance lease receivables	88,464.1	80,945.1
Available-for-sale financial assets	152.1	0.0
Other financial assets	262.3	416.4
Total	108,300.1	104,163.1

Asset quality

The Group evaluates asset quality and adjusts asset categories quarterly based on the asset risk, and adopts measures to mitigate risks for the projects with overdue rent and material risks in a timely manner. The Group's asset quality classification system is based on Governing Principles on the Risk-based Classification of Assets of Non-banking Financial Institutions (Provisional) (《非銀行金融機構資產風險分類指導原則(試行)》) issued by the CBRC on February 5, 2004, the Guidelines on the Risk-based Classification of Loan (《貸款風險分類指引》) issued by the CBRC on April 4, 2007, and Operation Guidelines on the Five Category Asset Quality Classification of Non-banking Financial Institutions in Shenzhen (Provisional) (《深圳市非銀行類金融機構資產質量五級分類操作指引(試行)》) issued by the Shenzhen CBRC in November 2004. In addition, the Group formulated its provisioning policies for financial assets in accordance with the statutory requirements relating to the asset quality classification of the China banking industry, international accounting standards and the accompanying guidance.

The following table sets forth the distribution of the Group's total assets by the five-category asset quality classification as of the dates indicated:

<i>(RMB in millions, except percentages)</i>	As of December 31,	
	2016	2015
Five-category		
Normal	163,394.7	151,208.9
Special mention	4,461.2	5,515.7
Substandard	1,096.4	1,423.7
Doubtful	493.0	779.4
Loss	65.3	0.6
Total assets before allowance for impairment losses	169,510.6	158,928.3
Non-performing assets ⁽¹⁾	1,654.7	2,203.7
Non-performing asset ratio ⁽²⁾	0.98%	1.39%

⁽¹⁾ Non-performing assets are defined as the last three categories of assets recognized under the five-category asset quality classification system, including “substandard”, “doubtful” and “loss”.

⁽²⁾ Non-performing asset ratio is the percentage of non-performing assets over total assets before allowance for impairment losses as of the dates indicated.

The following table sets forth the distribution of the Group's finance lease related assets by the five-category asset quality classification as of the dates indicated:

<i>(RMB in millions, except percentages)</i>	As of December 31,	
	2016	2015
Five-category		
Normal	92,548.7	90,803.2
Special mention	3,436.4	4,071.0
Substandard	1,096.4	1,423.7
Doubtful	493.0	722.6
Loss	0.6	0.6
Finance lease related assets before allowance for impairment losses	97,575.1	97,021.1
Non-performing finance lease related assets ⁽¹⁾	1,589.9	2,146.9
Non-performing asset ratio of finance lease business ⁽²⁾	1.63%	2.21%

- (1) Non-performing finance lease related assets are defined as the last three categories of finance lease related assets recognized under the five-category asset quality classification system, including “substandard”, “doubtful” and “loss”.
- (2) Non-performing asset ratio of finance lease business is the percentage of non-performing finance lease related assets over finance lease related assets before allowance for impairment losses as of the dates indicated.

As of December 31, 2016, the non-performing assets of the Group was RMB1,654.7 million, representing a decrease of RMB549.0 million as compared with that as at the end of last year; while the non-performing asset ratio was 0.98%, representing a decrease of 0.41 percentage point as compared with that as at the end of last year. As of December 31, 2016, the non-performing finance lease related assets of the Group were RMB1,589.9 million, representing a decrease of RMB557.0 million as compared with that as at the end of last year; while non-performing asset ratio of finance lease business was 1.63%, representing a decrease of 0.58 percentage point as compared with that as at the end of last year. The significant improvement in asset quality was primarily due to the enhanced credit risk management and control by the Group in 2016, as well as the disposal and mitigation of risky assets and non-performing assets. For new businesses, the Group followed the principle of rigorous selection of sectors and customers. For existing businesses, the Group took measures to mitigate risk at various stages of business including post-lease management and collateral management in order to strengthen credit risk management.

The following table sets forth, the distribution of the Group's finance lease related assets by segments and the five-category asset quality classification as of December 31, 2016:

(RMB in millions, except percentages)	Ship, Commercial Vehicle and Construction Machinery Leasing				Other Leasing Business	Total
	Aircraft Leasing	Infrastructure Leasing				
Five-category						
Normal	3,648.6	62,675.0	15,626.4	10,598.7		92,548.7
Special mention	180.2	13.9	1,453.7	1,788.6		3,436.4
Substandard	–	–	1,074.2	22.2		1,096.4
Doubtful	–	–	115.4	377.6		493.0
Loss	–	–	–	0.6		0.6
Finance lease related assets before allowance for impairment losses	3,828.8	62,688.9	18,269.7	12,787.7		97,575.1
Non-performing finance lease related assets	–	–	1,189.6	400.3		1,589.9
Non-performing asset ratio of finance lease business	0.00%	0.00%	6.51%	3.13%		1.63%

The Group maintained sound asset quality for its Aircraft Leasing segment and Infrastructure Leasing segment through cooperation with superior aviation companies to conduct the leasing business of mainstream aircraft and cooperation with large SOEs and enterprises under local governments to conduct infrastructure leasing business. As of December 31, 2016, the non-performing asset ratios of the finance lease business of these two major segments were both nil. In respect of the Ship, Commercial Vehicle and Construction Machinery Leasing segment, the credit risk of Construction Machinery Leasing was increased, resulting in the increase of non-performing asset ratio of finance lease business in this segment. Regarding the Other Leasing Business segment, the non-performing asset ratio of finance lease business significantly dropped as compared with that as at the end of last year through disposal of non-performing assets.

The following table sets forth overdue finance lease receivables of the Group as of the dates indicated:

<i>(RMB in millions)</i>	As of December 31,	
	2016	2015
Neither overdue nor impaired	88,184.9	80,376.0
Overdue but not impaired	1,085.4	1,385.7
Impaired	1,589.9	2,146.9
Finance lease receivables – net	90,860.2	83,908.6
Less: Allowances for impairment losses	(2,396.1)	(2,963.5)
Finance lease receivables – carrying value	88,464.1	80,945.1

Concentration of credit risks

The Group proactively implemented the requirements of the regulatory authorities and timely monitored the financing concentration of a single client through project inspection. Besides, the Group has established a client's ledger to carry out quarterly monitoring over the financing concentration of group clients in order to prevent credit concentration risk. As of December 31, 2016, the balance of finance lease transactions for the largest single client accounted for 12.48% of the net capital while the balance of finance lease transactions for the largest single group client accounted for 23.46% of the net capital.

The following table sets forth the degree of financing concentration of single client and single group client of the Group as of the dates indicated:

Concentration indicator	As of December 31,	
	2016	2015
Degree of concentration of single client financing ⁽¹⁾	12.48%	18.39%
Degree of concentration of single group client financing ⁽²⁾	23.46%	18.39%

⁽¹⁾ Calculated by dividing the balance of all finance lease transactions of a single lessee by the net capital of the Group.

⁽²⁾ Calculated by dividing the balance of all finance lease transactions of a single group by the net capital of the Group.

As of December 31, 2016, in terms of finance lease related assets before allowance for impairment losses, the total financing raised by the top ten single clients amounted to RMB21,708.0 million, accounting for 22.2% of finance lease related assets before allowance for impairment losses.

The following table sets forth the financing amount raised by the top ten clients of the Group in terms of finance lease related assets before allowance for impairment losses as of December 31, 2016:

<i>(RMB in millions, except percentages)</i>	Business segment	Financing amount	Percentage of finance lease related assets before allowance for impairment losses
Client A	Infrastructure	2,781.8	2.9%
Client B	Infrastructure	2,595.9	2.7%
Client C	Infrastructure	2,529.9	2.6%
Client D	Infrastructure	2,209.9	2.3%
Client E	Infrastructure	1,983.1	2.0%
Client F	Infrastructure	1,971.2	2.0%
Client G	Aircraft	1,944.2	2.0%
Client H	Infrastructure	1,931.9	2.0%
Client I	Infrastructure	1,890.4	1.9%
Client J	Infrastructure	1,869.7	1.9%
Total		21,708.0	22.2%

If lessees are overly concentrated in a single industry or region, or of similarities in economic features, the credit risks of the lessor would be relatively higher. As the industrial distribution of finance lease receivables of the Group is rather diversified, there is no significant risk on industrial concentration.

The following table sets forth the industrial distribution of finance lease receivables (net) of the Group as of the dates indicated:

<i>(RMB in millions, except percentages)</i>	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Aircraft Leasing	3,824.1	4.2%	2,937.5	3.5%
Infrastructure Leasing	56,835.2	62.6%	48,179.2	57.4%
Transportation				
Infrastructure	21,293.8	23.4%	29,008.0	34.6%
Urban Infrastructure	31,576.2	34.8%	14,305.0	17.0%
Energy Infrastructure	3,965.2	4.4%	4,866.2	5.8%
Ship, Commercial Vehicle and Construction Machinery Leasing				
Machinery Leasing	18,269.5	20.1%	17,557.9	20.9%
Ship	9,645.0	10.6%	8,272.4	9.9%
Commercial Vehicle	1,611.6	1.8%	1,724.9	2.0%
Construction Machinery	7,012.9	7.7%	7,560.6	9.0%
Other Leasing Business	11,931.4	13.1%	15,234.0	18.2%
Commercial Property	3,725.2	4.1%	5,022.4	6.0%
Other Sectors	8,206.2	9.0%	10,211.6	12.2%
Total	90,860.2	100.0%	83,908.6	100.0%

5.2 Market Risk

5.2.1 Interest Rate Risk

The risk of losses in the Group's overall income and economic value resulting from adverse movements in interest rates, maturity structure and other factors. Interest margins of the Group may increase as a result of fluctuation in market interest rates, but may reduce or incur losses in the event that unexpected movements arise. Therefore, the Group primarily manages the interest rate risk through controlling the repricing of the leasing assets and its corresponding liabilities.

The Group's RMB-denominated leasing business mainly bore a floating interest rate while the liabilities mainly bore a fixed rate interest. For this particular situation, the Group proactively shortened the duration of RMB-denominated liabilities in order to reduce interest rate risk. As influenced by the relatively loose monetary policy in 2016, the financing cost of the Group was in a dropping trend in 2016 and the spreads remained basically stable, indicating an effective management over interest rate risk.

The Group mainly received fixed rental income under operating leases in foreign currencies while the corresponding bank borrowings bore a floating rate interest. The Group hedged the cash flow volatility risk as a result of the liability interest rate fluctuation through interest rate swap contracts, as a hedging strategy, and switched the floating rate into fixed rate through interest rate swap contract to effectively match the future fixed rental income, and stabilized the margin while mitigating the effect of changes in US currency interest rates on the operating and financial performance of the Group.

5.2.2 *Exchange Rate Risk*

Exchange rate risk refers to the risk of losses in the Group's overall income and economic value resulting from an adverse movement in exchange rates. The exchange rate risk exposure primarily arises from the profits of some of the Group's overseas SPCs, which are denominated in foreign currencies.

The strategy for exchange rate risk management is to match the currencies of assets and liabilities actively in daily operations by identifying and measuring the impact of exchange rate changes on operations through foreign currency exposure analysis, exchange rate sensitivity analysis and other instruments, and hedging exchange rate exposure through currency derivatives instruments. Most of leased assets such as aircraft and ships under the finance and operating leases are purchased in US dollars and the corresponding finance lease receivables and operating lease assets are denominated in US dollars, while the major capital sources of which are onshore and offshore US dollar-denominated bank borrowings and bonds. Apart from Aircraft Leasing and Ship Leasing businesses, other leasing segments of the Group are substantially denominated in Renminbi. Hence, there is no significant exchange rate risk exposure.

As of December 31, 2016, the Group's net exposure for US dollar-denominated assets that affect profit or loss amounted to US\$440.7 million and the existing nominal principal amount of US dollar to Renminbi non-deliverable forward contracts amounted to US\$41.0 million. In 2016, through precise study and judgment on the market trend and timely adjustment to the strategy of exchange rate risk management with a reasonable arrangement on settlement and exchange of proceeds from the Initial Public Offering in Hong Kong, the Group proactively retained certain risk exposures for US dollar-denominated assets and realized exchange gains of RMB167.7 million due to the appreciation of US dollar against Renminbi.

5.3 *Liquidity Risk*

Liquidity risk refers to the risk that the Group is unable to obtain fund at a reasonable cost to repay the liabilities or seize other investment opportunities. The Group's liquidity risk management target is to ensure sufficient capital resources at any time to meet the repayment needs of matured liabilities and to seize new investment opportunities through undertaking certain liquidity risks in order to achieve a high interest rate spreads level.

The Group established a three-level liquidity reserve system to mitigate and defuse liquidity risk while managing liquidity risk and balancing between interest rate spread and liquidity risk by adopting the following measures: proactive management of the maturity profile of our assets and liabilities while maintaining appropriate liquidity reserve for mitigating the liquidity risk; and obtaining diversified funding via multiple channels, thereby continuously preserving sufficient funds to purchase assets and repay debts. Bank deposits and the money market are primary sources of liquidity management for the Group's cash reserve. As of December 31, 2016, the Group had a borrowing and lending limit of RMB12.64 billion. In addition, the Group was able to carry out spot bonds trading and bonds repurchase via the interbank bond market, enabling it to replenish liquidity from the market in a timely manner. In 2016, liquidity of the Group remained strong with no material liquidity risk incident.

5.4 *Other Risks*

5.4.1 *Information Technology Risk*

Information technology risk refers to operational, legal, reputational and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of applying information technology.

CBRC values the information technology risk management in banking industry and requires financial leasing companies to establish an effective mechanism that can identify, measure, monitor, and control the information technology risks of the Company; ensure secure, continuous and stable operation; promote business innovations; enhance capabilities in utilizing information technology; improve core competitiveness and sustainability; and constantly strengthen the risk-resistant capability.

In 2016, the Group comprehensively upgraded the information security level in the following aspects: strengthening management through system establishment; raising employees' awareness of information security through a series of trainings; enhancing the information security protection level through cloud network surveillance, information security inspection of physical environment in key office areas, network reformation, webpage anti-tampering system, border protection reinforcement, internet access management system, key card printer access system, paperless meeting system and other technologies and tools. In addition, the Group further pushed forward the establishment of disaster recovery system to provide guarantee for ongoing operation and realized off-site backup for production data while conducting disaster recovery drill for key application systems and building the data backup platform to improve backup efficiency.

5.4.2 *Reputational Risk*

Reputational risk refers to the potential or existing risk of negative impact or damage to the Company's overall image, reputation and brand value, arising when aspects of the Company's operational, managerial and other behaviours or external incidents are noticed or reported by the media.

In 2016, the Group enhanced its reputational risk management and focused on the reputational risk prevention and control as well as brand building. It issued the Measures for the Management of Reputational Risks (《聲譽風險管理辦法》) to further enhance the foundation of reputational risk management. Through regular self-inspection and investigation of reputational risk and timely handling of reputational incidents of the Company, the capability of responding to the public sentiment and guiding public opinion was effectively improved. In addition, the Group facilitated the brand building with great efforts through authoritative newspapers, magazines and video advertisements, and improved the operational quality of the Group's new media channels with expansion of the new media channels by adapting to the features of new media, while strengthening positive advertising through accumulating positive energy and guiding public opinions in an active manner. The reputational risk management of the Group was improved stably for the year, effectively safeguarding the sound corporate image and reputation.

6. Capital Management

The Group's major objectives of capital management activities are: to comply with the capital requirements set by the regulatory authorities of the banking industry where the Group operates its businesses, to safeguard the Group's ability to continue as a going concern so as to provide returns for Shareholders, and to maintain a strong capital base to support its business development. In accordance with relevant regulations promulgated by the CBRC, capital adequacy, leverage ratio and the utilization of regulatory capital are closely monitored by the management of the Group.

In 2016, the Group managed its capital through different means, such as increasing the capital of the Group through financing of listing and replenishing tier-two capital by increasing the proportion of allowance for asset impairment losses. The Company was listed on the main board of the Hong Kong Stock Exchange on July 11, 2016. Net proceeds raised from Global Offering amounted to HK\$6,125.3 million (including over-allotment option, net of underwriting commissions and relevant expenses), which were fully utilized for strengthening the capital base of the Group. Moreover, the Group consistently enhanced the basic capability construction on capital management, promoted the capital conduction and rationing mechanism and proactively carried forward the transformation of intensive capital operation. The Group pushed forward the optimization of its business structure, reduced inefficient capital occupation and constantly improved capital utilization efficiency by strengthening analysis on capital occupation and conducting analysis of project on risk-weighted assets basis. As a result, effects of capital in guiding and restraining business development were further improved.

On June 7, 2012, the CBRC issued the Capital Administrative Measures, which came into effect on January 1, 2013. In order to ensure the successful implementation of the Capital Administrative Measures, the CBRC issued the Notice on Arranging Related Matters in the Transitional Period of Carrying out the Administrative Measures for the Capital of Commercial Banks (Provisional) (《關於實施〈商業銀行資本管理辦法(試行)〉過渡期安排相關事項的通知》) on November 30, 2012, which stipulates the requirement on annual capital adequacy ratio during the transitional period. As of December 31, 2016, the Group's core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 13.42%, 13.42% and 14.03%, respectively, which were all above the regulatory requirements of the CBRC.

The following table sets forth the net capital and capital adequacy ratio of the Group as of the dates indicated:

(RMB in millions, except percentages)	Regulatory requirement	As of December 31,	
		2016	2015
Net capital:			
Net core tier-one capital		22,290.9	14,981.0
Net tier-one capital		22,290.9	14,981.0
Net capital		23,312.9	16,064.5
Capital adequacy ratio:			
Core tier-one capital adequacy ratio	≥6.7% ⁽¹⁾	13.42%	9.54%
Tier-one capital adequacy ratio	≥7.7% ⁽¹⁾	13.42%	9.54%
Capital adequacy ratio	≥9.7% ⁽¹⁾	14.03%	10.23%

⁽¹⁾ The indicating requirement to be fulfilled before the end of 2016.

7. Capital Expenditure

The capital expenditures of the Group principally comprise expenditures for the purchase of property, equipment and aircraft leasing assets and construction of office building, etc. In 2016, the capital expenditures of the Group amounted to RMB9,182.1 million, which were mainly used for the purchase of aircraft. The Group financed the capital expenditures through cash from operating activities, bank borrowings and net proceeds from the Global Offering.

The following table sets forth the capital expenditures of the Group for the years indicated:

<i>(RMB in millions)</i>	For the year ended December 31,	
	2016	2015
Capital expenditures	9,182.1	6,703.2

8. Pledge of Assets

As of December 31, 2016, properties and equipment for operating lease (net), properties and equipment for finance lease (net), properties and equipment for pre-paid operating lease (net) of the Group, amounting to RMB26,087.0 million, RMB5,958.3 million and RMB471.7 million respectively, were pledged to banks to acquire bank loans. In addition, finance leases receivable (at original value) and bank deposits (net) amounting to RMB11,034.7 million and RMB160.6 million respectively, were pledged to banks to acquire bank loans (include financial assets sold under repurchase agreements). The total collateral assets as aforesaid accounted for 25.1% of total assets in aggregate.

9. Human Resources

The Group proactively implemented the strategy of “reviving the Company by talents” and valued talents as the precious resources to achieve tremendous operating results by the top notch talents. As of December 31, 2016, the Group had 230 employees in total, 185 of which were domestic employees, 45 were overseas employees; 110 were in the business facilitation segment which accounted for 48% of the total, 79 were in the business support segment which accounted for 34% of the total, and 41 were in the business assurance segment which accounted for 18% of the total. The Group has a team of high-quality talents with high academic degrees. As of December 31, 2016, approximately 98% of the Group’s employees had bachelor’s degrees or above, while approximately 53% of employees had master’s degrees or above.

In 2016, with the strong support of the Shareholders, the Group carried out a management reformation on human resources, focusing on post and ranking system, performance appraisal system, incentive and restriction system and talent development and training platform to press forward a series of reform and innovation. While building a more competitive remuneration and benefit system, the Group further strengthened performance-oriented requirements, closely connected the business objectives of the Group with the performance of employees, remuneration levels, as well as career development to promote the realization of effective unity of the values of Shareholders, the Company and the staff. In addition, the Group focused on continuous improvement of the professional level of talented workforce, through optimizing the training system and improving various businesses and management training, which effectively covered staff at all lines and levels.

In 2017, the Group will continue to deepen the reform of human resources management system. According to the Company's strategy and market changes, the Group will carry out continuous improvement on human resources management to meet the needs of professional and international business development, optimize business process and internal management system, and improve the establishment of professional talented workforce and performance-oriented remuneration incentive mechanism so as to provide assurance of talents for the long-term development of the Company.

10. Industrial Regulation

The Group integrates compliance culture into daily operation of the Company and daily conducts of employees. It has established an impeccable compliance management system for assuring the proactive compliance by leveraging on the risk management system and internal control procedures to monitor the operation and compliance. The Group had no material non-compliance incident in 2016, and each main regulatory indicator of the Group met the requirements during the year.

The following table sets forth the main regulatory indicators of the Group under the supervision of the CBRC as of the date indicated:

	Regulatory requirement	As of December 31, 2016
Capital adequacy ratio	Above 9.7%	14.03%
Tier-one capital adequacy ratio	Above 7.7%	13.42%
Core tier-one capital adequacy ratio	Above 6.7%	13.42%
Degree of concentration of single client financing	Not more than 30%	12.48%
Degree of concentration of single group client financing	Not more than 50%	23.46%
Ratio of a single related client ⁽¹⁾	Not more than 30%	1.77%
Ratio of all related parties ⁽²⁾	Not more than 50%	3.45%
Ratio of a single shareholder and its related parties ⁽³⁾	Not more than 100%	49.56%
Ratio of interbank lending ⁽⁴⁾	Not more than 100%	17.94%
Allowance to non-performing finance lease related assets	Above 150%	164.28%
Allowance ratio for total finance lease related assets ⁽⁵⁾	Above 2.5%	2.68%
Investment in fixed-income securities ⁽⁶⁾	Not more than 20%	10.25%

- (1) Calculated by dividing the balance of all finance lease transactions of a single related party by the net capital of the Group.
- (2) Calculated by dividing the balance of all finance lease transactions of all related parties by the net capital of the Group.
- (3) Calculated by dividing the balance of financing to a single shareholder and all its related parties by the amount of contribution made by the shareholder to the Company.
- (4) Calculated by dividing the balance of interbank funds from borrowing by the net capital of the Group.
- (5) Calculated by dividing allowance for impairment losses on finance lease related assets by finance lease related assets before allowance for impairment losses.
- (6) Calculated by dividing the balance of fixed-income securities invested by the Group by the net capital of the Group.

Financial leasing is a financial instrument closely linked up with the real economy and has a significant effect on promotion of industrial innovation and upgrade, expansion of small and medium enterprises' financing channels, facilitation of social investment and adjustment to economy structure. In recent years, with the enthusiastic support and motivation of the government authorities, the industrial regulation has been constantly improved for the financial leasing industry to seize new development opportunities. CBRC indicated that it will direct the financial leasing companies to earnestly implement the idea of innovative, coordinated, green, open and shared development, and to safeguard the bottom line of no occurrence of systematic and regional financial risks, promoting the stable and healthy development of the industry. Furthermore, it will further guide the financial leasing companies to take advantage of their unique function and to facilitate the supply-side structural reform with constant improvement of the quality and efficiency of services for the real economy. The Group also proactively responded to the call to strictly defend the bottom line of compliance, prudently conduct business and pay attention to the risk management and control, so as to make a proper contribution to the sound development of the industry.

11. Prospects

In 2017, the global economic development will come across a complicated and uncertain international environment, yet it will generally go along the trend of recovery. In spite of certain conflicts and problems in the economy of China, the economic growth will show strong potential and its features of strong resilience, great potential and ample room for maneuver will remain unchanged, thus being able to maintain a relatively high growth rate. It is still a year full of opportunities and challenges for the leasing industry. On one hand, the favorable policies will propel the industrial development. On the other hand, the uncertainties in the economic and financial environments and the increasing competition in the industry have also imposed higher requirements on leasing companies in terms of business development model, risk prevention and control and other aspects.

Countering with the domestic and overseas economic environments and industrial conditions as aforesaid, the Group will continue to consolidate the development foundation, optimize the business layout, enhance the risk management and control, and improve the management efficiency; while taking the Company's listing as an opportunity to accelerate the establishment of the marketized operating system and improve the corporate governance. Besides, adapting to the requirements of the new policies under the new situations, the Group will enhance the establishment of professional abilities, facilitate the innovation of varieties and models of business and enhance the vitality and motivation of development, so as to enhance the core competitiveness of the Company, push forward the long-term and stable development of the Group and create a greater value for all Shareholders.

OTHER INFORMATION

Corporate Governance

The Group has committed to maintaining high standard of corporate governance in order to safeguard the interests of Shareholders and enhance corporate value and accountability of the Group. The Company has adopted the Corporate Governance Code as its own code of corporate governance. From the Listing Date to December 31, 2016, the Company has been complying with all applicable code provisions set out in the Corporate Governance Code. The Company will continue to review and monitor the Company's corporate governance practice to ensure the compliance with the Corporate Governance Code.

Model Code for Securities Transactions by Directors and Supervisors

The Company has formulated the Code of Dealing in Securities of the Company by Directors, Supervisors and Senior Management (《董事、監事和高級管理人員買賣本公司證券守則》) as the code of conduct of the Company's securities transactions carried out by Directors and Supervisors, the terms of which are not less favorable than the Model Code and other relevant laws, regulations and the Articles of Association. After specifically inquiring all Directors and Supervisors, all Directors and Supervisors have confirmed that they have been complying with the required standards as stipulated in the Model Code from the Listing Date to December 31, 2016.

Final Dividend

The Board recommended to distribute a final dividend of RMB0.556 (tax inclusive) per 10 ordinary Shares for the year ended December 31, 2016. The proposed final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company and is expected to be paid on July 10, 2017 to the Shareholders.

Notice of the 2016 annual general meeting will announce the date of the 2016 annual general meeting of the Company and relevant details of its book closure, as well as the arrangement of book closure for the final dividend.

Purchase, Sale or Redemption of the Company's Listed Securities

From the Listing Date to December 31, 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Review of Annual Results

The consolidated financial statements for the year ended December 31, 2016 of the Group were audited by PricewaterhouseCoopers. The audit committee of the Company has also reviewed the audited annual results of the Company for the year ended December 31, 2016. The figures in respect of the Group's results for the year ended December 31, 2016 as set out in this annual results announcement have been agreed by the auditor of the Company, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2016.

Publication of Annual Report

The annual report of the Company for the year ended December 31, 2016 will be published on the website of the Company (www.cdb-leasing.com) and HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) in due course.

Re-Designation of Director

The Board hereby announces that Mr. Geng Tiejun has been re-designated from an executive Director to a non-executive Director due to work adjustment with effect from March 29, 2017. His term of office will last till the expiry of the first session of the Board.

The biography of Mr. Geng Tiejun is as follow:

Mr. Geng Tiejun (耿鐵軍), aged 57, joined the Company in April 2008. Mr. Geng Tiejun served as an assistant researcher in the research department of the China Enterprise Management Association (中國企業管理協會) from July 1987 to April 1992. He held several positions in China International Engineering Consulting Corporation (中國國際工程諮詢公司) successively from April 1992 to November 1997, including a principal staff member of the general manager office, an assistant to the general manager and the deputy head of the office research division. From November 1997 to April 2008, he held several positions in CDB successively, including the head of the business department of Chengdu office, the deputy head of the Sichuan division and the deputy head of the equity management division under the southwest credit bureau, and the head of the equity management division and securitization business division under the investment business bureau. He has served as an executive Director of the Company from April 2008 to March 2017, vice president of the Company from April 2008 to November 2016 and the chairman of the labor union of the Company from December 2013 to November 2016. He has served as a senior customer manager and the group leader of Canadian Group of CDB Beijing branch since November 2016, and a non-executive Director of the Company since March 2017.

Mr. Geng Tiejun graduated from Hunan University in Changsha, Hunan Province, the PRC, majoring in chemical and analytical chemistry, and obtained a bachelor's degree in science in July 1985. He studied in the theory department in the Party School of the Central Committee in Beijing, the PRC, majoring in economic management, and graduated from Stevens Institute of Technology in Hoboken, New Jersey, the U.S., majoring in project management and obtained a master's degree in management (part-time) in May 2007. Mr. Geng Tiejun obtained the qualification of associate researcher issued by the former State Planning Commission (currently known as the National Development and Reform Commission) of China in October 1994.

Mr. Geng Tiejun has entered into a Director's service contract with the Company and will not get any emoluments from the Company during his term of office as a non-executive Director.

Save as disclosed above, Mr. Geng Tiejun confirms that (1) he has not held any other directorships in other listed public companies in the past three years, and he does not hold any other major appointments or professional qualifications; (2) he does not hold any position in the Company or any of its subsidiaries; (3) he does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or Controlling Shareholders of the Company and any of its subsidiaries; and (4) as at the date of this announcement, he does not hold any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Geng Tiejun also confirms that there is no other information to be disclosed pursuant to any of the requirements under Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules, nor is there any other matter relating to his re-designation that needs to be brought to the attention of the Shareholders.

FINANCIAL STATEMENTS AND MATERIAL NOTES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Finance lease income	5,363,827	5,994,754
Operating lease income	5,453,157	4,646,164
Total revenue	10,816,984	10,640,918
Net investment (losses)/gains	(52,359)	77,209
Other income, gains or losses	676,180	263,162
Total revenue and other income	11,440,805	10,981,289
Depreciation and amortisation	(2,476,525)	(2,034,732)
Staff costs	(229,034)	(123,145)
Fee and commission expenses	(55,900)	(55,873)
Interest expense	(4,400,071)	(5,055,233)
Other operating expenses	(385,771)	(404,510)
Impairment losses	(1,825,773)	(2,008,170)
Total expenses	(9,373,074)	(9,681,663)
Profit before income tax	2,067,731	1,299,626
Income tax expense	(506,392)	(247,120)
Profit for the year attributable to owners of the Company	1,561,339	1,052,506
Basic and diluted earnings per share (RMB)	0.14	0.11

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year	1,561,339	1,052,506
Other comprehensive income/(loss):		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Available-for-sale financial assets		
Change in value of available-for-sale financial assets	(4,168)	—
Income tax impact	1,042	—
The portion of effective cash flow hedging and net investment hedging gains and losses		
Net fair value changes during the year	347,175	(46,478)
Income tax impact	(55,501)	(4,284)
Subtotal	288,548	(50,762)
Currency translation differences	172,588	130,744
Total other comprehensive income for the year, net of tax	461,136	79,982
Total comprehensive income for the year attributable to owners of the Company	2,022,475	1,132,488

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>
ASSETS		
Cash and bank balances	9,336,415	6,313,850
Placement to banks and other financial institutions	1,100,000	1,100,000
Financial assets at fair value through profit or loss	2,133,717	1,558,638
Derivative financial assets	9,697	1,991
Accounts receivable	6,841,777	13,827,135
Finance lease receivables	88,464,050	80,945,115
Prepayments	7,911,502	6,862,803
Available-for-sale financial assets	274,588	122,440
Assets held-for-sale	993,968	-
Investment properties	356,588	376,206
Property and equipment	47,344,054	42,248,688
Deferred tax assets	591,046	703,141
Other assets	1,154,747	1,635,085
Total assets	166,512,149	155,695,092
Liabilities		
Borrowings	106,198,168	102,494,469
Due to banks and other financial institutions	4,000,000	4,900,000
Financial assets sold under repurchase agreements	3,136,000	5,922,300
Derivative financial liabilities	199,310	435,851
Accrued staff costs	94,188	33,507
Tax payable	132,278	242,042
Notes payable	17,793,886	13,834,811
Deferred tax liabilities	441,656	266,949
Other liabilities	12,214,989	12,572,247
Total liabilities	144,210,475	140,702,176
Equity		
Share capital	12,642,380	9,500,000
Capital reserve	2,418,689	274,786
Hedging and available-for-sale revaluation reserve	(67,956)	(356,504)
Translation reserve	163,668	(8,920)
General reserves	2,665,268	2,158,646
Retained profits	4,479,625	3,424,908
Total equity	22,301,674	14,992,916
Total liabilities and equity	166,512,149	155,695,092

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Group						
			Hedging and available- for-sale				
	Share capital	Capital reserve	revaluation reserve	Translation reserve	General reserves	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	<u>8,000,000</u>	<u>24,516</u>	<u>(305,742)</u>	<u>(139,664)</u>	<u>2,551,072</u>	<u>3,880,044</u>	<u>14,010,226</u>
Profit for the year	-	-	-	-	-	1,052,506	1,052,506
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>(50,762)</u>	<u>130,744</u>	<u>-</u>	<u>-</u>	<u>79,982</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>(50,762)</u>	<u>130,744</u>	<u>-</u>	<u>1,052,506</u>	<u>1,132,488</u>
Dividends recognised as distribution	-	-	-	-	-	(149,798)	(149,798)
Conversion of paid-in capital and capital reserve	1,500,000	250,270	-	-	(402,087)	(1,348,183)	-
Appropriation to general reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,661</u>	<u>(9,661)</u>	<u>-</u>
At 31 December 2015	<u><u>9,500,000</u></u>	<u><u>274,786</u></u>	<u><u>(356,504)</u></u>	<u><u>(8,920)</u></u>	<u><u>2,158,646</u></u>	<u><u>3,424,908</u></u>	<u><u>14,992,916</u></u>
At 1 January 2016	<u><u>9,500,000</u></u>	<u><u>274,786</u></u>	<u><u>(356,504)</u></u>	<u><u>(8,920)</u></u>	<u><u>2,158,646</u></u>	<u><u>3,424,908</u></u>	<u><u>14,992,916</u></u>
Profit for the year	-	-	-	-	-	1,561,339	1,561,339
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>288,548</u>	<u>172,588</u>	<u>-</u>	<u>-</u>	<u>461,136</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>288,548</u>	<u>172,588</u>	<u>-</u>	<u>1,561,339</u>	<u>2,022,475</u>
Issued ordinary shares	3,142,380	2,143,903	-	-	-	-	5,286,283
Appropriation to general reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>506,622</u>	<u>(506,622)</u>	<u>-</u>
At 31 December 2016	<u><u>12,642,380</u></u>	<u><u>2,418,689</u></u>	<u><u>(67,956)</u></u>	<u><u>163,668</u></u>	<u><u>2,665,268</u></u>	<u><u>4,479,625</u></u>	<u><u>22,301,674</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES		
Profit before income tax	2,067,731	1,299,626
Adjustments for:		
Notes payable interest expenses	502,424	455,026
Depreciation and amortisation	2,476,525	2,034,732
Impairment losses	1,825,773	2,008,170
Gains on disposal of equipment held for operating lease businesses	(116,099)	(39,184)
Unrealised fair value change from derivatives	15,708	70
Unrealised fair value changes in financial assets at fair value through profit or loss	(45,078)	(58,638)
Operating cash flows before movements in working capital	6,726,984	5,699,802
Increase in mandatory reserve deposits with central banks	(381,675)	–
Decrease in accounts receivable	6,668,572	55,299
Increase in finance lease receivables	(8,644,315)	(7,110,639)
Decrease (increase) in other assets	377,774	(60,870)
Increase in borrowings	3,703,699	10,248,237
(Decrease) increase in due to banks and other financial institutions	(900,000)	1,400,000
(Decrease) increase in financial assets sold under repurchase agreements	(2,786,300)	410,100
Decrease in accrued staff costs	60,681	8,408
(Decrease) increase in other liabilities	(357,258)	1,703,660
Cash from operations	4,468,162	12,353,997
Income taxes paid	(382,829)	(512,058)
NET CASH FROM OPERATING ACTIVITIES	4,085,333	11,841,939

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Change in pledged and restricted bank deposits	332,580	450,649
Purchase of available-for-sale financial assets	(150,000)	–
Disposal of property and equipment	2,199,575	570,680
Purchases of property and equipment	(10,760,695)	(9,417,513)
Purchases of intangible assets	–	(2,659)
Purchase of financial assets at fair value through profit and loss	(530,000)	(1,500,000)
Disposal of subsidiaries	–	(5,011)
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,908,540)</u>	<u>(9,903,854)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	5,286,283	–
Proceeds from issue of notes payable	3,000,000	–
Notes issuance cost	(9,410)	–
Notes interest paid	(480,196)	(434,499)
Dividends paid	–	(149,798)
NET CASH PAID IN FINANCING ACTIVITIES	<u>7,796,677</u>	<u>(584,297)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>2,973,470</u>	<u>1,353,788</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>6,815,628</u>	<u>5,461,840</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>9,789,098</u></u>	<u><u>6,815,628</u></u>
NET CASH FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	5,455,565	6,145,753
Interest paid, exclusive notes payable interest expenses	<u>(4,247,697)</u>	<u>(4,966,017)</u>
Net interest received	<u><u>1,207,868</u></u>	<u><u>1,179,736</u></u>

1 GENERAL INFORMATION

The Company was established as Shenzhen Leasing Co., Ltd. (深圳租賃有限公司) on 25 December 1984, with the approval of the former Shenzhen Special Economic Zone Branch of People's Bank of China (“**PBOC**”), and subsequently renamed as Shenzhen Finance Leasing Co., Ltd. (深圳金融租賃有限公司) after reorganisation in December 1999. In 2008, China Development Bank Co., Ltd. (“**China Development Bank**”) became the controlling shareholder of the Company, and the Company's total paid-in capital was increased to RMB8,000,000,000 and subsequently, the Company changed its name to CDB Leasing Co., Ltd. (國銀金融租賃有限公司). On 8 September 2015, pursuant to the resolution of shareholders' meeting, the Company's total paid-in capital was increased to RMB9,500,000,000. Pursuant to the approval of China Banking Regulatory Commission (the “**CBRC**”), the Company became a joint stock company by issuing a total of 9,500,000,000 shares to existing shareholders at par value of RMB1 each, representing 100% of share capital of the Company on 28 September 2015 (the “**Financial Restructuring**”). On the same date, the Company also changed its name to China Development Bank Financial Leasing Co., Ltd. (國銀金融租賃股份有限公司). The address of the Company's registered office is 50–52/F, New World Center, No. 6009 Yitian Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China (“**PRC**”).

On 11 July 2016, the Company issued 3,100,000,000 new ordinary shares at the issue price of HK\$2 each by way of initial public offering. The gross proceeds amounted to HK\$6.2 billion. On the same date, the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the “**Listing**”). On 29 July 2016, the Company announced that the Over-allotment Option was partially exercised in respect of an aggregate of 42,380,000 new ordinary shares with an additional gross proceeds of HK\$0.8 billion.

The Company and its subsidiaries (together, “the **Group**”) are principally engaged in leasing business; import and export trade for leasing equipment and commodities, lease-related financial business and foreign exchange trade on behalf of clients.

These financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 presentation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes.

2.1.1 *Changes in accounting policy and disclosures*

2.1.1.1 *New and amended standards adopted by the group*

There are no new standards or amendments to standards that are effective for the first time for the year beginning on 1 January 2016 that have a material impact on the Group.

2.1.1.2 *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2.1.1.2.1 IFRS 9 Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities

and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 that are relevant to the Group are:

All recognised financial assets that are within the scope of IAS 39 are subsequently measured at amortised cost or fair value under IFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under IFRS 9 that will change the way the Group classifies and measures its financial assets in 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' and 'available-for-sale financial assets' under the existing IAS 39. The directors of the Company anticipate that these requirements will not have significant impact on the Group's financial position or performance.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

2.1.1.2.2 IFRS 15 Revenue from contracts with customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue,” IAS 11 “Construction contracts” and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

2.1.1.2.3 IFRS 16 Lease

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option

to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Company's result but it is expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The directors of the Company do not expect the adoption of IFRS 16 would have significant impact on the consolidated financial statements while the Company as the lessor.

3 TOTAL REVENUE

	Year ended 31 December	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Finance lease income ⁽¹⁾	5,363,827	5,994,754
Operating lease income	5,453,157	4,646,164
	<u>10,816,984</u>	<u>10,640,918</u>

- (1) The Group recognised the finance lease income of approximately RMB29,264,000 and RMB55,747,000 from non-performing financial leases receivable in the years of 2016 and 2015, respectively.

4 OTHER INCOME, GAINS OR LOSSES

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income from deposits with financial institutions	91,738	148,676
Management and commission fee income	73,799	16,738
Gains on disposal of equipment held for operating lease businesses	116,099	39,184
Consulting fee income	13,256	36,299
Foreign exchange gains, net	167,666	(86,260)
Government grants and incentives ⁽¹⁾	198,347	93,711
Others	15,275	14,814
	676,180	263,162

- ⁽¹⁾ Pursuant to “Detailed Rules for the Implementation of Suggestions on the Development of the Financial Industry in Shenzhen” (Shen Fu [2009] No. 6), the Group received the grant of approximately RMB3,493,000 and RMB2,271,000, from Shenzhen Government in the years of 2016 and 2015, respectively.

Pursuant to the relevant taxation policies of the Ministry of Finance and the State Administration of Taxation, as well as the fiscal and tax preferential policies of the Shanghai Free Trade Zone, the Dongjiang Free Trade Port Zone of Tianjin, and the Xiangyu Free Trade Zone of Xiamen, the Group received grant of approximately RMB191,817,000 and RMB87,490,000 in total in the years of 2016 and 2015, respectively.

Pursuant to “Detailed Rules for the Implementation of Suggestions on the Development of the Financial Industry in Shenzhen”, financial institutions are eligible for government grants for newly purchased or constructed headquarters office space for its own use (including the related business premises) if they are headquartered in Shenzhen. Subsidies equal to 30% of land price (including surcharge fees) will be granted by the municipal government. The Company received such grant of approximately RMB144,300,000 from Shenzhen Government in 2011. Such grant has been amortised and recognised as income using the straight-line method over the estimated useful lives of land use rights.

5 INTEREST EXPENSE

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on liabilities that are wholly repayable within five years:		
Borrowings	3,334,664	4,273,594
Due to banks and other financial institutions	93,366	28,445
Financial assets sold under repurchase agreements	198,795	224,477
Notes payable	152,374	126,982
Deposits from lessees	274	299
Interest on liabilities that are not wholly repayable within five years:		
Borrowings	347,440	125,016
Notes payable	350,050	328,044
Deposits from lessees	4,626	364
Less: Interest capitalised on qualifying assets	(81,518)	(51,988)
	4,400,071	5,055,233

6 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax		
– PRC Enterprise Income Tax	245,467	437,745
– Income tax in other countries	13,348	5,832
Deferred income tax	232,343	(195,077)
Under/(over) provision in prior period	15,234	(1,380)
	<u>506,392</u>	<u>247,120</u>

The applicable enterprise income tax rates are 25% for the Company and all its subsidiaries established in mainland China, 16.5% for subsidiaries in Hong Kong, and 12.5% for subsidiaries in Ireland. Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	2,067,731	1,299,626
Tax at the statutory tax rate of 25%	516,933	324,907
Tax effect of expenses not deductible for tax purpose ⁽¹⁾	11,595	5,839
Reversal of deferred tax assets in prior year	2,845	–
Unrecognized deferred tax from current loss	28,919	–
Under/(over) provision in prior year	15,234	(1,380)
Effect of different tax rates of group entities operating in jurisdictions other than PRC	(69,134)	(133,549)
Others	–	51,303
Income tax expense for the period	<u>506,392</u>	<u>247,120</u>

- (1) The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense and welfare fees etc., which exceed the tax deduction limits in accordance with PRC tax regulations.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings:		
Profit attributable to owners of the Company (<i>RMB'000</i>)	1,561,339	1,052,506
Number of shares:		
Weighted average number of shares in issue (<i>'000</i>) ⁽¹⁾	10,986,499	9,500,000
Basic earnings per share (<i>RMB Yuan</i>)	0.14	0.11

- (1) On 8 September 2015, the paid-in capital of the Company was RMB9,500,000,000. After the Financial Restructuring, the Company became a joint stock company with a total of 9,500 million shares at par value of RMB1 each on 28 September 2015. The basic earnings per share for the year ended 31 December 2015 is calculated based on the assumption that the shares issued under the Financial Restructuring had been effective on 1 January 2015.

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2016 and 2015.

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary share in the year of 2016 and 2015.

8 ACCOUNTS RECEIVABLE

	31 December 2016 RMB'000	31 December 2015 RMB'000
Operating lease receivables ⁽¹⁾	142,699	6,910
Advances for finance lease projects ⁽²⁾	6,714,876	13,112,481
Other accounts receivable ⁽³⁾	200,129	1,031,430
	<u>7,057,704</u>	<u>14,150,821</u>
Less: Allowances for impairment losses		
– Allowances for advances for finance lease projects	(215,878)	(266,876)
– Allowances for other accounts receivable	(49)	(56,810)
	<u>(215,927)</u>	<u>(323,686)</u>
At the end of the year	<u>6,841,777</u>	<u>13,827,135</u>

Movements of allowances for impairment losses on accounts receivable during the year of 2016 and 2015 are as follows:

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
At the beginning of the year	323,686	141,579
Provision during the year	316,786	140,075
Transfer (out)/in during the year	(15,732)	33,627
Write-offs	(408,813)	–
Foreign currency translation	–	8,405
	<u>215,927</u>	<u>323,686</u>
At the end of the year	<u>215,927</u>	<u>323,686</u>

Aging analysis of accounts receivable is as below:

- (1) The operating lease receivables of the Group were accrued on a straight-line basis over the term of the relevant leases and settled periodically based on the payment terms agreed in the lease contracts. There were no material overdue operating lease receivables as at 31 December 2016 and 2015.
- (2) The advances for finance lease projects arise from situations where the Group has already made payments to lessees but the leased assets are under construction and the Group does not obtain the ownership of such leased assets. Relevant contracts will take effect once the construction of such leased assets are completed and the terms of corresponding lease contract commences upon signing off between the lessees and the Group. The advances for finance lease projects will then be transferred to finance lease receivables. Thus, ageing analysis of such advances was considered to be not meaningful.
- (3) Other accounts receivable of the Group represented those transferred finance lease receivables under asset transfer agreements.

9 FINANCE LEASE RECEIVABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Minimum finance lease receivables		
Not later than one year	21,306,534	22,967,421
Later than one year and not later than five years	58,610,867	53,369,506
Later than five years	34,618,723	27,834,442
Gross amount of finance lease receivables	114,536,124	104,171,369
Less: Unearned finance income	(23,676,007)	(20,262,754)
Net amount of finance lease receivables	90,860,117	83,908,615
Less: Allowances for impairment losses	(2,396,067)	(2,963,500)
Carrying amount of finance lease receivables	88,464,050	80,945,115
Present value of minimum finance lease receivables		
Not later than one year	16,137,256	18,284,638
Later than one year and not later than five years	45,236,438	41,650,959
Later than five years	29,486,423	23,973,018
Total	90,860,117	83,908,615

The Group entered into finance lease arrangements for certain of its aircraft, equipment for infrastructure, transport and construction vehicle. The term range of finance leases entered into is from 1 to 15 years.

The finance lease receivable with carrying amount of approximately RMB3,741,990,000 and RMB4,565,375,000 were pledged as collateral for the Group's bank borrowings as at 31 December 2016 and 2015, respectively.

The Group entered into repurchase agreements with certain counterparties to sell the Group's finance lease receivables with carrying amounts of approximately RMB5,870,738,000 and RMB8,149,285,000 as at 31 December 2016 and 2015, respectively.

The finance lease receivables were mainly with floating interest rates reference to the benchmark interest rate of PBOC ("PBOC Rate") or London Inter-bank Offered Rates ("LIBOR"). The interest rates of finance lease receivables were adjusted periodically with reference to the benchmark interest rates.

Movements of allowances for impairment losses on finance lease receivables during the year ended 31 December 2016 and 2015 are as follows:

	Individual assessment	
	For the year ended	For the year ended
	31 December	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	1,335,971	670,480
Provision during the year	1,412,816	1,387,646
Transfer out during the year	–	(36,142)
Write-offs	(1,733,825)	(686,013)
At the end of the year	1,014,962	1,335,971
	Collective assessment	
	For the year ended	For the year ended
	31 December	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	1,627,529	1,167,181
Provision during the year	(287,436)	480,449
Transfer in during the year	15,732	4,802
Write-offs	–	(28,445)
Foreign currency translation	25,280	3,542
At the end of the year	1,381,105	1,627,529

	Total assessment	
	For the year ended 31 December 2016	For the year ended 31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	2,963,500	1,837,661
Provision during the year	1,125,380	1,868,095
Transfer in/(out) during the year	15,732	(31,340)
Write-offs	(1,733,825)	(714,458)
Foreign currency translation	25,280	3,542
At the end of the year	2,396,067	2,963,500

10 PROPERTY AND EQUIPMENT

	At 31 December 2016	At 31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Equipment held for operating lease businesses	46,857,827	41,871,006
Property and equipment held for administrative purposes	486,227	377,682
Total	47,344,054	42,248,688

Equipment held for operating lease businesses

	Aircraft RMB'000	Shipping RMB'000	Special equipment RMB'000	Electronic equipment RMB'000	Total RMB'000
Cost					
As at 1 January 2016	48,609,524	825,103	641,967	185,267	50,261,861
Additions	9,067,521	-	-	-	9,067,521
Disposals/written-off	(4,236,928)	-	(57,601)	(185,267)	(4,479,796)
Transferred to non-current assets held-for sale	(1,141,969)	-	-	-	(1,141,969)
Foreign Currency translation	3,256,869	-	-	-	3,256,869
As at 31 December 2016	55,555,017	825,103	584,366	-	56,964,486
Accumulated depreciation					
As at 1 January 2016	(8,150,057)	-	(64,795)	(176,003)	(8,390,855)
Charge for the year	(2,274,521)	(40,181)	(97,977)	-	(2,412,679)
Eliminated on disposals/written-off	1,213,398	-	13,208	176,003	1,402,609
Transferred to non-current assets held-for sale	148,001	-	-	-	148,001
Foreign Currency translation	(534,269)	-	-	-	(534,269)
As at 31 December 2016	(9,597,448)	(40,181)	(149,564)	-	(9,787,193)
Accumulated impairment					
As at January 2016	-	-	-	-	-
Additions	(319,466)	-	-	-	(319,466)
As at 31 December 2016	(319,466)	-	-	-	(319,466)
Net carrying amount					
As at 1 January 2016	40,459,467	825,103	577,172	9,264	41,871,006
As at 31 December 2016	45,638,103	784,922	434,802	-	46,857,827

	Aircraft RMB'000	Shipping RMB'000	Special equipment RMB'000	Electronic equipment RMB'000	Total RMB'000
Cost					
As at 1 January 2015	41,224,125	–	641,967	185,267	42,051,359
Additions	5,707,809	825,103	–	–	6,532,912
Disposals/written-off	(554,099)	–	–	–	(554,099)
Foreign Currency translation	2,231,689	–	–	–	2,231,689
As at 31 December 2015	<u>48,609,524</u>	<u>825,103</u>	<u>641,967</u>	<u>185,267</u>	<u>50,261,861</u>
Accumulated depreciation					
As at 1 January 2015	(5,883,433)	–	(3,808)	(174,539)	(6,061,780)
Charge for the year	(1,926,243)	–	(60,987)	(1,464)	(1,988,694)
Eliminated on disposals/written-off	22,603	–	–	–	22,603
Foreign Currency translation	(362,984)	–	–	–	(362,984)
As at 31 December 2015	<u>(8,150,057)</u>	<u>–</u>	<u>(64,795)</u>	<u>(176,003)</u>	<u>(8,390,855)</u>
Net carrying amount					
As at 1 January 2015	<u>35,340,692</u>	<u>–</u>	<u>638,159</u>	<u>10,728</u>	<u>35,989,579</u>
As at 31 December 2015	<u>40,459,467</u>	<u>825,103</u>	<u>577,172</u>	<u>9,264</u>	<u>41,871,006</u>

The aircraft and ships with net book value of approximately RMB32,045,323,000 and RMB35,225,174,000 of the Group were pledged as collateral for the Group's bank borrowings as at 31 December 2016 and 2015, respectively.

Property and equipment held for administrative purposes

	Buildings	Computer and electronic equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost							
As at 1 January 2016	35,202	15,580	11,300	7,792	15,033	341,589	426,496
Additions	5,093	1,643	-	8,805	2,725	96,345	114,611
Disposals/written-off	-	-	(4,492)	(1)	(32)	-	(4,525)
Foreign Currency translation	-	10	-	16	-	-	26
As at 31 December 2016	<u>40,295</u>	<u>17,233</u>	<u>6,808</u>	<u>16,612</u>	<u>17,726</u>	<u>437,934</u>	<u>536,608</u>
Accumulated depreciation							
As at 1 January 2016	(11,373)	(9,846)	(10,483)	(6,169)	(10,943)	-	(48,814)
Charge for the year	(1,599)	(2,123)	(252)	(847)	(984)	-	(5,805)
Eliminated on disposals/written-off	-	-	4,268	-	-	-	4,268
Foreign Currency translation	-	(12)	-	(18)	-	-	(30)
As at 31 December 2016	<u>(12,972)</u>	<u>(11,981)</u>	<u>(6,467)</u>	<u>(7,034)</u>	<u>(11,927)</u>	<u>-</u>	<u>(50,381)</u>
Net carrying amount							
As at 1 January 2016	<u>23,829</u>	<u>5,734</u>	<u>817</u>	<u>1,623</u>	<u>4,090</u>	<u>341,589</u>	<u>377,682</u>
As at 31 December 2016	<u>27,323</u>	<u>5,252</u>	<u>341</u>	<u>9,578</u>	<u>5,799</u>	<u>437,934</u>	<u>486,227</u>

	Buildings <i>RMB'000</i>	Computer and electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost							
As at 1 January 2015	32,921	10,202	11,300	6,745	12,586	182,466	256,220
Additions	2,281	5,376	–	1,040	2,447	159,123	170,267
Foreign Currency translation	–	2	–	7	–	–	9
As at 31 December 2015	<u>35,202</u>	<u>15,580</u>	<u>11,300</u>	<u>7,792</u>	<u>15,033</u>	<u>341,589</u>	<u>426,496</u>
Accumulated depreciation							
As at 1 January 2015	(9,882)	(8,293)	(10,011)	(5,621)	(10,252)	–	(44,059)
Charge for the year	(1,491)	(1,553)	(472)	(546)	(691)	–	(4,753)
Foreign Currency translation	–	–	–	(2)	–	–	(2)
As at 31 December 2015	<u>(11,373)</u>	<u>(9,846)</u>	<u>(10,483)</u>	<u>(6,169)</u>	<u>(10,943)</u>	<u>–</u>	<u>(48,814)</u>
Net carrying amount							
As at 1 January 2015	<u>23,039</u>	<u>1,909</u>	<u>1,289</u>	<u>1,124</u>	<u>2,334</u>	<u>182,466</u>	<u>212,161</u>
As at 31 December 2015	<u>23,829</u>	<u>5,734</u>	<u>817</u>	<u>1,623</u>	<u>4,090</u>	<u>341,589</u>	<u>377,682</u>

As at 31 December 2016, carrying values of property and equipment of the Group for which registration was not completed amounted to approximately RMB10,700,000 (2015: RMB5,988,000). However, this registration process does not affect the rights of the Group to these assets.

Provision for impairment loss on the Group's plant and equipment of RMB319,466,000 as at 31 December 2016 (31 December 2015: nil), was included in accumulated depreciation and impairment.

The impairment loss represents the write-down of the aircraft book value to recoverable amount. The recoverable amount was determined based on the management's best estimate of aircraft values from appraisers' valuation or value in use or estimated selling prices based on signed letter of intent to sell the aircraft. The estimated future cash flows of the aircraft were discounted to their present value using pre-tax discount rate to calculate the value in use. For the calculation of value in use, the weighted average discount rates is 6.0% for 2016.

	31 December 2016 RMB'000
At the beginning of the year	–
Provision during the year	319,466
At the end of the year	319,466

11 BORROWINGS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Secured bank borrowings ⁽¹⁾	21,770,499	26,124,319
Unsecured bank borrowings	84,427,669	76,370,150
	106,198,168	102,494,469

	31 December 2016 RMB'000	31 December 2015 RMB'000
Carrying amount repayable:		
Within one year	79,422,013	75,253,710
More than one year, but not exceeding two years	7,830,785	9,440,131
More than two years, but not exceeding five years	8,097,282	11,754,506
More than five years	10,848,088	6,046,122
	<u>106,198,168</u>	<u>102,494,469</u>

(1) Secured bank borrowings

Secured bank borrowings were pledged by property and equipment held for operating lease businesses, prepayments, finance lease receivables, accounts receivables and bank deposits with carrying amounts as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Property and equipment	32,045,323	35,225,174
Prepayments	471,716	–
Finance lease receivables	3,741,990	4,565,375
Bank deposits	160,642	493,222
	<u>36,419,671</u>	<u>40,283,871</u>

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Fixed-rate borrowings:		
Within one year	71,496,465	62,511,165
More than one year, but not exceeding five years	4,752,436	6,779,254
More than five years	2,811,426	1,676,507
	<u>79,060,327</u>	<u>70,966,926</u>

In addition, the Group has variable-rate borrowings which carry interest based on PBOC Rates, LIBOR, Shanghai Inter-bank Offered Rates (“**SHIBOR**”) or Euro Inter-bank Offered Rates (“**EURIBOR**”).

The ranges of effective interest rates (which approximate to contractual interest rates) on the Group's borrowings are as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Effective interest rate:		
Fixed-rate borrowing	1.27%–5.45%	0.86%–5.90%
Floating-rate borrowing	“LIBOR+0.15% to LIBOR+3.40% SHIBOR+0.45% to SHIBOR+0.50% PBOC Rate*90.00%”	“LIBOR+1.20% to LIBOR+4.00% SHIBOR+0.80% PBOC Rate*90.00% to PBOC Rate*95.60%”

12 NOTES PAYABLE

	31 December 2016 RMB'000	31 December 2015 RMB'000
Guaranteed unsecured notes	17,793,886	13,834,811

Name	Principal amount USD'000	Issue price	Value date	Maturity date	Coupon rate
Guaranteed unsecured notes issued-due 2017 ⁽¹⁾	500,000	99.54%	2012-12-4	2017-12-4	2.00%
Guaranteed unsecured notes issued-due 2022 ⁽¹⁾	1,000,000	99.22%	2012-12-4	2022-12-4	3.25%
Guaranteed unsecured notes issued-due 2019 ⁽²⁾	250,000	99.47%	2014-12-2	2019-12-2	3.25%
Guaranteed unsecured notes issued-due 2024 ⁽²⁾	400,000	99.09%	2014-12-2	2024-12-2	4.25%
Name	Principal amount RMB'000	Issue price	Value date	Maturity date	Coupon rate

Unguaranteed unsecured notes issued-due 2019 ⁽³⁾	3,000,000	100.00%	2016-10-27	2019-10-27	3.00%
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- (1) As at 4 December 2012, an overseas subsidiary of the Group issued notes with principal amount of USD500,000,000 and USD1,000,000,000 in Hong Kong. The notes were guaranteed by the Group's related party, the Hong Kong branch of China Development Bank, and the maturity dates for the notes are 4 December 2017 and 4 December 2022 respectively.

- (2) As at 2 December 2014, an overseas subsidiary of the Group issued notes with principal amount of USD250,000,000 and USD400,000,000 in Hong Kong. The notes were provided redemption safeguard via keepwell and asset purchase deed by the Company and were guaranteed by another overseas subsidiary of the Group, SinoAero Leasing Co., Ltd., and the maturity dates for the notes are 2 December 2019 and 2 December 2024 respectively.
- (3) As at 27 October 2016, the Group issued notes with principal amount of RMB3,000,000,000 in PRC. The maturity date for the notes is 27 October 2019.

13 PAID-IN CAPITAL/SHARE CAPITAL

	Registered, issued and fully paid-in capital/share capital	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	9,500,000	8,000,000
Addition	3,142,380	1,500,000
At the end of the year	12,642,380	9,500,000

- (1) As approved in the shareholder meeting on 8 September 2015, the Company transferred its reserves including approximately RMB402,087,000 from general reserves and RMB1,348,183,000 from retained profits to paid-in capital and capital reserve. The paid-in capital and capital reserve were increased by approximately RMB1,500,000,000 and RMB250,270,000 respectively. Pursuant to the China Banking Regulatory Commission's (the "CBRC") approval of "shen yin jian fu[2015] No. 295" issued by the CBRC on 25 September 2015, the Company was transformed to a joint stock company by issuing a total of 9,500,000,000 shares to China Development Bank, Hainan Airlines Group, Xi'an Aircraft Industry (Group) Company Ltd, Jiangsu Jiayuan Investment Co., Ltd., Qi Tian Holding Co., Ltd, Urumchi Commercial Bank Co., Ltd., Sichuan Financial Leasing Co., Ltd. and Hui Lian Asset Management Co., Ltd. at par value of RMB1 each, representing 100% of share capital of the Company on 28 September 2015.
- (2) On 11 July 2016, the Company issued 3,100,000,000 new ordinary shares at the issue price of HK\$2 each by way of initial public offering. The gross proceeds amounted to HK\$6.2 billion. On 29 July 2016, the Company announced that the Over-allotment Option was partially exercised in respect of an aggregate of 42,380,000 new ordinary shares with an additional proceeds of HK\$0.8 billion. After deducting the issuance cost, RMB3,142,380,000 and RMB2,143,903,000 were credited to share capital and capital reserve respectively.

14 DIVIDENDS

The dividends paid in 2016 and 2015 is RMB0 and RMB149,798,000 (RMB0.016 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.556 per 10 ordinary shares, amounting to a total dividend of RMB702,916,328, is to be proposed at the annual general meeting. These financial statements do not reflect this dividend payable.

	31 December 2016 RMB'000	31 December 2015 RMB'000
Interim dividend paid of RMB0 (2015: RMB nil) per 10 ordinary shares	–	–
Proposed final dividend of RMB0.556 (2015: RMB nil) per 10 ordinary shares	702,916	–
	702,916	–

15 SEGMENT REPORTING

Information reported to the chief operating decision maker (hereinafter refer to as the “**CODM**”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of services provided by the Group, which is also consistent with the Group’s basis of organisation, whereby the businesses are organised and managed separately as individual strategic business unit that serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors of the Company, which are consistent with the accounting and measurement criteria in the preparation of the consolidated financial statements.

Specifically, the Group’s operating segments are as follows:

- (a) Aircraft leasing: mainly engaged in the acquisition, leasing, management and disposal of commercial aircraft;
- (b) Infrastructure leasing: mainly engaged in the leasing of transportation, urban and energy infrastructure;
- (c) Ship, commercial vehicle and construction machinery leasing: mainly engaged in the leasing of vessels, commercial vehicles and construction machinery; and

- (d) Other leasing business: mainly engaged in the leasing of commercial property and manufacturing equipment in various sectors such as chemicals, papermaking, textile, coal and steel.

Segment assets or liabilities are allocated to each segment, excluding deferred tax assets or liabilities, and the segment result excludes income tax expense. Segment revenue, results, assets and liabilities mainly include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Expenses and assets of the headquarters are allocated according to the proportion of each segment's revenue. Liabilities of the headquarters are allocated according to the proportion of each segment's assets.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the years ended 31 December 2016 and 2015.

The operating and reportable segment information provided to the CODM during the years ended 31 December 2016 and 2015 is as follows:

	Aircraft leasing RMB'000	Infrastructure leasing RMB'000	Ship, commercial vehicle and construction machinery leasing RMB'000	Other leasing business RMB'000	Consolidated total RMB'000
For the year ended 31 December 2016					
Segment revenue and results					
Finance lease income	227,127	3,314,994	1,004,276	817,430	5,363,827
Operating lease income	5,226,973	123,039	86,662	16,483	5,453,157
Segment revenue	5,454,100	3,438,033	1,090,938	833,913	10,816,984
Segment other income, gains and losses	442,398	97,152	25,338	58,933	623,821
Segment revenue and other income	5,896,498	3,535,185	1,116,276	892,846	11,440,805
Segment expenses	(4,537,418)	(2,031,296)	(1,323,824)	(1,480,536)	(9,373,074)
Profit before impairment losses and income tax	1,666,730	1,495,044	366,998	364,732	3,893,504
Profit before income tax	1,359,080	1,503,889	(207,548)	(587,690)	2,067,731

	Aircraft leasing <i>RMB'000</i>	Infrastructure leasing <i>RMB'000</i>	Ship, commercial vehicle and construction machinery leasing <i>RMB'000</i>	Other leasing business <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
As at 31 December 2016					
Segment assets and liabilities					
Segment assets	62,606,259	68,676,635	20,246,133	14,392,076	165,921,103
Deferred tax assets					591,046
Group's total assets					166,512,149
Segment liabilities	54,247,638	59,507,552	17,543,053	12,470,576	143,768,819
Deferred tax liabilities					441,656
Group's total liabilities					144,210,475
For the year ended 31 December 2016					
Other segment information					
Depreciation of investment properties	-	-	-	(19,618)	(19,618)
Depreciation of properties and equipment	(2,280,326)	(96,246)	(40,181)	(1,731)	(2,418,484)
Amortisation	(19,384)	(12,275)	(3,805)	(2,959)	(38,423)
Impairment losses	(307,650)	8,845	(574,546)	(952,422)	(1,825,773)

	Aircraft leasing RMB'000	Infrastructure leasing RMB'000	Ship, commercial vehicle and construction machinery leasing RMB'000	Other leasing business RMB'000	Consolidated total RMB'000
For the year ended 31 December 2015					
Segment revenue and results					
Finance lease income	228,931	3,306,022	1,193,034	1,266,767	5,994,754
Operating lease income	4,500,339	119,753	3,807	22,265	4,646,164
Segment revenue	4,729,270	3,425,775	1,196,841	1,289,032	10,640,918
Segment other income, gains and losses	187,296	94,402	14,844	43,829	340,371
Segment revenue and other income	4,916,566	3,520,177	1,211,685	1,332,861	10,981,289
Segment expenses	(3,795,326)	(2,299,361)	(1,220,643)	(2,366,333)	(9,681,663)
Profit before impairment losses and income tax	1,166,917	1,332,492	356,626	451,761	3,307,796
Profit before income tax	1,121,240	1,220,816	(8,958)	(1,033,472)	1,299,626
As at 31 December 2015					
Segment assets and liabilities					
Segment assets	55,788,274	60,660,863	20,070,142	18,472,672	154,991,951
Deferred tax assets					703,141
Group's total assets					155,695,092
Segment liabilities	49,817,274	55,775,540	17,912,229	16,930,184	140,435,227
Deferred tax liabilities					266,949
Group's total liabilities					140,702,176
For the year ended 31 December 2015					
Other segment information					
Depreciation of investment properties	–	–	–	(19,618)	(19,618)
Depreciation of properties and equipment	(1,927,780)	(57,953)	(386)	(7,328)	(1,993,447)
Amortisation	(9,628)	(7,018)	(2,416)	(2,605)	(21,667)
Impairment losses	(45,677)	(111,676)	(365,584)	(1,485,233)	(2,008,170)

The customer of China Southern Airlines contributes 10.20% of the Group's revenue for the years ended 31 December 2016, and there is no single customer contributes over 10% of the Group's revenue for the years ended 31 December 2015.

The Group's non-current assets are mainly located in the PRC (country of domicile). The Group's revenue are substantially derived from its operation in PRC.

DEFINITIONS

“Articles of Association”	the articles of association of our Company
“Board”	the Board of Directors of our Company
“Board of Supervisor”	the Board of Supervisors of our Company
“Capital Administrative Measures”	Administrative Measures for Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法》(試行)), issued by the CBRC on June 7, 2012 and being effective from January 1, 2013
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “the PRC”	the People’s Republic of China, excluding, for the purpose of this announcement, Hong Kong, Macau and Taiwan
“China Development Bank” or “CDB”	China Development Bank Corporation (國家開發銀行股份有限公司), holding 64.40% shares of the Company, being the Controlling Shareholder and a Connected Person of the Company
“Company,” “our Company” or “CDB Leasing”	China Development Bank Financial Leasing Co., Ltd. (國銀金融租賃股份有限公司), a company established in the PRC in 1984 and converted into a joint stock limited company on September 28, 2015, the H Shares of which are listed on the Hong Kong Stock Exchange with stock code of 1606
“Connected Person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules
“Director(s)”	director(s) of our Company
“Global Offering”	the global offering as mentioned in the Prospectus

“Group”, “we” or “us”	our Company and its Subsidiaries or SPCs, or our Company and any one or more of our subsidiaries or SPCs, as the context may require
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	the date, being July 11, 2016, on which our Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Company dated June 24, 2016
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	Share(s) in the share capital of the Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen CBRC”	Shenzhen Office of the China Banking Regulatory Commission
“State Council”	State Council of the PRC (中國國務院)
“Supervisor(s)”	supervisor(s) of the Company
“US\$” or “US dollar(s)”	United States dollar(s), the lawful currency of the United States

GLOSSARY OF TECHNICAL TERMS

“finance lease”	a lease arrangement classified under the International Financial Reporting Standards, pursuant to which substantially all of the risks and rewards of ownership of the leased assets are transferred from the lessors to the lessees
“finance lease related assets”	leased assets under finance leases, consisting of finance lease receivables and accounts receivable (advances for finance lease projects)
“narrow-body aircraft”	single-aisle aircraft, such as Airbus A320 family and Boeing 737
“operating lease”	a lease arrangement classified under the International Financial Reporting Standards, pursuant to which substantially all of the risk and rewards of the leased assets remain with the lessors
“wide-body aircraft”	twin-aisle aircraft, such as Airbus A330 family and Boeing 777
“SPC(s)”	special purpose company(ies)
“PPP”	Public-Private-Partnership, a cooperation mode between the government and social capital

By order of the Board
China Development Bank Financial Leasing Co., Ltd.
WANG Xuedong
Chairman

Shenzhen, the PRC, March 29, 2017

As at the date of this announcement, the executive Directors are Mr. WANG Xuedong, Mr. FAN Xun and Mr. HUANG Min; the non-executive Directors are Mr. GENG Tiejun, Ms. LIU Hui and Mr. LI Yingbao; and the independent non-executive Directors are Mr. ZHENG Xueding, Mr. XU Jin and Mr. ZHANG Xianchu.