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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, 2017,
ESTABLISHMENT OF STRATEGIC DECISION
COMMITTEE OF THE BOARD
AND
APPOINTMENT OF MR. PENG ZHONG
AS THE VICE CHAIRMAN OF THE BOARD**

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, 2017 together with the comparative figures for the corresponding period in 2016, 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 Consolidated Statement of Profit or Loss

<i>(RMB in thousands)</i>	For the year ended December 31,	
	2017	2016
Finance lease income	5,784,289	5,363,827
Operating lease income	6,016,001	5,453,157
Total revenue	11,800,290	10,816,984
Net investment gains/(losses)	176,160	(52,359)
Other income, gains or losses	338,272	676,180
Total revenue and other income	12,314,722	11,440,805
Total expenses	(9,506,870)	(9,373,074)
Of which: Depreciation and amortisation	(2,701,887)	(2,476,525)
Interest expense	(4,984,470)	(4,400,071)
Impairment losses	(912,918)	(1,825,773)
Profit before income tax	2,807,852	2,067,731
Profit for the year attributable to owners of the Company	2,130,963	1,561,339
Earnings per share attributable to owners of the Company (expressed in RMB Yuan per share) – Basic and diluted	0.17	0.14

2. Summary of Consolidated Statement of Financial Position

<i>(RMB in thousands)</i>	As at December 31,	
	2017	2016
Total assets	<u>187,099,272</u>	<u>166,512,149</u>
Of which: Cash and bank balances	16,207,073	9,336,415
Accounts receivable	6,610,039	6,841,777
Finance lease receivables	98,880,563	88,464,050
Prepayments	7,530,238	7,911,502
Property and equipment	<u>49,532,281</u>	<u>47,344,054</u>
Total liabilities	<u>163,590,303</u>	<u>144,210,475</u>
Of which: Borrowings	116,245,105	106,198,168
Notes payable	<u>32,326,713</u>	<u>17,793,886</u>
Total equity	<u>23,508,969</u>	<u>22,301,674</u>
Net assets per share <i>(RMB)</i>	<u>1.86</u>	<u>1.76</u>

3. Selected Financial Ratios

	For the year ended December 31, As at December 31, 2017 2016	
Return on average total assets ⁽¹⁾	1.21%	0.97%
Return on average equity ⁽²⁾	9.30%	8.44%
Net interest spread of finance lease business ⁽³⁾	1.85%	2.10%
Net interest margin of finance lease business ⁽⁴⁾	2.33%	2.70%
Net lease yield of operating lease business ⁽⁵⁾	9.13%	8.74%
Profit margin before income tax of operating lease business ⁽⁶⁾	23.97%	21.77%
Cost-to-income ratio ⁽⁷⁾	7.08%	5.76%
Net profit margin before tax and impairment losses ⁽⁸⁾	31.53%	35.99%
Net profit margin ⁽⁹⁾	18.06%	14.43%
Non-performing asset ratio ⁽¹⁰⁾	0.78%	0.98%
Non-performing asset ratio of finance lease business ⁽¹¹⁾	1.31%	1.63%
Gearing Ratio ⁽¹²⁾	5.72x	5.46x
Credit ratings		
Standard & Poor's	A	A+
Moody's	A1	Aa3
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 weighted average balance of total shareholders' equity during 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.
- (12) Calculated by dividing net debt by total equity. Net debt is defined as total debt less cash and cash equivalents. Total debt comprises borrowings, due to banks and other financial institutions, financial assets sold under repurchase agreements and notes payable.

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

	Regulatory requirement	As at December 31,		
		2017	2016	2015
Capital adequacy indicators⁽¹⁾				
Core tier-one capital adequacy ratio ⁽²⁾	≥7.1% ⁽³⁾	13.19%	13.42%	9.54%
Tier-one capital adequacy ratio ⁽⁴⁾	≥8.1% ⁽³⁾	13.19%	13.42%	9.54%
Capital adequacy ratio ⁽⁵⁾	≥10.1% ⁽³⁾	14.10%	14.03%	10.23%
Asset quality indicators				
Allowance to non-performing finance lease related assets ⁽⁶⁾	≥150% ⁽³⁾	215.15%	164.28%	150.47%

- (1) Calculated based on the Capital Administrative Measures (《資本管理辦法》) published by the CBRC on June 7, 2012, which became effective on January 1, 2013 and replaced the Administrative Measures for Capital Adequacy (《資本充足辦法》).
- (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 2017.
- (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

2017 saw the accelerating pace of world economic growth and a sound recovery, which is the best-performing year in recent years. Developed economies gained strong momentum in growth, with Eurozone experiencing the fastest growth in economy, which was closely followed by the economic growth in the US and Japan, coupled with a better-than-expected recovery. The rapid growth of emerging economies and developing countries were the major driving forces for the strong recovery of the world economy. An improvement was seen in the industrial production and real economy worldwide, while an upswing was enjoyed by both the volume and the price of world trade. The international financial market was basically stable, providing favorable economic environment for the recovery of world economy. However, certain deep-rooted structural conflicts were not addressed fundamentally and the world economy will still continue to fluctuate due to factors including downturn of growth in labor productivity, the continuing rise in debt scales and the lack of new drivers for growth.

In 2017, the national economy extended its development trend at a stable and improving pace, along with focusing on supply-side structural reform as our main task, and facilitating the optimization of structure, transformation of driving forces and improvement of quality, which showed a better-than-expected overall development. The Gross Domestic Product (GDP) and Consumer Price Index (CPI) throughout the year increased by 6.9% and 1.6%, respectively. The increasing rate of the industry with the size throughout the country or above recorded an actual increase of 6.6%. Fixed assets investment (excluding rural households) rose 7.2% and the total trade volume of import and export rose 14.2%, ending the continuous drop in the previous two years. With deeply pushing forward of supply-side structural reform, the transformation and upgrading achieved new progress. The annual task on cutting overcapacity in the steel and coal sectors was successfully completed, while continued efforts were put into the innovation of development and new drivers of economy gathered pace in growth. Nevertheless, we should not lose sight of the various problems and challenges we are facing in economic operation and there is no easy path in improving quality and efficiency in the economic performance, preventing and mitigating material risks and reducing the debt of local government, etc.

1.1.2 Industry Environment

In general, leasing industry was encountering favorable opportunities for development. Regarding potential demand, the local leasing business was still in a rapid development stage with less than 10% 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 upgraded 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 of the PRC proposes to take leasing business into the consideration of overall strategy for the development of national economy. It requires to raise the leasing market penetration rate and leasing business shall assist enterprises in equipment investment and technology upgrade. At the same time, the development of the finance lease industry of the PRC was greatly facilitated 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 2017, the overall leasing industry was characterized by rapid increase in terms of the quantity, registered capital, assets scale and other indicators of leasing companies. As of the end of December 2017, the total number of financial leasing companies nationwide amounted to approximately 9,090 as compared with 7,136 as at the end of last year, representing an increase of 1,954 or 27.4%. Among them, 69 enterprises in the national financial leasing industry were approved to commence operation, increasing by 10 enterprises as compared with that of last year, indicating an increasingly intensified competition in the industry. The registered capital of the industry was equivalent to RMB3,203.1 billion, representing an increase of 25.3% as compared with that at the end of last year. The balance of lease contracts was approximately RMB6,060.0 billion, representing an increase of 13.7% as compared with that in 2016. The lease business basically focused on the sale-and-leaseback and was supported by direct lease, and focused

on the finance lease and supported by operating lease, with revenues derived from spreads. Each of the leasing companies shall seek for innovative development regarding product structure design, client resources, market positioning and business model and form advantages with their own characteristics and professionalism to respond to the challenge of the market-oriented competition. At the same time, the continuing standardization and strengthening of industrial regulation will promote an orderly and sound development of the leasing industry in the PRC.¹

1.2 Our Responses

In 2017, faced with the steady recovery 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 of management improvement as a listed company, the Group further rationalized the mechanism and system, accelerated the establishment of the group-based organizational structure and took solid strides on the refinement of a market-oriented operation mechanism so as to improve its competitiveness in the market.

Regarding business development, the Group further optimized its business layout and reinforced its business structure mainly featured by Aircraft Leasing and Infrastructure Leasing. In 2017, the business development reached a new stage. By virtue of the enhanced communication and coordination with existing and new customers by the Company and the gradual completion of projects, the total lease financing to lessees amounted to RMB52.695 billion, representing an increase of 29.9% as compared with that of last year, and recording the best performance in the last five years. The Group put into extensive efforts to raise the professional level of the businesses of aircraft, ship, construction machinery and commercial vehicles, new energy and other business, steadily advancing the Infrastructure Leasing business. We further improved our innovation capability for business and products. The Group entered into agreements to purchase 105 new aircraft from Boeing and Airbus, and breakthroughs have been made in equipment

¹ Source of data: the report “The Economy in 2017 Showed a Development Trend at a Stable Pace with Good Momentum, which is Better than Expected” (《2017年經濟運行穩中向好，好於預期》) published by the National Bureau of Statistics; and the “2017 China Finance Leasing Industry Development Report” (《2017年中國融資租賃業發展報告》) by China Leasing Union and Tianjin Binhai Financial Leasing Institute.

leasing with respect to distributed photovoltaic power generation project and electronic information business. The cooperative model of construction machinery and commercial vehicle leasing business was transformed from collaboration with individual end customers to “end + platform” in full and the construction machinery and commercial vehicle leasing business registered a rapid growth. Meanwhile, the Group adjusted the business model in a timely manner in accordance with the policy requirements imposed by the state on strict regulation on borrowing by local governments to safeguard the sustainable development of infrastructure leasing business. The research and development of medical care for senior, intelligent city and other innovative businesses were pushed forward by the Group.

Regarding risk management, the Group further optimized the comprehensive risk management system and improved the risk management level. The Company gave play to the function and role of the lease business development and review committee, kept a close eye on the projects at the initial stage. The Company also promoted an earlier assessment to improve the procedure management of project assessment and strengthened review regarding release of projects and prevented operational risks. Furthermore, the Company enhanced post-lease management and upgraded the risk alert capability for projects. The Company stepped up efforts in the mitigation and disposal of projects on the “double black lists” to ensure the stabilized quality of leased assets, refined the comprehensive risk management system and strengthened the construction of risk culture. The Company further improved the Basic Provisions on Comprehensive Risk Management (《全面風險管理基本規定》) and indicators for risk preferences, risk limits and alert, so as to put the new accounting standards of IFRS 9 into place, enhance the measurement level for credit risks and build risk management accountability system for achieving a multi-level risk management with full coverage. The ratio of non-performing assets of the Company as at the end of 2017 was 0.78%, achieving another “double decreases” in both the amount and ratio of non-performing assets following 2016, which is the lowest level in the last three years. Meanwhile, in response to both the domestic and overseas regulations upon listing, the Group proactively enhanced and implemented compliance in all aspects so as to prevent compliance risks.

Regarding financing, the Group further expanded financing sources and reduced financing cost. The newly granted credit and actual financing throughout the year witnessed a steady growth. The Company issued RMB7.0 billion financial bonds and US\$1.8 billion senior bonds, and succeeded in issuing the new product – “Bond Connect” of financial bonds. The Company also obtained the credit lines from insurance assets management companies, which reduced its essential reliance on inter-bank fundings as in the past. In 2017, Moody, S&P, Fitch and CCXI affirmed the long-term issuer ratings of CDB Leasing as A1, A, A+ and AAA, respectively, highlighting the high level of credit rating of the Company. Meanwhile, the Group reinforced the market trend analysis and made adjustment to maturity and interest rate structure of liabilities in a timely manner, which enhanced the liquidity management and risk control capability over interest rates and exchange rates.

Regarding internal management, the Group further bolstered the foundation of operation and management. The Group strengthened the establishment and implementation of the system by amending and formulating 85 systems in 2017 and the number of systems amounted to 254 as at the end of the year. The Group also advanced the informatization, management accounting, review of business procedures, optimization of performance management and other consulting projects so as to lay the foundation for the development of the business and the enhancement of management of the Company. It also enacted the Implementation Plan for Cost Reduction and Efficiency Enhancement (《降本增效實施方案》) to increase the profitability and level of gains of the Company comprehensively. With the gradual implementation of implementation plan on reform of the human resources management, the Company’s operation and management foundation was further consolidated, thus providing adequate safeguard for the business development.

To sum up, in 2017, the Group achieved a new breakthrough in the reform and development through active and effective responsive strategies, demonstrating a favorable development trend in all respects.

2. Financial Review

2.1 Analysis on Consolidated Statement of Profit or Loss

2.1.1 Overview of Consolidated Statement of Profit or Loss

In 2017, the Group maintained a steady increase in results. Total revenue and other income amounted to RMB12,314.8 million, representing an increase of RMB874.0 million, or 7.6% as compared with that of last year; profit for the year amounted to RMB2,131.0 million, representing an increase of RMB569.7 million, or 36.5% as compared with that of last year, due primarily to increases in operating lease income and finance lease income as well as a decrease in impairment losses. The increase was partially offset by increases in interest expense, other operating expenses as well as depreciation and amortisation.

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

<i>(RMB in millions, except percentages)</i>	For the year ended December 31,		Change
	2017	2016	
Revenue			
Finance lease income	5,784.3	5,363.8	7.8%
Operating lease income	6,016.0	5,453.2	10.3%
Total revenue	11,800.3	10,817.0	9.1%
Net investment gains/(losses)	176.2	(52.4)	–
Other income, gains or losses	338.3	676.2	(50.0%)
Total revenue and other income	12,314.8	11,440.8	7.6%
Depreciation and amortisation	(2,701.9)	(2,476.5)	9.1%
Staff costs	(351.6)	(229.0)	53.5%
Fee and commission expenses	(62.0)	(55.9)	10.9%
Interest expense	(4,984.5)	(4,400.1)	13.3%
Other operating expenses	(494.0)	(385.8)	28.0%
Impairment losses	(912.9)	(1,825.8)	(50.0%)
Total expenses	(9,506.9)	(9,373.1)	1.4%
Profit before income tax	2,807.9	2,067.7	35.8%
Income tax expense	(676.9)	(506.4)	33.7%
Profit for the year	2,131.0	1,561.3	36.5%

2.1.2 Total Revenue

Revenue of the Group was primarily derived from finance lease income and operating lease income. In 2017, total revenue of the Group amounted to RMB11,800.3 million, representing an increase of RMB983.3 million, or 9.1% as compared with that of last year, due primarily to the continuously increase of business scale.

2.1.2.1 Finance Lease Income

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

(RMB in millions, except percentages)	For the year ended December 31,		Change
	2017	2016	
Finance lease income			
Aircraft Leasing	224.3	227.1	(1.2%)
Infrastructure Leasing	3,848.7	3,315.0	16.1%
Ship, Commercial Vehicle and Construction Machinery Leasing	1,023.9	1,004.3	2.0%
Other Leasing Business	687.4	817.4	(15.9%)
Total	5,784.3	5,363.8	7.8%

In 2017, finance lease income of the Group amounted to RMB5,784.3 million, accounting for 49.0% of total revenue and representing an increase of RMB420.5 million, or 7.8% as compared with that of last year, due primarily to the increase in income from projects of infrastructure finance lease.

With respect to Aircraft Leasing, in 2017, finance lease income of the Group amounted to RMB224.3 million, representing a decrease of RMB2.8 million, or 1.2% as compared with that of last year, due primarily to the focus on the development of operating lease business of the aircraft segment, as opposed to finance lease sector.

With respect to Infrastructure Leasing, in 2017, finance lease income of the Group amounted to RMB3,848.7 million, representing an increase of RMB533.7 million, or 16.1% as compared with that of last year, due primarily to an increase in lease financing to lessees in the Infrastructure Leasing throughout the year.

With respect to Ship, Commercial Vehicle and Construction Machinery Leasing, in 2017, finance lease income of the Group amounted to RMB1,023.9 million, representing an increase of RMB19.6 million, or 2.0% as compared with that of last year, due primarily to an increase in lease financing to lessees in the Commercial Vehicle and Construction Machinery segment.

With respect to Other Leasing Business, in 2017, finance lease income of the Group amounted to RMB687.4 million, representing a decrease of RMB130.0 million, or 15.9% as compared with that of last year, due primarily to the Group's proactive control over the lease business scale of this segment and a further reduction of the segment assets resulting from the disposed of certain assets.

2.1.2.2 Operating Lease Income

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

<i>(RMB in millions, except percentages)</i>	For the year ended December 31,		Change
	2017	2016	
Operating lease income			
Aircraft Leasing	5,756.4	5,227.0	10.1%
Infrastructure Leasing	104.2	123.0	(15.3%)
Ship, Commercial Vehicle and Construction Machinery Leasing	138.9	86.7	60.2%
Other Leasing Business	16.5	16.5	–
Total	<u>6,016.0</u>	<u>5,453.2</u>	<u>10.3%</u>

In 2017, operating lease income of the Group amounted to RMB6,016.0 million, accounting for 51.0% of total revenue and representing an increase of RMB562.8 million, or 10.3% as compared with that of last year, due primarily to an expansion of the scale of aircraft for operating lease in light of the expansion of Aircraft Leasing business by the Group and the stable gross lease yield of Aircraft Leasing business.

The operating lease income of the Group is mainly derived from Aircraft Leasing business. In 2017, operating lease income generated by Aircraft Leasing amounted to RMB5,756.4 million, accounting for 95.7% of the total operating lease income. Meanwhile, the Group proactively explored the operating lease for ships with caution, which contributed to substantial increase in operating lease income from Ship, Commercial Vehicle and Construction Machinery Leasing, being RMB138.9 million for 2017, representing an increase of 60.2% than last year.

2.1.2.3 Net Investment Gains/(Losses)

In 2017, net investment gains of the Group amounted to RMB176.2 million, representing an increase of RMB228.6 million as compared with RMB52.4 million of net investment losses in last year, due primarily to investment gains of RMB83.4 million from disposal of certain available-for-sale financial assets in 2017, and due to the investment income of RMB6.3 million generated from disposal of derivative financial instrument, representing an increase of RMB93.5 million as compared with the losses of RMB87.2 million arising from the currency forward delivery last year.

2.1.2.4 Other Income, Gains or Losses

In 2017, other income and gains of the Group amounted to RMB338.3 million, representing a decrease of RMB337.9 million, or 50.0% as compared with that of last year, due primarily to an increase in exchange losses generated from net US dollar assets exposure arising from the decrease in the exchange rate of US dollar to RMB.

2.1.3 Cost Expenses

In 2017, total expenses of the Group amounted to RMB9,506.9 million, representing an increase of RMB133.8 million, or 1.4% as compared with that of last year, due primarily to an increase in interest expense, depreciation and amortisation, which was partially offset by the decrease in impairment losses.

2.1.3.1 Depreciation and Amortisation

In 2017, depreciation and amortisation of the Group amounted to RMB2,701.9 million, representing an increase of RMB225.4 million, or 9.1% 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 158 as at the end of 2016 to 184 as at the end of 2017.

2.1.3.2 Staff Costs

In 2017, staff costs of the Group amounted to RMB351.6 million, representing an increase of RMB122.6 million, or 53.5% 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 professional team, strengthened the strategic sector and layout of aviation, further introduced and expanded the international and professional aeronautical team and established a more market-oriented remuneration and incentive system.

2.1.3.3 Fee and Commission Expenses

In 2017, fee and commission expenses of the Group amounted to RMB62.0 million, which remained basically unchanged as compared with that of last year.

2.1.3.4 Interest Expense

In 2017, interest expense of the Group amounted to RMB4,984.5 million, representing an increase of RMB584.4 million, or 13.3% as compared with that of last year, due primarily to (1) the increase of comprehensive financing costs in 2017 resulting from the increase in the market interest rates, (2) the corresponding increase in the interest expense as a result of the growth of the overall financing scale along with the expansion of business scale.

2.1.3.5 Other Operating Expenses

In 2017, other operating expenses of the Group amounted to RMB494.0 million, representing an increase of RMB108.2 million, or 28.0% as compared with that of last year, due primarily to the corresponding increase in disposal expenses as a result of a larger number of disposed aircraft in 2017.

2.1.3.6 Impairment Losses

In 2017, impairment losses of the Group amounted to RMB912.9 million, representing a decrease of RMB912.9 million, or 50.0% 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 2017, profit before income tax of the Group amounted to RMB2,807.9 million, representing an increase of RMB740.2 million, or 35.8% as compared with that of last year, due primarily to an increase in operating lease income and finance lease income as well as a decrease in impairment losses.

2.1.5 Income Tax Expense

In 2017, income tax expense of the Group amounted to RMB676.9 million, representing an increase of RMB170.5 million, or 33.7% 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 2017, profit for the year of the Group amounted to RMB2,131.0 million, representing an increase of RMB569.7 million, or 36.5% 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:

<i>(RMB in millions, except percentages)</i>	For the year ended December 31,	
	2017	2016
Finance lease business		
Interest income ⁽¹⁾	5,784.3	5,363.8
Interest expense ⁽²⁾	3,429.2	2,805.6
Net interest income	2,355.1	2,558.2
Average balance of finance lease related assets ⁽³⁾	101,040.3	94,713.3
Average balance of interest- bearing liabilities ⁽⁴⁾	88,593.9	78,779.7
Average yield ⁽⁵⁾	5.72%	5.66%
Average cost ⁽⁶⁾	3.87%	3.56%
Net interest spread of finance lease business ⁽⁷⁾	1.85%	2.10%
Net interest margin of finance lease business ⁽⁸⁾	2.33%	2.70%

- (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 2017, net interest spread of finance lease business of the Group was 1.85%, representing a decrease of 0.25 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 an upward financing interest rate in the market and increasingly intensive industrial competition. Net interest margin of finance lease business was 2.33%, representing a decrease of 0.37 percentage point as compared with that of last year, due primarily to the increase in financing interest rate in the market, which in turn increased interest expense and reduced 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,	
	2017	2016
Operating lease business		
Net lease yield of operating lease business ⁽¹⁾	9.13%	8.74%
Profit margin of operating lease business before income tax of operating lease business ⁽²⁾	23.97%	21.77%

⁽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 2017, net lease yield and profit margin before income tax of operating lease business of the Group were 9.13% and 23.97%, respectively, representing an increase of 0.39 percentage point and 2.20 percentage points as compared with those of last year, respectively. As the financing of the Group's operating lease business is mainly denominated in US dollar, the increase is due primarily to the adjustment of financing structure by additional issue of US-dollar denominated bonds in 2017 and the adequate use of proceeds from listing, resulting in a better control on interest cost of operating lease.

2.2 Analysis on Consolidated Statement of Financial Position

The following table sets forth the consolidated statement of financial position of the Group as at the dates indicated and the changes:

(RMB in millions, except percentages)	As of December 31,		Change
	2017	2016	
Assets			
Cash and bank balances	16,207.1	9,336.4	73.6%
Placement to banks and other financial institutions	–	1,100.0	(100.0%)
Financial assets at fair value through profit or loss	1,857.9	2,133.7	(12.9%)
Derivative financial assets	27.7	9.7	185.6%
Accounts receivable	6,610.0	6,841.8	(3.4%)
Finance lease receivables	98,880.6	88,464.1	11.8%
Prepayments	7,530.2	7,911.5	(4.8%)
Available-for-sale financial assets	279.6	274.6	1.8%
Fixed assets held-for-sale	2,697.5	994.0	171.4%
Investment properties	984.7	356.6	176.1%
Property and equipment	49,532.3	47,344.1	4.6%
Deferred tax assets	642.5	591.0	8.7%
Other assets	1,849.2	1,154.6	60.2%
Total assets	187,099.3	166,512.1	12.4%
Liabilities			
Borrowings	116,245.1	106,198.2	9.5%
Due to banks and other financial institutions	–	4,000.0	(100.0%)
Financial assets sold under repurchase agreements	2,030.0	3,136.0	(35.3%)
Derivative financial liabilities	69.1	199.3	(65.3%)
Accrued staff costs	160.5	94.2	70.4%
Tax payable	433.5	132.3	227.7%
Notes payable	32,326.7	17,793.9	81.7%
Deferred tax liabilities	540.1	441.6	22.3%
Other liabilities	11,785.3	12,215.0	(3.5%)
Total liabilities	163,590.3	144,210.5	13.4%
Total equity	23,509.0	22,301.6	5.4%

2.2.1 Total Assets

The principal components of the Group's assets were cash and bank balances, accounts receivable, finance lease receivables, prepayments and property and equipment, collectively representing 95.5% of the Group's total assets as at December 31, 2017. As at December 31, 2017, total assets of the Group amounted to RMB187,099.3 million, representing an increase of RMB20,587.2 million, or 12.4% as compared with that as at the end of last year, due primarily to further expansion of the Group's business scale.

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 lease rentals receivable as at December 31, 2017, 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, 2017, accounts receivable of the Group amounted to RMB6,610.0 million, representing a decrease of RMB231.8 million, or 3.4% 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 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,		
	2017	2016	Change
Finance lease receivables – gross	125,760.3	114,536.2	9.8%
Less: Unearned finance income	(24,075.6)	(23,676.0)	1.7%
Finance lease receivables – net	101,684.7	90,860.2	11.9%
Less: Allowance for impairment losses	(2,804.1)	(2,396.1)	17.0%
Finance lease receivables – carrying value	<u>98,880.6</u>	<u>88,464.1</u>	<u>11.8%</u>

As at December 31, 2017, finance lease receivables of the Group amounted to RMB98,880.6 million, representing an increase of RMB10,416.5 million, or 11.8% as compared with that as at the end of last year, due primarily to the continuous increase in finance lease business of the Group.

2.2.1.3 Prepayments

As at December 31, 2017, prepayments of the Group amounted to RMB7,530.2 million, representing a decrease of RMB381.3 million, or 4.8% as compared with that as at the end of last year. On the one hand, it was due to the decrease in prepayments resulting from the delivery of projects; on the other hand, it was due to the impact of decrease in exchange rate of US dollars to RMB.

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, 2017, equipment held for operating lease of the Group amounted to RMB48,691.9 million, representing an increase of RMB1,834.1 million, or 3.9% as compared with that as at the end of last year, due primarily to the expansion of scale of aircraft for operating lease.

As at December 31, 2017, property and equipment held for administrative purpose of the Group amounted to RMB840.4 million, representing an increase of RMB354.1 million, or 72.8% as compared with that as at the end of last year, due primarily to the increase in the investment in new office building of the Group.

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

<i>(RMB in millions, except percentages)</i>	As of December 31,		
	2017	2016	Change
Property and equipment			
Equipment held for operating lease	48,691.9	46,857.8	3.9%
Property and equipment held for administrative purpose	840.4	486.3	72.8%
Property and equipment – carrying value	<u>49,532.3</u>	<u>47,344.1</u>	<u>4.6%</u>

2.2.1.5 Cash and Bank Balances

As at December 31, 2017, cash and bank balances of the Group amounted to RMB16,207.1 million, representing an increase of RMB6,870.7 million, or 73.6% as compared with that as at the end of last year, due primarily to the increase in liquidity reserve of the Group.

2.2.1.6 Placement to Banks and Other Financial Institutions

As at December 31, 2017, placement to banks and other financial institutions of the Group amounted to zero, representing a decrease of RMB1,100.0 million as compared with that as at the end of last year, due primarily to the non-existence of additional placement to banks and other financial institutions upon the completion of existing business at the end of the year.

2.2.1.7 Financial Assets at Fair Value through Profit or Loss

As at December 31, 2017, financial assets at fair value through profit and loss of the Group amounted to RMB1,857.9 million, representing a decrease of RMB275.8 million, or 12.9% as compared with that as at the end of last year, due primarily to the disposal of certain share of the third-party agency fixed-income investment of the Group.

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, 2017, other assets of the Group amounted to RMB1,849.2 million, representing an increase of RMB694.6 million, or 60.2% as compared with that as at the end of last year, due primarily to the increase in accounts receivable brought by disposal of aircraft.

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,		
	2017	2016	Change
Finance lease related assets			
Finance lease receivables	98,880.6	88,464.1	11.8%
Accounts receivable – advances for finance lease projects	6,139.1	6,499.0	(5.5%)
Total	<u>105,019.7</u>	<u>94,963.1</u>	<u>10.6%</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,		
	2017	2016	Change
Operating lease assets			
Investment properties	984.7	356.6	176.1%
Property and equipment – equipment held for operating lease	48,691.9	46,857.8	3.9%
Total	<u>49,676.6</u>	<u>47,214.4</u>	<u>5.2%</u>

Finance lease assets of the Company represented a year-on-year increase of 10.6%, higher than the growth rate of 5.2% of operating lease assets. In 2017, while maintaining steady growth of lease assets, the Company further laid a solid foundation of leased property and pledge management, optimized lease asset management system and valuation system, and strengthened the structural adjustment to asset quality. The Company optimized asset distribution structure, improved asset profitability quality, advanced its transformation from pursuing the scale to pursuing the quality and efficiency of the Company. By conducting systematic analysis on multi-dimensions such as the industry, regions, customers and business segments, the Company laid a foundation for continually healthy development.

2.2.3 Total Liabilities

As at December 31, 2017, total liabilities of the Group amounted to RMB163,590.3 million, representing an increase of RMB19,379.8 million, or 13.4% as compared with that as at the end of last year, due primarily to the increases in borrowings and notes payable.

2.2.3.1 Borrowings

As at December 31, 2017, borrowings of the Group amounted to RMB116,245.1 million, representing an increase of RMB10,046.9 million, or 9.5% as compared with that as at the end of last year, due primarily to the increase in financing for development of business scale.

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, 2017, the balance of the due to banks and other financial institutions of the Group amounted to zero, representing a decrease of RMB4,000.0 million as compared with that as at the end of last year, due primarily to repayment of outstanding due to banks and other financial institutions matured at the end of the year with no additional due to banks and other financial institutions.

2.2.3.3 Notes Payable

As at December 31, 2017, notes payable of the Group amounted to RMB32,326.7 million, representing an increase of RMB14,532.8 million, or 81.7% as compared with that as at the end of last year, due primarily to the increase in scale of issuance of onshore and offshore bonds arising from optimization of financing structure by the Group in 2017.

2.2.3.4 Other Liabilities

As at December 31, 2017, other liabilities of the Group amounted to RMB11,785.3 million, representing a decrease of RMB429.7 million, or 3.5% as compared with that as at the end of last year, due primarily to the decrease in related liabilities resulting from conclusion of certain leasing transactions.

2.3 Analysis on Consolidated Statement of Cash Flows

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

<i>(RMB in millions, except percentages)</i>	For the year ended		Change
	December 31,	2016	
	2017		
Net cash flows from operating activities	103.6	4,085.3	(97.5%)
Net cash flows from investing activities	(8,732.7)	(8,908.5)	(2.0%)
Net cash flows from financing activities	14,089.1	7,796.7	80.7%
Net increase in cash and cash equivalents	<u>5,460.0</u>	<u>2,973.5</u>	<u>83.6%</u>

In 2017, net cash inflow from operating activities of the Group amounted to RMB103.6 million, representing a decrease of 97.5% as compared with that of last year, due primarily to the increase in lease financing to lessees of finance lease business of RMB2,152 million throughout the year as compared with previous year, representing an increase of 24.9% as compared with previous year. However, as the Group increased the proportion of bond issuance (reflected in financing activities), there was no increase in the proportion of borrowing along with the increase of lease financing to lessees in lease business. For the same period, net cash outflow from investing activities of the Group amounted to RMB8,732.7 million, representing a decrease of 2.0% 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 2017, net cash inflow from financing activities of the Group amounted to RMB14,089.1 million, representing an increase of RMB6,292.4 million as compared with that of last year, due primarily to the increase in scale of issuance of domestic and foreign bonds by the Group.

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. The Group achieved stable growth in business scale and revenue by accurately capturing the economic situation and effectively and consistently implementing development strategies. In 2017, the Group further facilitated development of Aircraft Leasing and Infrastructure Leasing business with mature business operation models, high asset quality and strong growth potential. The Group carried out ship and commercial vehicle lease business, and advanced healthy development of construction machinery leasing business 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 2017, the total lease financing to lessees throughout the year amounted to RMB52.695 billion, among which the lease financings to lessees in Aircraft Leasing, Infrastructure Leasing, Ship, Commercial Vehicle and Construction Machinery Leasing and Other Leasing Business were RMB12.582 billion, RMB25.247 billion, RMB14.476 billion and RMB390 million, 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,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Aircraft Leasing	71,110.6	38.1%	62,606.3	37.7%
Infrastructure Leasing	77,423.2	41.5%	68,676.6	41.4%
Ship, Commercial Vehicle and Construction Machinery Leasing	26,588.3	14.3%	20,246.1	12.2%
Other Leasing Business	11,334.7	6.1%	14,392.1	8.7%
Total	<u>186,456.8</u>	<u>100.0%</u>	<u>165,921.1</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> Segment revenue and other income	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Aircraft Leasing	6,373.1	51.8%	5,896.5	51.5%
Infrastructure Leasing	4,163.8	33.8%	3,535.2	30.9%
Ship, Commercial Vehicle and Construction Machinery Leasing	1,052.7	8.5%	1,116.3	9.8%
Other Leasing Business	725.2	5.9%	892.8	7.8%
Total	<u>12,314.8</u>	<u>100.0%</u>	<u>11,440.8</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> Segment profit/(loss) before income tax	For the year ended December 31,	
	2017	2016
	Amount	Amount
Aircraft Leasing	1,602.1	1,359.1
Infrastructure Leasing	971.0	1,503.8
Ship, Commercial Vehicle and Construction Machinery Leasing	333.4	(207.5)
Other Leasing Business	(98.6)	(587.7)
Total	<u>2,807.9</u>	<u>2,067.7</u>

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

	For the year ended December 31,	
	2017	2016
Segment profit margin before income tax⁽¹⁾		
Aircraft Leasing	26.79%	24.92%
Infrastructure Leasing	24.56%	43.74%
Ship, Commercial Vehicle and Construction		
Machinery Leasing	28.67%	(19.02%)
Other Leasing Business	(14.00%)	(70.48%)

⁽¹⁾ Segment profit margin before income tax is calculated by dividing the segment profit before income tax by the segment leasing revenue. The leasing revenue 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,	
	2017	2016
Segment return on assets before income tax⁽¹⁾		
Aircraft Leasing	2.40%	2.30%
Infrastructure Leasing	1.33%	2.33%
Ship, Commercial Vehicle and Construction		
Machinery Leasing	1.42%	(1.03%)
Other Leasing Business	(0.77%)	(3.58%)

⁽¹⁾ Segment return on assets before income tax is 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

Aircraft Leasing is one of the two core business segments of the Group. 2017 represented a transformational year as a new leadership team was finalized and a highly experienced, professional team across all functions required to operate a full-service international aircraft lessor was established. The global footprint was significantly expanded, with the team now based in three geographic regions to ensure proximity to the customer base. Headcount of Aircraft Leasing segment reached 79 as at the end of 2017.

The Group was active in 2017, delivering 38 new aircraft, selling 19 and re-leasing and extending a further 13 aircraft. Customers have been identified for all aircraft with delivery or lease end dates in 2018. In addition, new orders for 105 aircraft from the manufacturers were finalized. The Group raised all necessary financing for the year, including establishment of a US\$3 billion medium term note programme, under which US\$0.8 billion of bonds were issued.

The Aircraft Leasing platform is supported by five pillars: people and team; governance and structure; risk management; systems and infrastructure; and policies and procedures. Risk management is a key focus, with all transactions assessed on expected loss, calculated by a combination of probability of default and loss given default. Significant investment has also been made in IT systems to enhance efficiency and automation and to allow for the business to scale rapidly to a growing fleet.

As of December 31, 2017, the Group owned and managed a well-diversified portfolio of 215 aircraft on lease to 52 lessees in 27 jurisdictions. As of December 31, 2017, total assets of the Aircraft Leasing segment of the Group amounted to RMB71,110.6 million, representing an increase of 13.6% as compared with that as of December 31, 2016, and the total revenue and other income of the Aircraft Leasing segment amounted to RMB6,373.1 million, representing an increase of 8.1% as compared with that at the same period last year. The assets of the Aircraft Leasing segment accounted for 38.1% of the overall Group, basically in line with December 31, 2016. The revenue and other income of the Aircraft Leasing segment accounted for 51.8% of the overall Group, again basically in line with the same period of last year.

In 2017, the Group delivered 38 new aircraft, all of which were leased to airlines under operating leases. As of December 31, 2017, the Group had a portfolio of 403 aircraft, consisting of 210 owned aircraft, five managed aircraft and 188 committed aircraft, with committed aircraft comprised of 184 direct orders with manufacturers and four sale-and-leaseback transactions. As of December 31, 2017, 184 owned aircraft of the Group were held for operating leases and 26 owned aircraft of the Group were

under finance leases. The Group also had three flight simulators under finance lease. As of December 31, 2017, the weighted average age by net book value of the Group's owned aircraft on operating lease was 4.3 years, the weighted average remaining lease term by net book value of the Group's owned aircraft held for operating lease was 6.2 years, and the weighted average remaining lease term by net book value of all of the Group's owned aircraft (including those under finance lease) was 6.3 years.

The Group's owned and in-service fleet mainly includes narrow-body types such as Airbus A320 family and Boeing 737 NG family aircraft, and wide-body aircraft types such as the Airbus 330 and the Boeing 777-300ER. Weighted by net book value the aircraft portfolio consists 67% narrow-body aircraft, 26% wide-body aircraft and 7% regional, cargo and other aircraft. The Group's orderbook contains next-generation, liquid, narrow-body types including the Airbus A320neo and Boeing 737 Max families, as well as the latest widebody technology aircraft the Boeing 787 Dreamliner.

The following table shows the composition of the Group's fleet and committed aircraft as of December 31, 2017:

	Owned aircraft	Managed aircraft	Committed aircraft	Total
Airbus				
A319-100	7			7
A320-200	54			54
A321-200	15		1	16
A330-200	8			8
A330-300	17			17
A320neo	12		62	74
A321neo			32	32
Airbus Total	113	0	95	208

	Owned aircraft	Managed aircraft	Committed aircraft	Total
Boeing				
737-700	3			3
737-800	56	3	7	66
747-400SF	3			3
777-300ER	3	2		5
737 Max 8			68	68
737 Max 10			10	10
787-9			8	8
Boeing Total	65	5	93	163
Embraer				
E190-100LR	20			20
Embraer Total	20	0	0	20
Other	12	0	0	12
Total	210	5	188	403

In the above table, all other aircraft, all 747-400SF, seven A320-200, three 737-800 and one A330-200 aircraft were held under finance lease.

As of December 31, 2017, the number of committed aircraft scheduled for delivery was 16 (including 4 sale-and-leaseback aircraft) in 2018, 25 in 2019, 32 in 2020, 29 in 2021, 32 in 2022 and 54 after 2022.

As of December 31, 2017, of the 184 aircraft ordered directly from manufacturers, 15 were committed for lease. All 12 new aircraft ordered directly from manufacturers scheduled for delivery in 2018 have been committed for lease.

In September 2017, the Group entered into committed orders with Boeing to purchase 60 aircraft with an aggregate list price of approximately US\$7,400 million and with Airbus to purchase 45 aircraft with an aggregate list price of approximately US\$5,200 million, respectively. In addition, the Group has 65 potential orders of aircraft on non-binding letters of intent, comprised of 20 ARJ21 and 15 C919 aircraft from The Commercial Aircraft Corporation of China, Ltd., and 30 MA700 aircraft from AVIC Aircraft Co., Ltd.

The following table shows the breakdown of the number of leases and percentage of net book value balance as of December 31, 2017 of those owned aircraft under operating lease with leases expiring in the future, excluding any aircraft for which the Group has a sale or lease commitment.

	2018	2019	2020	2021	2022	2023 & beyond
Number of aircraft with leases expiring	2	33	23	11	15	92
% of aircraft NBV with leases expiring	1.1%	13.1%	11.6%	4.7%	9.4%	55.6%

During 2017, the Group completed lease extensions for 10 aircraft and lease transitions for 3 aircraft. As of December 31, 2017, all owned and managed aircraft were subject to lease.

The Group also continued trading aircraft in 2017, selling 11 owned aircraft with a gain on disposal of US\$27.80 million and selling 8 managed aircraft. In 2017, the leases for 6 aircraft under finance lease expired and the Group's owned aircraft under operating lease maintained a 98.9% fleet utilization.

In 2017, the annualized pre-tax return on Aircraft Leasing assets was 2.4%, representing an increase of 0.1 percentage point from 2.3% in full year 2016.

The following table sets forth a breakdown of the Group's revenue and assets of Aircraft Leasing by region of lessee for 2017:

Region	Percentage of lease revenue for 2017	Percentage of net book value as of December 31, 2017
The PRC	55.0%	56.6%
Asia Pacific (excluding the PRC)	18.0%	16.5%
Europe	16.7%	17.2%
Middle East and Africa	4.2%	3.1%
Americas	6.1%	6.7%
Total²	100.0%	100.0%

² Figures may not add up to 100% due to rounding.

The following table provides a breakdown of the Group's owned aircraft by manufacturer:

Percentage by net book value as of December 31, 2017	
Manufacturer	
Airbus	61.7 %
Boeing	32.0 %
Others	6.4 %
Total³	100 %

3.2 Infrastructure Leasing

2017 was a crucial year for the implementation of the “Thirteenth Five-Year” Plan when China consistently promoted the supply-side structural reform in infrastructure sector and innovated the investment and financing system, and directed more funds to weaker sectors, including transportation, municipal facilities and energy, etc., indicating the huge potential for infrastructure market. The “13th Five-Year Plan for the National Municipal Infrastructure Construction” (《全國城市市政基礎設施建設「十三五」規劃》) was jointly published by Ministry of Housing and Urban-Rural Development and National Development and Reform Commission in May 2017, through which the development goals, planned tasks and major projects for the “13th Five-Year” period were put forward, promoting the well-ordered development of municipal infrastructure construction across the country. This is the first national-level five-year plan for municipal infrastructure which mainly targeted to solve the current problems including underinvestment in municipal infrastructure, low-quality facilities, imbalanced development among eastern, central and western China and incompetency and insufficiency in terms of industrial service. The plan highlights a promising future for the infrastructure sector under key support of the state. In light of the features of huge market potential and assets with premium quality and favourable profitability in Infrastructure Leasing, the Group still 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.

³ Figures may not add up to 100% due to rounding.

In 2017, the Group continued to increase its investments in Infrastructure Leasing segment. Lease financing to lessees for such business segment represented 47.9% of the total lease financing to lessees of the Group. 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 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 through improvement of on-site service capability by virtue of establishment of project teams 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, 2017, the total assets of the Infrastructure Leasing segment of the Group amounted to RMB77,423.2 million, representing an increase of RMB8,746.6 million, or 12.7%, as compared with that as at the end of last year. In 2017, such business segment realized revenue and other income of RMB4,163.8 million, representing an increase of RMB628.6 million, or 17.8%, 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. Currently, Infrastructure Leasing of the Group is carried out primarily through sale-and-leaseback transactions, which effectively helps enterprises activate the existing infrastructure assets. The Group maintained the sound asset quality of this business sector through entering into long-term contracts with lessees to secure stable future cash flows as well as leveraging our strong risk management capability.

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, 2017, clients of Infrastructure Leasing reached throughout 25 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) and Energy Infrastructure Leasing (energy and electric power equipment) as classified by the type of leased assets.

3.2.1 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.

As of December 31, 2017, the existing leasing projects of the Group include toll roads in 11 provinces and rail transit equipment in 7 provinces in the PRC.

3.2.2 Urban Infrastructure Leasing

Urban Infrastructure Leasing business primarily comprises the leasing of municipal facilities. The lessees of municipal facilities paid their rent by revenues from the operation service 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.

Business models such as the original government procurement service encountered difficulties in proceeding due to the impact on the urban infrastructure leasing business exerted by the macro policies during the year. As a result, the Group promptly adjusted its business model according to changes of the market and policies, resulting in fruitful achievements. Meanwhile, the Group proactively explored business innovation and carried out sub-leasing business with other finance leasing companies so as to expand sources of business and income. In addition, part of the original existing urban infrastructure leasing customers repaid the loans in advance to be in compliance with the latest compliance requirements as a result of the tightening of financing policies imposed by local governments.

As of December 31, 2017, the Group provided leasing services for municipal roads, water, gas, heating, pipelines and other municipal facilities in 16 provinces, autonomous regions and direct controlled municipalities in the PRC.

3.2.3 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 of energy structure optimization.

In 2017, 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 entered into 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 2017, the clean energy projects exploited by the Group mainly involved power equipment leasing of nuclear power, wind power and solar power, etc., such as the ongoing cooperation with CGN Group during the year.

As of December 31, 2017, the Group mainly provided energy and electric power equipment leasing services to a number of enterprises in 17 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 assets related to leasing business of each sub-segment in Infrastructure Leasing of the Group as of the dates indicated:

<i>(RMB in millions, except percentages)</i>	Net carrying amount of subsegment's assets related to leasing business as of December 31, 2017	Percentage of net carrying amount of subsegment's assets related to leasing business as of December 31, 2017
Transportation Infrastructure Leasing	30,569.7	39.5%
Urban Infrastructure Leasing	36,937.1	47.7%
Energy Infrastructure Leasing	9,916.4	12.8%
Total	77,423.2	100.0%

In 2018, on the premise of risk prevention and control, the Group will proactively probe into innovative business model, 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 stable cash flow for projects 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.

Regarding the operational strategies and business model, on the one hand, the Group will evaluate the risks of government-based projects under the market-oriented principle in a strict manner and shall not support borrowings in disguised form by local governments. On the other hand, the Group will actively seek for business opportunities and provide focused support to leasing projects with stable operating cash flows as the source of repayment or with legal pledges and collaterals.

3.3 Ship, Commercial Vehicle and Construction Machinery Leasing

In 2017, the Group focused on optimizing its business layout, selected quality leased assets and quality clients with a prudent approach for ship and commercial vehicle lease business and advanced healthy development of construction machinery leasing business. As of December 31, 2017, total assets of the Ship, Commercial Vehicle and Construction Machinery Leasing segment amounted to RMB26,588.3 million, representing an increase of RMB6,342.2 million, or 31.3%, as compared with that as at the end of last year. In 2017, total revenue and other income of the Ship, Commercial Vehicle and Construction Machinery Leasing segment amounted to RMB1,052.7 million, representing a decrease of RMB63.6 million, or 5.7%, as compared with that of last year, due primarily to the influence of a lower exchange rate between US dollars and RMB on the ship business.

Ship Leasing

Benefited from the global economic recovery and the solid implementation of structural reform in supply side of China, the international shipping market showed a turnaround in 2017, and both the shipping costs and market transactions prices increased. The Baltic Dry Index (BDI) rose steadily from 953 points at the beginning of the year to 1,366 points at the end of the year, representing an increase of 43%. The Clarkson 5-year-old Second-hand Vessel Price Index rose steadily from 18.19 points at the beginning of the year to 20.68 points at the end of the year, representing an increase of 14%.

Although there is certain improvement in the shipping market, the excess capacity in the shipping market has not been fundamentally improved. In 2017, the Group continued to conduct Ship Leasing business with a prudent approach and seized the low level in the market to innovate the operating lease of ships and invest in ship assets. It also tailor made numerous ships with advanced technology in key ship plants in mainland China, and entered into long-term leasing contracts with top-tier operating companies in the country and overseas, so as to safeguard operating income and continuously optimize the asset structure of vessel fleet. The Group deployed vessel fleet based on the market condition and has established a diversified composition of vessel fleet. As of December 31, 2017, the Group owned and leased 41 vessels of different types, consisting of 14 bulk carriers, 13 container ships, five oil tankers, three chemical tankers, two LNG carriers, two LPG carriers and two dredgers.

In 2018, 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. However, due to the fact that new ship orders have remained at historically low levels in recent years, with the recovery of the global economy, the contradiction in oversupply of shipping capacity is expected to improve gradually and the market atmosphere for the operation of ship leasing business will also gradually improve. The Group will constantly keep an eye on the market changes, steadily push forward the development of shipping business, and continue to advance the innovation of operating mode in shipping business in order to improve the profitability of assets in shipping business.

Commercial Vehicle Leasing

Along with the steady growth of China's economy, the demand for commercial vehicles increased rapidly. According to the statistics of China Association of Automobile Manufactures, the sales volume of commercial vehicle in China in 2017 was 4.16 million, representing a year-on-year increase of 14%. The national policies have been promulgated consecutively in recent years to encourage the development of new energy vehicles, and put emphasis on accelerating the replacement of electrical power for operating vehicles in the field of urban public transportation. The replacement of electrical power for logistic vehicles within urban area and region was enhanced in an orderly manner, leading to strong development trend of new energy vehicles. As an important financing channel for transportation companies, there is a broad market for leasing. By combining the market demand and the policy orientation, the Group vigorously developed the new-energy bus business in 2017 and carried out in-depth cooperation with various large bus companies in China. The Group increased the overall credit model with new energy vehicle manufacturers to constantly expand the cooperation scope and influence on new energy. Meanwhile, 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 has successfully promoted asset portfolio cooperation model to better satisfy the demands of manufacturers for different products and further enhanced the cooperative relationship with major manufacturers.

All Commercial Vehicle Leasing business of the Group is under finance leases, which is an ancillary financing service provided to 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 2018, 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 steady growth of macro-economy, the recovery in construction machinery market was significant. Sales continued to grow at a high speed, and hence the demand for end-consumer financing continued to increase. As one of the professional segments, the construction machinery leasing business gained 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 2017, put emphasis on strengthening and enhancing cooperation with key manufacturers, formed a variety of business cooperation models, improved financial comprehensive service level, and improved comprehensive financial service awareness, so as to greatly support the development of natural persons and small and medium enterprises.

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, including two models of sale-and-leaseback transactions and direct leasing transactions after procuring from manufacturers. Meanwhile, such business is also carried out through asset portfolio sale-and-leaseback model with leasing platforms under key manufacturers.

In 2017, the Group seized the good momentum of recovery in the construction machinery market, strengthened the strategic cooperation with leading enterprises in the industry to vigorously promote business development and business scale on the basis of effective control of risks. Business investment represented an increase of 80.61% as compared with that in the same period of last year. In 2018, the Group will deepen the cooperation with key manufacturers on the basis of continuous improvement of risk management and control, innovate business models and enrich leasing products to form a comparative advantage in competitions. Meanwhile, on the basis of continuously optimizing business management process, the Group will focus on the national strategy, extend its business cooperation to the entire industrial chain and explore overseas business cooperation, so as to enhance the capabilities in financial services.

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

	Net carrying amount of subsegment's assets related to leasing business as of December 31, 2017	Percentage of net carrying amount of subsegment's assets related to leasing business as of December 31, 2017
<i>(RMB in millions, except percentages)</i>		
Ship Leasing	14,070.2	52.9%
Commercial Vehicle Leasing	2,942.7	11.1%
Construction Machinery Leasing	9,575.4	36.0%
Total	26,588.3	100.0%

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. In 2017, the Group continued to control 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, and explored business in wind power, nuclear power, photovoltaic and other industries. 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, 2017, total assets of Other Leasing Business segment amounted to RMB11,334.7 million, representing a decrease of RMB3,057.4 million, or 21.2%, as compared with that as at the end of last year, indicating an overall shrinking trend. In terms of the percentage by net carrying amount of leased assets, finance leases and operating leases accounted for 90.3% and 9.7%, respectively.

4. Financing

Due to its high credit ratings (“A1” 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, 2017, the Group had established business relationships with 106 banks and was granted uncommitted credit facilities amounting to a total of approximately RMB520.3 billion including unused uncommitted credit facilities of approximately RMB393.6 billion. Meanwhile, the Group continued to explore financing options including onshore and offshore debt financing, domestic insurance fund financing, non inter-bank financing to get financed by more diversified financial instruments. Regarding the onshore debt financing, the Group obtained the approval for the issuance of RMB10 billion financial bonds from the Shenzhen CBRC and the PBOC in February and September 2016, respectively, and successfully issued RMB-denominated financial bonds of four tranches with an aggregate amount of RMB7.0 billion on May 5, August 24, and October 24, 2017, achieving a full issuance under the limit of approval. At the same time, the Group obtained access to the issuance of “Bond Connect” financial bonds, with RMB5.0 billion of “Bond Connect” financial bonds issued and RMB1.1 billion of overseas investors’ fund raised, which further expanded scope of offshore investors for onshore bonds. Regarding offshore debt financing, the Group launched two offshore MTN programme for US dollar-denominated notes with an individual amount of US\$3.0 billion on July 18, and October 10, 2017, respectively, which provided medium-to long-term channels of US dollar-denominated debt financing for the offshore non-aircraft leasing business and aircraft leasing business of the Group, respectively. The Group successfully issued senior bonds denominated in US dollar of US\$400 million and US\$600 million through book-building with terms of three years and five years, respectively on July 25, 2017, and completed the determination and issuance of senior bonds denominated in US dollar of US\$400 million and US\$400 million through book-building with terms of 5.5 years and 10 years, respectively, on October 17, 2017. Regarding insurance fund financing, a total of RMB36.0 billion of credit lines was granted to the Group by insurance assets management companies in 2017 and RMB10.4 billion of insurance fund was utilised.

In 2017, 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 increase of financing costs of the Group was under effective control. In 2017, the average cost of interest-bearing liabilities of the Group was 4.09%, which increased by 34 basis points as compared with that of last year against the backdrop of the general upward trend in the market interest rates. In respect of interest structure, the Group actively extended the duration of liabilities denominated in US dollar to match with that of leased assets denominated in US dollar to ensure the stability of interest spread during the period of US dollar hike. In respect of exchange rates, the Group continued to implement its existing strategy on exchange rate risk management and maintained basically matching of assets and liabilities in terms of currency type.

In 2017, the major financing sources of the Group included bank borrowings, issuance of notes and due to banks and other financial institutions. As of December 31, 2017, the Group's borrowings, notes payable and due to banks and other financial institutions were RMB116,245.1 million, RMB32,326.7 million and zero, respectively.

5. Risk Management

The Group is exposed to various risks in its ordinary course of business, including credit risk, market risk, liquidity risk, operational risk, information technology risk and reputation risk. The Group has established and continually improved a comprehensive risk management system with a feature of “all round and comprehensive process with participation of all personnel”. This actively promotes and nurtures the philosophy and culture that “everyone shall be responsible for risk management and equity treated under risk-bearing”, in which it 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 ordinary 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.

The Group has established a comprehensive risk management system with “three layers of defence” consisting of the business departments, relevant risk management departments and internal audit department. All business departments, which act as the first layer of defence, are responsible for the direct management of the risks in the leasing business and operation segment in accordance with the business operation process and risk management system formulated by the Company, taking the first responsibility for the management of the comprehensive risks. The relevant risk management departments (including the Appraisal Department, Risk Management Department, Legal Affairs Department and Compliance Department), which act as the second layer of defence, are responsible for the establishment of the comprehensive risk management system and the organization, coordination and support of comprehensive risk management. The Internal Audit Department (Audit Department), which acts as the third layer of defence, is responsible for independent supervision and evaluation of the operation of the comprehensive risk management system. In particular, 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 credit risk, market risk, operational risk, country risk and information technology risk, The Board Office is responsible for the management of strategic risk, the Appraisal Department is responsible for the review and assessment of credit risk management, 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, and the Legal Affairs Department is responsible for the management of legal risk.

At present, the Group adopts a stable and prudent strategy in relation to risk preference. With regard to the selection of industries, the Group prefers industries and fields with mature business models, generating economies of scale and equipped with excellent asset quality. In terms of customer selection, the Group prefers large enterprises, leading enterprises in the industry or listed companies with high quality. In terms of leased assets operation, the Group will conduct scientific classification, value analysis and professional management of leased assets by combining business strategies, market environment and the features of leased properties. While realizing the steady growth of the business, the Group receives a return on its earnings that matches the risks, and controls its risks within an acceptable range.

With the transformation of the Group’s business from the traditional “debt financing” to “operating assets” and “value chain extension” and the trend of globalization, the Group identifies, evaluates, monitors, warns, controls, mitigates and reports on various risks based on the characteristics of the leasing industry. The Group continues to deepen its understanding of the risks of industry in which it operates, and actively promotes the construction of risk measurement system. Meanwhile, it also strengthens the proactive monitoring, warning and response management of risks. The Group reduces the overall business risks through the

asset portfolio management in different countries, regions and industries. The Group proactively adjusts the business strategies of the industry, strengthens the customer admission criteria, improves the risk pricing system and strives for the maximization of risk-return. By enhancing the Group's business quality and efficiency of resource allocation, the value of risk management can be achieved.

In 2017, the Group strengthened the establishment of comprehensive risk management system, and improved risk preference, limitation and warning management system. The Group further optimized comprehensive risk management, constantly optimized credit rating model and pricing plan, improved the measurement level of credit risk, enhanced the accuracy of risk management and control, gradually improved the precise level of after-lease management, carried out various special risk troubleshooting work to improve forward-looking of risk management and control, preliminary established risk management responsibility system, strengthened special training of risks, and enhanced the effectiveness of risk management and control.

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.

Credit risk is currently the major risk faced by the Group, primarily arising from finance lease business. The Group emphasizes the operating philosophy of keeping balance among “scale, efficiency and risks”, strictly complies with regulatory requirements and policy limits imposed in the industry, and conducts finance lease business in compliance with laws and regulations in a reasonable manner. We have made great efforts in maintaining the steady growth in the asset scale of core business segments with low risks, developed finance lease business of ship, commercial vehicle and construction machinery in a prudent manner, proactively controlled the scale of other finance lease businesses and gradually exited from industries with higher credit risk exposure. We attach great importance to the quantitative management technology of credit risks and the management application, establish a dual-dimensional rating system with credit rating and debt rating for all enterprise clients, and ensure the effectiveness of medium and long-term credit risk management of the Group by reinforcing risk pricing capability, so as to guarantee a reasonable level of credit risk and revenue for clients. We maintain appropriate diversification of the Group’s finance lease assets portfolio management in different countries, regions, industries, clients and products in order to control the concentration risks within a reasonable level. Regarding the elimination of non-performing and risk-bearing projects, we stabilize the assets quality and safeguard the bottom line against risks through various approaches such as stepping up the collection efforts, collecting according to the laws and bulk transfers. We maintain the high quality of our finance lease assets and a relatively low non-performing assets ratio comparing with that of the peers in the domestic finance leasing industry.

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

<i>(RMB in millions)</i>	As of December 31,	
	2017	2016
Financial assets		
Cash and bank balances	16,207.0	9,336.4
Placement to banks and other financial institutions	–	1,100.0
Financial assets at fair value through profit and loss	1,857.9	2,133.7
Derivative financial assets	27.7	9.7
Accounts receivable	6,610.0	6,841.8
Finance lease receivables	98,880.6	88,464.1
Available-for-sale financial assets	266.6	152.1
Other financial assets	705.8	262.3
Total	<u>124,555.6</u>	<u>108,300.1</u>

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,	
	2017	2016
Five-category		
Normal	182,711.1	163,394.7
Special mention	6,263.5	4,461.2
Substandard	372.0	1,096.4
Doubtful	1,044.7	493.0
Loss	65.3	65.3
Total assets before allowance for impairment losses	190,456.6	169,510.6
Non-performing assets ⁽¹⁾	1,482.0	1,654.7
Non-performing asset ratio ⁽²⁾	0.78%	0.98%

⁽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,	
	2017	2016
Five-category		
Normal	101,843.8	92,548.8
Special mention	4,807.8	3,436.3
Substandard	372.0	1,096.4
Doubtful	1,044.7	493.0
Loss	0.6	0.6
Finance lease related assets before allowance for impairment losses	108,068.9	97,575.1
Non-performing finance lease related assets ⁽¹⁾	1,417.3	1,589.9
Non-performing asset ratio of finance lease business ⁽²⁾	1.31%	1.63%

- (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, 2017, the non-performing assets of the Group was RMB1,482.0 million, representing a decrease of RMB172.7 million as compared with that as at the end of last year, while the non-performing asset ratio was 0.78%, representing a decrease of 0.20 percentage point as compared with that as at the end of last year. As of December 31, 2017, the non-performing finance lease related assets of the Group were RMB1,417.3 million, representing a decrease of RMB172.6 million as compared with that as at the end of last year, while the non-performing asset ratio of finance lease business was 1.31%, representing a decrease of 0.32 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 2017, as well as the disposal and mitigation of risky assets and non-performing assets. For new businesses, the Group followed the principle on the selection of sectors and customers in the industry strictly. 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, 2017:

<i>(RMB in millions, except percentages)</i>	Aircraft Leasing	Infrastructure Leasing	Ship, Commercial Vehicle and Construction Machinery Leasing	Other Leasing Business	Total
Five-category					
Normal	2,163.7	69,550.7	22,919.4	7,210.0	101,843.8
Special mention	380.2	1,946.1	–	2,481.5	4,807.8
Substandard	–	372.0	–	–	372.0
Doubtful	–	10.1	511.2	523.4	1,044.7
Loss	–	–	–	0.6	0.6
Finance lease related assets before allowance for impairment losses	<u>2,543.9</u>	<u>71,878.9</u>	<u>23,430.6</u>	<u>10,215.5</u>	<u>108,068.9</u>
Non-performing finance lease related assets	–	382.1	511.2	524.0	1,417.3
Non-performing asset ratio of finance lease business	<u>–</u>	<u>0.53%</u>	<u>2.18%</u>	<u>5.13%</u>	<u>1.31%</u>

Through joint efforts contributed to the aircraft leasing business for mainstream models between the Group and high-quality aviation companies, the Aircraft Leasing segment maintained good asset quality. As of December 31, 2017, the non-performing asset ratio of the finance lease business for the segment was zero. The Group cooperated with large state-owned enterprises and enterprises under local governments to conduct infrastructure leasing business, while the credit risk of such segment increased in 2017, resulting a corresponding increase of non-performing asset ratio of the finance lease business for such segment. By enhancing risk prevention and control as well as disposal of non-performing assets, the non-performing asset ratios of finance lease business under Ship, Commercial Vehicle and Construction Machinery Leasing segment and Other Leasing Business segment decreased significantly as compared with that of last year.

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,	
	2017	2016
Neither overdue nor impaired	100,267.4	88,184.9
Overdue but not impaired	–	1,085.4
Impaired	1,417.3	1,589.9
	101,684.7	90,860.2
Less: Allowances for impairment losses	(2,804.1)	(2,396.1)
Total	98,880.6	88,464.1

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, 2017, the balance of finance lease transactions for the largest single client accounted for 17.66% of the net capital while the balance of finance lease transactions for the largest single group client accounted for 18.53% 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,	
	2017	2016
Degree of concentration of single client financing ⁽¹⁾	17.66%	12.48%
Degree of concentration of single group client financing ⁽²⁾	18.53%	23.46%

⁽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, 2017, in terms of finance lease related assets before allowance for impairment losses, the total financing raised by the top ten single clients amounted to RMB22,902.4 million, accounting for 21.2% of finance lease related assets.

The following table sets forth the financing amount raised by the top ten clients of the Group as of December 31, 2017:

<i>(RMB in millions, except percentages)</i>		Financing amount	Percentage of finance lease related assets before allowance for impairment losses
	Business segment		
Client A	Infrastructure	3,214.9	3.0%
Client B	Infrastructure	2,959.8	2.7%
Client C	Infrastructure	2,609.5	2.4%
Client D	Transportation and Construction Machinery	2,357.7	2.2%
Client E	Infrastructure	2,337.4	2.2%
Client F	Infrastructure	2,200.0	2.0%
Client G	Infrastructure	1,937.8	1.8%
Client H	Infrastructure	1,812.9	1.7%
Client I	Infrastructure	1,761.2	1.6%
Client J	Infrastructure	1,711.2	1.6%
Total		22,902.4	21.2%

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,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Aircraft Leasing	2,543.9	2.5%	3,824.1	4.2%
Infrastructure Leasing	66,236.0	65.1%	56,835.2	62.6%
Transportation				
Infrastructure	27,047.3	26.6%	21,293.8	23.4%
Urban Infrastructure	33,518.1	33.0%	31,576.2	34.8%
Energy Infrastructure	5,670.6	5.5%	3,965.2	4.4%
Ship, Commercial Vehicle and Construction				
Machinery Leasing	23,430.4	23.1%	18,269.5	20.1%
Ship	11,346.3	11.2%	9,645.0	10.6%
Commercial Vehicle	2,931.8	2.9%	1,611.6	1.8%
Construction Machinery	9,152.3	9.0%	7,012.9	7.7%
Other Leasing Business	9,474.4	9.3%	11,931.4	13.1%
Commercial Property	3,239.8	3.2%	3,725.2	4.1%
Other Sectors	6,234.6	6.1%	8,206.2	9.0%
Total	101,684.7	100.0%	90,860.2	100.0%

5.2 Market Risk

5.2.1 Interest Rate Risk

Interest rate risk refers to 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 repricing of the leasing assets and its corresponding liabilities.

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 reduced its liability exposure of floating interest rate denominated in US dollar mainly through issuance of bonds carrying fixed rates and 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 stabilize the margin while mitigating the effect of fluctuation in interest rates of US dollars 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 subsidiaries, which are denominated in foreign currencies and the change of part of proceeds raised in listing into US dollars for use.

The strategy for exchange rate risk management is to proactively match the currencies of assets and liabilities in daily operations, to identify and measure the impact of exchange rate changes on operations through foreign currency exposure analysis, exchange rate sensitivity analysis and other instruments, and to hedge exchange rate exposure through currency derivatives instruments. Most of leased assets of the Group 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 mostly denominated in Renminbi. Hence, there is no significant exchange rate risk exposure.

As of December 31, 2017, the Group's net exposure for US dollar-denominated assets that affect profit or loss amounted to US\$856.3 million. In 2017, the Group recorded exchange loss of RMB234.3 million due to the depreciation 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 target of the Group's liquidity risk management 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 margins level.

The Group established a three-level liquidity reserve system to mitigate 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 monetary market are primary sources for the Group's cash reserve. As of December 31, 2017, the Group had an interbank 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 2017, the liquidity of the Group remained strong with no material liquidity risk incident.

5.4 *Other Risks*

5.4.1 *Operational Risk*

Operational risk refers to the risk of losses resulting from imperfect or problematic internal process, personnel and system or external events.

In 2017, the overall management of operational risks of the Group was improved. Firstly, the Group formulated the Administrative Measures for Business Continuity (Provisional) (《業務連續性管理辦法(試行)》), the Administrative Measures of Outsourcing Risks (《外包風險管理辦法》), the Administrative Measures for Responsibility Identification of Operational Risk Events (Provisional) (《操作風險事件責任認定管理辦法(試行)》) and other regulations, and established a management mechanism for daily management of business continuity and emergency handling to ensure the continuity of crucial businesses. Secondly, the information system was launched and tested to provide technical support for further prevention of operational risks. Thirdly, the corresponding accountability mechanism for operational risk management was established to strengthen the staff's responsibility awareness, risk awareness and compliance awareness. The overall situation of the operational risk of the Group for the year was relatively stable with no major operational risk incidents.

5.4.2 Information Technology Risk

Information technology risks refer to the risks of operation, law and reputation arising from natural and human factors, technical loopholes and management flaws in the course of the application of information technology.

The CBRC attaches great importance to the risk management of information technology in the banking industry, requires financial leasing companies to establish effective mechanism to identify, measure, test and control information technology risks so as to promote safe, sustainable and stable operation, promote business innovation to enhance application of information technology, strengthen core competitiveness and sustainable development capability to constantly enhance the risk resistance capability.

In 2017, the Group upgraded its management level of information technology risk in a comprehensive way. Firstly, the Group put efforts in building business system including launching the leasing business management system of new generation to push forward the information system establishment so as to strengthen the risk control capability; secondly, the Group reinforced the data management through formulating data standards, putting the main data management platform into place and enhancing data quality; thirdly, the Group improved disaster prevention works, carried out emergency exercises for recovery of important application system in case of accidents and initiated the construction of data backup platform to improve efficiency of data backup.

5.4.3 Reputational Risk

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

In 2017, the Group enhanced its reputational risk management and focused on the reputational risk prevention and control as well as brand building. It issued the Administrative Measures for the Responsibility Identification of Reputational Risks Management (Trial) (《聲譽風險管理責任認定管理辦法(試行)》) to further strengthen reputational risk management. According to the Measures for the Management of Reputational Risks (《聲譽風險管理辦法》), through regular self-inspection and investigation of reputational risk and timely handling of reputational incidents of the Group, 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 mainstream media, 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 of sustainable operation so as to continuously 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 ratio, leverage ratio and the utilization of regulatory capital are closely monitored by the management of the Group.

In 2017, the Group continuously enhanced development of basic capability of asset management, optimized asset transmission and restriction mechanism, actively promoted capital intensification operating transformation. At the same time, by enhancing development of core competitiveness for improvement of asset profitability, by configuration of capital optimization for enhancement of efficiency of usage, and by increasing the ratio of provision for impairment loss of assets for replenishment second-tier capital, the Group significantly improved the capability of accumulating internal capital. Moreover, the Group sought for long-term development, improved asset management and planning capability, completed formulation of asset planning proposal, and developed mechanism for long-term asset replenishment to lay an asset foundation for sustainable and healthy development of the Group.

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, 2017, the Group's core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 13.19%, 13.19% and 14.10%, 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:

<i>(RMB in millions, except percentages)</i>		As of December 31,	
Regulatory requirement		2017	2016
Net capital:			
Net core tier-one capital		23,502.8	22,290.9
Net tier-one capital		23,502.8	22,290.9
Net capital		25,134.8	23,312.9
Capital adequacy ratio:			
Core tier-one capital adequacy ratio		13.19%	13.42%
Tier-one capital adequacy ratio		13.19%	13.42%
Capital adequacy ratio		14.10%	14.03%

⁽¹⁾ The indicating requirement to be fulfilled before the end of 2017.

7. Capital Expenditures

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 2017, the capital expenditures of the Group amounted to RMB14,019.4 million, which were mainly used for the purchase of aircraft. The Group financed the capital expenditures through cash from operating activities, bank borrowings, issuance of bonds 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,	
		2017	2016
Capital expenditures		14,019.4	9,182.1

8. Pledge of Assets

As of December 31, 2017, finance leases receivable (net), 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 amounted to RMB2,603.3 million, RMB22,002.8 million, RMB3,077.8 million and RMB426.0 million were pledged to banks for bank borrowings, respectively. Bank deposits (net) of RMB519.1 million were paid to the bank for bank borrowings, and nothing was pledged to banks for bank borrowings. The total collateral assets as aforesaid accounted for 15.3% 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, 2017, the Group had 288 employees in total, 209 of which were domestic employees, 79 were overseas employees; 174 were in the business facilitation segment which accounted for 60% of the total, 66 were in the business support segment which accounted for 23% of the total, and 48 were in the business assurance segment which accounted for 17% of the total. The Group has a team of high-quality talents with good academic qualifications. As of December 31, 2017, approximately 95% of the Group’s employees had bachelor’s degrees or above, while approximately 56% of employees had master’s degrees and above.

The Group attaches great importance to talents. In 2017, the Group continuously advanced the reform of human resources management marketization, formulated a series rules and regulations in terms of different sectors such as construction of institutional organization, position and title, performance and assessment, remuneration management and talent introduction to effectively lay a sound foundation for human resources management and provide business development with support and protection. Combining market practice and theoretical model, the Group constantly optimized the result-oriented remuneration incentive system of staff, established direct linkage mechanism of frontdesk business personnel and result indicators, and increased the frequency of performance assessment. The Group introduced 45 talents throughout the year, organized 50 sessions of internal and external personnel training, and conducted staff training for new employees.

In 2018, the Group will focus on construction of the remuneration incentives and staff training mechanism in respect of human resources. The Group will make reference to market practice, put emphasis on result-orientation, further optimize remuneration incentive reform plan, and develop position value assessment and employee training system to improve the overall human resources management level, and push forward the achievement of operating targets of the Group. The Group will also establish an independent human resources management system in order to strengthen normative, progressive and systematic management.

10. Industrial Regulation

In 2017, under the guidance of policies of further enhancement of regulation in financial industry, firmly defense of and solving financial risks and maintenance of systematic financial stability, the Group constantly improved and optimized its compliance and risk management work by regarding sound development as a main principal and deepening reform as support to adhere to the concept of legitimate operation, compliant operation, safe operation for creation of efficiency, adequately leveraging on the use of “three layers of defence”. On the one hand, the Group developed sound compliance risk management structure, realized effective identification and management of compliance risk, ensuring that various compliance risk indicators met the regulatory requirements. On the other hand, the Group enhanced building of compliance culture, established effective accountability mechanism on prevention and control of incidents and mechanism for troubleshooting of employees’ behavior, improved awareness of compliance of all employees, and promoted effective interaction between self-compliance and external regulations of the Group under the promotion of occupational ethics and values of honesty and integrity of the Group, leading to further enhancement of compliance risk prevention and control capability.

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, 2017
Capital adequacy ratio	Above 10.1%	14.10%
Tier-one capital adequacy ratio	Above 8.1%	13.19%
Core tier-one capital adequacy ratio	Above 7.1%	13.19%
Degree of concentration of single client financing	Not more than 30%	17.66%
Degree of concentration of single group client financing	Not more than 50%	18.53%
Ratio of a single related client ⁽¹⁾	Not more than 30%	1.02%
Ratio of all related parties ⁽²⁾	Not more than 50%	1.86%
Ratio of a single related shareholder ⁽³⁾	Not more than 100%	32.33%
Ratio of interbank lending ⁽⁴⁾	Not more than 100%	—
Allowance to non-performing finance lease related assets	Above 150%	215.15%
Allowance to total finance lease related assets ⁽⁵⁾	Above 2.5%	2.82%
Investment in fixed-income securities ⁽⁶⁾	Not more than 20%	8.51%

⁽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 total finance lease related assets before allowance for impairment losses.

⁽⁶⁾ Calculated by dividing the amount 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 2018, the global economic development are still facing many uncertainties, 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. Opportunities and challenges exist side by side for the leasing industry. On the one hand, the favorable policies will propel the industrial development. On the other hand, the uncertainties in the economic and financial environments, the general trend of “strengthened regulation and stringent oversight” on financial regulation and the increasing competition in the industry have also imposed higher requirements on leasing companies in terms of business development model, compliance operation, risk prevention and control and other aspects.

Countering with the domestic and overseas economic environments, regulatory policies and industrial conditions as aforesaid, the Group will continue to consolidate the development foundation, optimize the business layout, enhance the capability of risk management and control as well as compliance management, and improve the management efficiency. Meanwhile, the Group will take the further improvement of corporate operating mechanism as an opportunity to accelerate the refinement of the market-oriented operation mechanism and improve the corporate governance. Besides, adapting to the requirements of the new policies under the new situations, the Group will strengthen the 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, push forward the long-term and sustained development of the Group and create greater values 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. During the year ended December 31, 2017, 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 its 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 during the year ended December 31, 2017.

Final Dividend

The Board recommended to distribute a final dividend of RMB0.7585 (tax inclusive) per 10 ordinary Shares for the year ended December 31, 2017, with the total amount of profit distribution amounted to RMB958,924,523. 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, 2018 to the Shareholders.

Notice of the 2017 annual general meeting will announce the date of the 2017 annual general meeting of the Company and details of relevant book closure, as well as the arrangement of book closure for the final dividend.

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities.

Review of Annual Results

The consolidated financial statements for the year ended December 31, 2017 of the Group were audited by PricewaterhouseCoopers. The audit committee of the Board has also reviewed the audited annual results of the Company for the year ended December 31, 2017. The figures in respect of the Group's results for the year ended December 31, 2017 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, 2017.

Publication of Annual Report

The annual report of the Company for the year ended December 31, 2017 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.

ESTABLISHMENT OF STRATEGIC DECISION COMMITTEE OF THE BOARD

According to relevant requirements of the Company Law of the PRC (《中華人民共和國公司法》), the Guidelines on the Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) and other applicable laws and regulations as well as the Articles of Association, the Company convened the Board meeting on March 26, 2018, approving the establishment of Strategic Decision Committee, and appointed Mr. Wang Xuedong, Mr. Peng Zhong (whose qualification as a Director is subject to the approval by the Shenzhen CBRC), Mr. Li Yingbao, Mr. Zheng Xueding and Mr. Xu Jin to be the members of the first session of the committee, among which Mr. Wang Xuedong will be the chairman of committee, with effect from the date of consideration and approval by the Board.

APPOINTMENT OF MR. PENG ZHONG AS THE VICE CHAIRMAN OF THE BOARD

The Company convened the Board meeting on March 26, 2018, considering and approving Mr. Peng Zhong as the vice chairman of the Board with a term from the date on which his qualification is approved by the Shenzhen CBRC to the conclusion of the term of office of the Board.

For biographical details of Mr. Peng Zhong, please refer to the circular of the 2018 first extraordinary meeting dated January 31, 2018 published on the website of HKEx news (www.hkexnews.hk) of the Hong Kong Stock Exchange by the Company.

MATERIAL CHANGES IN FINANCIAL ACCOUNTING POLICIES

In July 2014, the International Accounting Standards Board issued the International Financial Reporting Standard 9 (“**IFRS 9**”) (《國際財務報告準則》第9號). In March 2017, the Ministry of Finance of the PRC issued the Accounting Standard for Business Enterprises No. 22 (《企業會計準則》第22號) (the “**New Standard**”). Overseas listed companies are required to duly implement the New Standard on January 1, 2018.

The requirements of IFRS 9 will be adopted from January 1, 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Group does not intend to restate comparatives. The adoption of IFRS 9 by the Group is expected to reduce the equity attributable to owners of the Company as at January 1, 2018 by approximately RMB0.96 billion, mainly due to the application of the ECL model in determining the allowance for impairment losses on its financial lease receivables. For details of material financial and accounting changes, please refer to the “Financial Statement and Material Notes” of this announcement.

FINANCIAL STATEMENTS AND MATERIAL NOTES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Finance lease income	5,784,289	5,363,827
Operating lease income	6,016,001	5,453,157
Total revenue	11,800,290	10,816,984
Net investment gains/(losses)	176,160	(52,359)
Other income, gains or losses	338,272	676,180
Total revenue and other income	12,314,722	11,440,805
Depreciation and amortisation	(2,701,887)	(2,476,525)
Staff costs	(351,644)	(229,034)
Fee and commission expenses	(61,986)	(55,900)
Interest expense	(4,984,470)	(4,400,071)
Other operating expenses	(493,965)	(385,771)
Impairment losses	(912,918)	(1,825,773)
Total expenses	(9,506,870)	(9,373,074)
Profit before income tax	2,807,852	2,067,731
Income tax expense	(676,889)	(506,392)
Profit for the year attributable to owners of the Company	2,130,963	1,561,339
Earnings per share attributable to owners of the Company (expressed in RMB Yuan per share)		
–Basic and diluted	0.17	0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	2,130,963	1,561,339
Other comprehensive income:		
<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, net of tax	(35,723)	(3,126)
The portion of effective cash flow hedging and net investment hedging gains and losses		
– Net fair value changes during the year, net of tax	94,374	291,674
Currency translation differences	(279,792)	172,588
Total other comprehensive income for the year, net of tax	(221,141)	461,136
Total comprehensive income for the year attributable to owners of the Company	1,909,822	2,022,475

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31, 2017 <i>RMB'000</i>	As at December 31, 2016 <i>RMB'000</i>
ASSETS		
Cash and bank balances	16,207,073	9,336,415
Placement to banks and other financial institutions	–	1,100,000
Financial assets at fair value through profit or loss	1,857,927	2,133,717
Derivative financial assets	27,728	9,697
Accounts receivable	6,610,039	6,841,777
Finance lease receivables	98,880,563	88,464,050
Prepayments	7,530,238	7,911,502
Available-for-sale financial assets	279,573	274,588
Assets held-for-sale	2,697,457	993,968
Investment properties	984,709	356,588
Property and equipment	49,532,281	47,344,054
Deferred tax assets	642,535	591,046
Other assets	1,849,149	1,154,747
Total assets	187,099,272	166,512,149
Liabilities		
Borrowings	116,245,105	106,198,168
Due to banks and other financial institutions	–	4,000,000
Financial assets sold under repurchase agreements	2,030,000	3,136,000
Derivative financial liabilities	69,125	199,310
Accrued staff costs	160,506	94,188
Tax payable	433,529	132,278
Notes payable	32,326,713	17,793,886
Deferred tax liabilities	540,123	441,656
Other liabilities	11,785,202	12,214,989
Total liabilities	163,590,303	144,210,475

	As at December 31, 2017 <i>RMB'000</i>	As at December 31, 2016 <i>RMB'000</i>
Equity		
Share capital	12,642,380	12,642,380
Capital reserve	2,418,689	2,418,689
Hedging and available-for-sale revaluation reserve	(9,305)	(67,956)
Translation reserve	(116,124)	163,668
General reserves	3,188,170	2,665,268
Retained profits	5,385,159	4,479,625
Total equity	<u>23,508,969</u>	<u>22,301,674</u>
Total liabilities and equity	<u><u>187,099,272</u></u>	<u><u>166,512,149</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company						
	Share capital	Capital reserve	Hedging and available-for-sale revaluation reserve	Translation reserve	General reserves	Retained profits	Total equity
	<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>
At January 1, 2016	<u>9,500,000</u>	<u>274,786</u>	<u>(356,504)</u>	<u>(8,920)</u>	<u>2,158,646</u>	<u>3,424,908</u>	<u>14,992,916</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 December 31, 2016	<u>12,642,380</u>	<u>2,418,689</u>	<u>(67,956)</u>	<u>163,668</u>	<u>2,665,268</u>	<u>4,479,625</u>	<u>22,301,674</u>
At January 1, 2017	<u>12,642,380</u>	<u>2,418,689</u>	<u>(67,956)</u>	<u>163,668</u>	<u>2,665,268</u>	<u>4,479,625</u>	<u>22,301,674</u>
Profit for the year	–	–	–	–	–	2,130,963	2,130,963
Other comprehensive income for the year	<u>–</u>	<u>–</u>	<u>58,651</u>	<u>(279,792)</u>	<u>–</u>	<u>–</u>	<u>(221,141)</u>
Total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>58,651</u>	<u>(279,792)</u>	<u>–</u>	<u>2,130,963</u>	<u>1,909,822</u>
Dividends paid	–	–	–	–	–	(702,527)	(702,527)
Appropriation to general reserves	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>522,902</u>	<u>(522,902)</u>	<u>–</u>
At December 31, 2017	<u>12,642,380</u>	<u>2,418,689</u>	<u>(9,305)</u>	<u>(116,124)</u>	<u>3,188,170</u>	<u>5,385,159</u>	<u>23,508,969</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES		
Profit before income tax	2,807,852	2,067,731
Adjustments for:		
Notes payable interest expenses	815,948	502,424
Depreciation and amortisation	2,701,887	2,476,525
Impairment losses	912,918	1,825,773
Gains on disposal of equipment held for operating lease businesses	(41,098)	(116,099)
Net realised losses from derivatives	(6,296)	—
Unrealised fair value changes from derivatives	(12,943)	15,708
Unrealised fair value changes in financial assets at fair value through profit or loss	(63,651)	(45,078)
Operating cash flows before movements in working capital	7,114,617	6,726,984
Decrease/(increase) in mandatory reserve deposits with central banks	28,043	(381,675)
Decrease in accounts receivable	202,449	6,668,572
Increase in finance lease receivables	(10,795,847)	(8,644,315)
(Increase)/decrease in other assets	(694,450)	377,774
Increase in borrowings	10,046,937	3,703,699
Decrease in due to banks and other financial institutions	(4,000,000)	(900,000)
Decrease in financial assets sold under repurchase agreements	(1,106,000)	(2,786,300)
Increase in accrued staff costs	66,318	60,681
Decrease in other liabilities	(429,787)	(357,258)
Cash from operations	432,280	4,468,162
Income taxes paid	(328,660)	(382,829)
NET CASH FROM OPERATING ACTIVITIES	103,620	4,085,333

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Disposal of financial assets at fair value through profit or loss	809,440	–
Disposal of available-for-sale financial assets	167,152	–
Disposal of property and equipment	4,201,975	2,199,575
Change in pledged and restricted bank deposits	(585,007)	332,580
Purchase of financial assets at fair value through profit or loss	(470,000)	(530,000)
Purchase of available-for-sale financial assets	(293,724)	(150,000)
Purchase of property and equipment	(12,562,498)	(10,760,695)
NET CASH USED IN INVESTING ACTIVITIES	(8,732,662)	(8,908,540)
FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	–	5,286,283
Proceeds from issue of notes payable	18,959,181	3,000,000
Repayment of notes payable	(3,301,700)	–
Notes issuance cost	(49,929)	(9,410)
Notes interest paid	(815,948)	(480,196)
Dividends paid	(702,527)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	14,089,077	7,796,677
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,460,035	2,973,470
Effects of exchange rate changes on cash and cash equivalents	(246,342)	–
Cash and cash equivalents at the beginning of the year	9,789,098	6,815,628
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	15,002,791	9,789,098
NET CASH FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	5,886,082	5,455,565
Interest paid, exclusive notes payable interest expenses	(3,901,512)	(4,247,697)
Net interest received	1,984,570	1,207,868

1 GENERAL INFORMATION

The Company was established as Shenzhen Leasing Co., Ltd. (深圳租賃有限公司) on December 25, 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 Corporation (“**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 September 8, 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 shares of the Company on September 28, 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 registered address of the Company's office was moved to CDB Financial Center, No. 2003 Fuzhong Third Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China (“**PRC**”), in 2017.

On July 11, 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 July 29, 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\$84.76 million.

The Company and its subsidiaries (together, “**the Group**”) principally engage 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, unless otherwise stated.

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.

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 January 1, 2017 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 January 1, 2017 and have not been applied in preparing these consolidated financial statements. The Group’s assessment of the impact of these new standards and interpretations is set out below.

2.1.1.2.1 IFRS 9 Financial instruments

Nature of change

IFRS 9 – Financial instruments was issued in July 2014, which introduces the classification and measurements, impairment and hedge accounting to replace the guidance in IAS 39 – Financial Instruments: Recognition and Measurement.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“**FVOCI**”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit losses (“**ECL**”) model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (“**12-month ECL**”). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (“**lifetime ECL**”). Financial assets where 12-month ECL is recognised are considered to be “stage 1”; financial assets which are considered to have experienced a significant increase in credit risk are in “stage 2”; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired are in “stage 3”.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Impact

In order to assess the potential impact on the Group's financial statements resulting from the adoption of IFRS 9, the Group developed the ECL model and analysed changes to the credit risk of financial assets. The Group has also performed analysis of business models and cash flow characteristics in the contract terms of its investments and other financial instruments, and completed the classification of its existing financial assets under IFRS 9. The adoption of IFRS 9 by the Group is expected to reduce the equity attributable to owners of the Company as at January 1, 2018 by approximately RMB0.96 billion, mainly due to the application of the ECL model in determining the allowance for impairment losses on its financial lease receivables. The estimated impact is based on interpretation of accounting policies, assumptions, judgements and modeling techniques that remain subject to further enhancement and calibrations in 2018.

For the hedge accounting, the Group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

Date of adoption by the Group

The requirements of IFRS 9 will be adopted from January 1, 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Group does not intend to restate comparatives.

2.1.1.2.2 IFRS 15 Revenue from contracts with customers

Nature of change

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

The Group has assessed the effects of applying the new standard on the Group's financial statements and does not expect the adoption of IFRS 15 would have significant impact on the consolidated financial statements of the Group.

Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2018.

2.1.1.2.3 IFRS 16 Lease

Nature of change

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed for the accounting of lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised on the lessees' balance sheets. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The Group does not expect the adoption of IFRS 16 would have significant impact on its consolidated financial statements because the Group is the lessor in its leasing business and the operating lease commitment of the Group is not material.

Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 TOTAL REVENUE

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Finance lease income ⁽¹⁾	5,784,289	5,363,827
Operating lease income	6,016,001	5,453,157
	11,800,290	10,816,984

⁽¹⁾ The Group recognised the finance lease income of approximately RMB39,315,000 and RMB29,264,000 from non-performing finance lease receivables in the years of 2017 and 2016, respectively.

4 NET INVESTMENT GAINS/(LOSSES)

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Realised gains/(losses) from derivatives	6,296	(87,219)
Realised gains from available-for-sale financial assets	93,270	5,490
Unrealised fair value change of derivatives	12,943	(15,708)
Unrealised fair value change of financial assets at fair value through profit or loss	63,651	45,078
	176,160	(52,359)

5 OTHER INCOME, GAINS OR LOSSES

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants and incentives ⁽¹⁾	310,433	198,347
Gains on disposal of equipment held for operating lease businesses, net	41,098	116,099
Interest income from deposits with financial institutions	104,383	91,738
Management and commission fee income	76,279	73,799
Compensation from an aircraft supplier	31,436	–
Consulting fee income	4,204	13,256
Foreign exchange (losses)/gains, net	(234,271)	167,666
Others	4,710	15,275
	338,272	676,180

- ⁽¹⁾ 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 RMB302,548,000 and RMB191,817,000 in total in the years of 2017 and 2016, respectively. Such grants have been recognised as income when received.

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 RMB800,000 and RMB3,493,000, from Shenzhen Government in the years of 2017 and 2016, respectively. Such grants have been recognised as income when received.

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.

6 INTEREST EXPENSE

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on liabilities that are wholly repayable within five years:		
Borrowings	3,891,484	3,334,664
Due to banks and other financial institutions	74,665	93,366
Financial assets sold under repurchase agreements	354,183	198,795
Notes payable	523,514	152,374
Deposits from lessees	678	274
Interest on liabilities that are not wholly repayable within five years:		
Borrowings	25,240	347,440
Notes payable	292,434	350,050
Deposits from lessees	1,974	4,626
Less: Interest capitalised on qualifying assets ^(a)	(179,702)	(81,518)
	<u>4,984,470</u>	<u>4,400,071</u>

(a) Interest capitalised on qualifying assets in 2017, including RMB42,011,000 (2016: nil) on construction in progress and RMB137,691,000 (2016: RMB81,518,000) on prepayment.

7 INCOME TAX EXPENSE

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Enterprise Income Tax	610,244	245,467
– Income tax in other countries	10,119	13,348
Deferred income tax	36,905	232,343
Under provision in prior period	19,621	15,234
	<u>676,889</u>	<u>506,392</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 December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	2,807,852	2,067,731
Tax at the statutory tax rate of 25%	701,963	516,933
Effect of different tax rates of group entities operating in jurisdictions other than PRC	(44,889)	(69,134)
Tax effect of expenses not deductible for tax purpose ⁽¹⁾	194	11,595
Reversal of deferred tax assets in prior year	–	2,845
Unrecognized deferred tax from current loss	–	28,919
Under provision in prior year	19,621	15,234
Income tax expense for the period	676,889	506,392

⁽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.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	Year ended December 31,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings:		
Profit attributable to owners of the Company (<i>RMB'000</i>)	2,130,963	1,561,339
Number of shares:		
Weighted average number of shares in issue (<i>RMB'000</i>)	12,642,380	10,986,499
Basic earnings per share (<i>RMB Yuan</i>)	0.17	0.14

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 December 31, 2017 and 2016, respectively.

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 2017 and 2016, respectively.

9 ACCOUNTS RECEIVABLE

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Operating lease receivables ⁽¹⁾	451,042	142,699
Advances for finance lease projects ⁽²⁾	6,384,326	6,714,876
Other accounts receivable ⁽³⁾	19,887	200,129
	6,855,255	7,057,704
Less: Allowances for impairment losses		
– Allowances for advances for finance lease projects	(245,216)	(215,878)
– Allowances for other accounts receivable	–	(49)
	<u>6,610,039</u>	<u>6,841,777</u>

Movements of allowances for impairment losses on accounts receivable during the year of 2017 and 2016 are as follows:

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
At the beginning of the year	215,927	323,686
Provision during the year	82,261	316,786
Transfer out during the year	–	(15,732)
Write-offs	(52,972)	(408,813)
At the end of the year	<u>245,216</u>	<u>215,927</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 December 31, 2017 and 2016.
- (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.

10 FINANCE LEASE RECEIVABLES

	December 31, 2017 <i>RMB'000</i>	December 31, 2016 <i>RMB'000</i>
Minimum finance lease receivables		
Not later than one year	24,055,231	21,306,534
Later than one year and not later than five years	65,313,630	58,610,867
Later than five years	<u>36,391,404</u>	<u>34,618,723</u>
Gross amount of finance lease receivables	125,760,265	114,536,124
Less: Unearned finance income	<u>(24,075,619)</u>	<u>(23,676,007)</u>
Net amount of finance lease receivables	101,684,646	90,860,117
Less: Allowances for impairment losses	<u>(2,804,083)</u>	<u>(2,396,067)</u>
Carrying amount of finance lease receivables	<u>98,880,563</u>	<u>88,464,050</u>
Present value of minimum finance lease receivables		
Not later than one year	18,790,393	16,137,256
Later than one year and not later than five years	52,180,292	45,236,438
Later than five years	<u>30,713,961</u>	<u>29,486,423</u>
Total	<u><u>101,684,646</u></u>	<u><u>90,860,117</u></u>

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

The finance leases receivable with carrying amount of approximately RMB2,603,287,000 and RMB3,741,990,000 were pledged as collateral for the Group's bank borrowings (Note 12) as at December 31, 2017 and 2016, respectively.

The Group entered into repurchase agreements with certain counterparties to sell the Group's finance lease receivables with carrying amounts of approximately RMB3,881,706,000 and RMB5,870,738,000 as at December 31, 2017 and 2016, 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 December 31, 2017 and 2016 are as follows:

	Individual assessment	
	For the year ended December 31, 2017 RMB'000	For the year ended December 31, 2016 RMB'000
At the beginning of the year	1,014,962	1,335,971
Provision during the year	363,220	1,412,816
Transfer out during the year	–	–
Write-offs	(329,509)	(1,733,825)
At the end of the year	<u>1,048,673</u>	<u>1,014,962</u>
	Collective assessment	
	For the year ended December 31, 2017 RMB'000	For the year ended December 31, 2016 RMB'000
At the beginning of the year	1,381,105	1,627,529
Provision during the year	406,042	(287,436)
Transfer in during the year	–	15,732
Write-offs	(8,423)	–
Foreign currency translation	(23,314)	25,280
At the end of the year	<u>1,755,410</u>	<u>1,381,105</u>

	Total assessment	
	For the	For the
	year ended	year ended
	December 31,	December 31,
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	2,396,067	2,963,500
Provision during the year	769,262	1,125,380
Transfer in during the year	–	15,732
Write-offs	(337,932)	(1,733,825)
Foreign currency translation	(23,314)	25,280
At the end of the year	2,804,083	2,396,067

11 PROPERTY AND EQUIPMENT

	At	At
	December 31,	December 31,
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Equipment held for operating lease businesses	48,691,900	46,857,827
Property and equipment held for administrative purposes	840,381	486,227
Total	49,532,281	47,344,054

Equipment held for operating lease businesses

	Aircraft <i>RMB'000</i>	Vessels <i>RMB'000</i>	Special equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
As at January 1, 2017	55,555,017	825,103	584,366	56,964,486
Additions	13,210,857	444,326	–	13,655,183
Disposals/written-off	(4,671,072)	–	(229,783)	(4,900,855)
Transferred to assets held-for sale	(2,966,200)	–	–	(2,966,200)
Foreign currency translation	(3,162,354)	–	–	(3,162,354)
Transferred to finance lease receivables	(411,565)	–	–	(411,565)
As at December 31, 2017	<u>57,554,683</u>	<u>1,269,429</u>	<u>354,583</u>	<u>59,178,695</u>
Accumulated depreciation				
As at January 1, 2017	(9,597,448)	(40,181)	(149,564)	(9,787,193)
Charge for the year	(2,551,264)	(56,081)	(48,432)	(2,655,777)
Eliminated on disposals/written-off	1,161,265	–	71,859	1,233,124
Transferred to assets held-for sale	224,736	–	–	224,736
Foreign currency translation	532,664	623	–	533,287
Transferred to finance lease receivables	206,051	–	–	206,051
As at December 31, 2017	<u>(10,023,996)</u>	<u>(95,639)</u>	<u>(126,137)</u>	<u>(10,245,772)</u>
Accumulated impairment				
As at January 1, 2017	(319,466)	–	–	(319,466)
Additions	(61,346)	–	–	(61,346)
Disposals	77,769	–	–	77,769
Transferred to assets held-for sale	44,007	–	–	44,007
Foreign currency translation	18,013	–	–	18,013
As at December 31, 2017	<u>(241,023)</u>	<u>–</u>	<u>–</u>	<u>(241,023)</u>
Net carrying amount				
As at January 1, 2017	<u>45,638,103</u>	<u>784,922</u>	<u>434,802</u>	<u>46,857,827</u>
As at December 31, 2017	<u>47,289,664</u>	<u>1,173,790</u>	<u>228,446</u>	<u>48,691,900</u>

	Aircraft <i>RMB'000</i>	Vessels <i>RMB'000</i>	Special equipment <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
As at January 1, 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 December 31, 2016	<u>55,555,017</u>	<u>825,103</u>	<u>584,366</u>	<u>–</u>	<u>56,964,486</u>
Accumulated depreciation					
As at January 1, 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 December 31, 2016	<u>(9,597,448)</u>	<u>(40,181)</u>	<u>(149,564)</u>	<u>–</u>	<u>(9,787,193)</u>
Accumulated impairment					
As at January 1, 2016	–	–	–	–	–
Additions	(319,466)	–	–	–	(319,466)
As at December 31, 2016	<u>(319,466)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(319,466)</u>
Net carrying amount					
As at January 1, 2016	<u>40,459,467</u>	<u>825,103</u>	<u>577,172</u>	<u>9,264</u>	<u>41,871,006</u>
As at December 31, 2016	<u>45,638,103</u>	<u>784,922</u>	<u>434,802</u>	<u>–</u>	<u>46,857,827</u>

The aircrafts and vessels with net book value of approximately RMB25,080,572,000 and RMB32,045,323,000 of the Group were pledged as collateral for the Group's bank borrowings (Note 12) as at December 31, 2017 and 2016, respectively.

Property and equipment held for administrative purposes

	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 January 1, 2017	40,295	17,233	6,808	16,612	17,726	437,934	536,608
Additions	-	137	1,141	4,421	43	358,457	364,199
Disposals/written-off	-	(31)	(553)	(2,538)	-	-	(3,122)
Foreign currency translation	-	(8)	-	(446)	-	-	(454)
As at December 31, 2017	40,295	17,331	7,396	18,049	17,769	796,391	897,231
Accumulated depreciation							
As at January 1, 2017	(12,972)	(11,981)	(6,467)	(7,034)	(11,927)	-	(50,381)
Charge for the year	(1,778)	(2,249)	(163)	(1,323)	(1,768)	-	(7,281)
Eliminated on disposals/ written-off	-	29	525	224	-	-	778
Foreign currency translation	-	7	-	27	-	-	34
As at December 31, 2017	(14,750)	(14,194)	(6,105)	(8,106)	(13,695)	-	(56,850)
Net carrying amount							
As at January 1, 2017	<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>
As at December 31, 2017	<u>25,545</u>	<u>3,137</u>	<u>1,291</u>	<u>9,943</u>	<u>4,074</u>	<u>796,391</u>	<u>840,381</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 January 1, 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 December 31, 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 January 1, 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 December 31, 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 January 1, 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 December 31, 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>

As at December 31, 2017, carrying values of property and equipment of the Group for which registration was not completed amounted to approximately RMB10,157,000 (December 31, 2016: RMB10,700,000). 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 RMB241,023,000 as at December 31, 2017 (December 31, 2016: RMB319,466,000), was included in accumulated 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 5.1% for 2017 (2016: 6.0%).

12 BORROWINGS

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Secured bank borrowings ⁽¹⁾	16,050,090	21,770,499
Unsecured bank borrowings	100,195,015	84,427,669
	<u>116,245,105</u>	<u>106,198,168</u>
	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Carrying amount repayable:		
Within one year	97,496,301	79,422,013
More than one year, but not exceeding two years	3,634,895	7,830,785
More than two years, but not exceeding five years	9,679,316	8,097,282
More than five years	5,434,593	10,848,088
	<u>116,245,105</u>	<u>106,198,168</u>

(1) Secured bank borrowings

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

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Property and equipment	25,080,572	32,045,323
Prepayments	425,997	471,716
Finance lease receivables	2,603,287	3,741,990
Bank deposits	519,121	160,642
	<u>28,628,977</u>	<u>36,419,671</u>

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

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Fixed-rate borrowings:		
Within one year	78,974,840	71,496,465
More than one year, but not exceeding five years	2,694,504	4,752,436
More than five years	5,209,022	2,811,426
	<u>86,878,366</u>	<u>79,060,327</u>

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

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

	December 31, 2017	December 31, 2016
Effective interest rate:		
Fixed-rate borrowing	1.32%–6.00%	1.27%–5.45%
Floating-rate borrowing		LIBOR+0.15%
	LIBOR+0.15%	to LIBOR+3.40%
	to LIBOR+3.30%	SHIBOR+0.45% to
	SHIBOR+0.79% PBOC	SHIBOR+0.50% PBOC
	Rate*90.00%	Rate*90.00%
	<u> </u>	<u> </u>

13 NOTES PAYABLE

	December 31, 2017	December 31, 2016
	<i>RMB'000</i>	<i>RMB'000</i>
Guaranteed unsecured notes	22,344,343	14,802,728
Unguaranteed unsecured notes	<u>9,982,370</u>	<u>2,991,158</u>
	<u>32,326,713</u>	<u>17,793,886</u>

Guaranteed unsecured notes:

Name	Principal amount <i>US\$'000</i>	Issue price	Value date	Maturity date	Coupon rate
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%
Guaranteed unsecured notes issued–due 2020 ⁽⁷⁾	400,000	99.68%	2017-8-1	2020-8-1	2.63%
Guaranteed unsecured notes issued–due 2022 ⁽⁷⁾	600,000	99.51%	2017-8-1	2022-8-1	3.00%
Guaranteed unsecured notes issued–due 2023 ⁽⁸⁾	400,000	99.28%	2017-10-24	2023-4-24	3.00%
Guaranteed unsecured notes issued–due 2027 ⁽⁸⁾	400,000	99.27%	2017-10-24	2027-10-24	3.50%

Unguaranteed unsecured notes:

Name	Principal amount <i>RMB'000</i>	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%
Unguaranteed unsecured notes issued–due 2018 ⁽⁴⁾	2,000,000	100.00%	2017-5-5	2018-5-5	4.25%
Unguaranteed unsecured notes issued–due 2020 ⁽⁵⁾	2,000,000	100.00%	2017-8-24	2020-8-24	4.55%
Unguaranteed unsecured notes issued–due 2018 ⁽⁶⁾	1,500,000	100.00%	2017-10-24	2018-10-24	4.50%
Unguaranteed unsecured notes issued–due 2020 ⁽⁶⁾	1,500,000	100.00%	2017-10-24	2020-10-24	4.65%

(1) As at December 4, 2012, an overseas subsidiary of the Group issued notes with principal amount of US\$1,000,000,000 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 note is December 4, 2022.

(2) As at December 2, 2014, an overseas subsidiary of the Group issued notes with principal amount of US\$250,000,000 and US\$400,000,000 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, CDB Aviation Lease Finance Designated Activity Company, and the maturity dates for the notes are December 2, 2019 and December 2, 2024 respectively.

(3) As at October 27, 2016, the Group issued notes with principal amount of RMB3,000,000,000 in PRC. The maturity date for the notes is October 27, 2019.

(4) As at May 5, 2017, the Group issued notes with principal amount of RMB2,000,000,000 in PRC. The maturity date for the notes is May 5, 2018.

(5) As at August 24, 2017, the Group issued notes with principal amount of RMB2,000,000,000 in PRC. The maturity date for the notes is August 24, 2020.

(6) As at October 24, 2017, the Group issued two different notes with principal amount of RMB1,500,000,000 for each in PRC. The maturity date for these two notes are October 24, 2018 and October 24, 2020, separately.

- (7) As at August 1, 2017, CDBL Funding 2, a Hong Kong subsidiary of the Group issued notes with principal amount of US\$400,000,000 and US\$600,000,000 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, CDB Aviation Lease Finance Designated Activity Company, and the maturity dates for the notes are August 1, 2020 and August 1, 2022, respectively.
- (8) As at October 24, 2017, CDBL Funding 1, an Ireland subsidiary of the Group issued notes with principal amount of US\$400,000,000 and US\$400,000,000 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, CDB Aviation Lease Finance Designated Activity Company, and the maturity dates for the notes are April 24, 2023 and October 24, 2027, respectively.

14 SHARE CAPITAL

	Share capital	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	12,642,380	9,500,000
Addition	<u>—</u>	<u>3,142,380</u>
At the end of the year	<u>12,642,380</u>	<u>12,642,380</u>

On July 11, 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 July 29, 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\$84.76 million. After deducting the issuance cost, RMB3,142,380,000 and RMB2,143,903,000 were credited to share capital and capital reserve respectively.

15 DIVIDENDS

The dividends paid in 2017 is RMB702,527,000 (RMB0.556 per 10 ordinary shares, 2016: nil). Dividend in respect of the year ended December 31, 2017 of RMB0.7585 per 10 ordinary shares, amounting to a total dividend of RMB958,925,000, is to be proposed at the annual general meeting. These financial statements do not reflect this dividend payable.

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Interim dividend paid of RMB nil (2016: RMB nil) per 10 ordinary shares	–	–
Proposed final dividend of RMB0.7585 (2016: RMB0.556) per 10 ordinary shares	958,925	702,916
	<u>958,925</u>	<u>702,916</u>

16 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) Vessel, 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, strategic emerging industries, environmental protection industry, manufacturing sectors supported by national policies, wind power, nuclear power, photovoltaic and other industries etc..

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 net revenue (segment's revenue deducting depreciation expenses of equipment held for operating lease businesses). 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 December 31, 2017 and 2016.

The operating and reportable segment information provided to the CODM during the years ended December 31, 2017 and 2016 is as follows:

	Aircraft leasing <i>RMB'000</i>	Infrastructure leasing <i>RMB'000</i>	Vessel, commercial vehicle and construction machinery leasing <i>RMB'000</i>	Other leasing business <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
For the year ended December 31, 2017					
Segment revenue and results					
Finance lease income	224,326	3,848,650	1,023,921	687,392	5,784,289
Operating lease income	<u>5,756,496</u>	<u>104,183</u>	<u>138,863</u>	<u>16,459</u>	<u>6,016,001</u>
Segment revenue	5,980,822	3,952,833	1,162,784	703,851	11,800,290
Segment other income, gains and losses	<u>392,284</u>	<u>210,916</u>	<u>(110,113)</u>	<u>21,345</u>	<u>514,432</u>
Segment revenue and other income	6,373,106	4,163,749	1,052,671	725,196	12,314,722
Segment expenses	<u>(4,771,028)</u>	<u>(3,192,781)</u>	<u>(719,303)</u>	<u>(823,758)</u>	<u>(9,506,870)</u>
Profit before impairment losses and income tax	<u>1,723,439</u>	<u>1,598,671</u>	<u>153,828</u>	<u>244,832</u>	<u>3,720,770</u>
Profit before income tax	<u><u>1,602,078</u></u>	<u><u>970,968</u></u>	<u><u>333,368</u></u>	<u><u>(98,562)</u></u>	<u><u>2,807,852</u></u>

	Aircraft leasing <i>RMB'000</i>	Infrastructure leasing <i>RMB'000</i>	Vessel, 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 December 31, 2017					
Segment assets and liabilities					
Segment assets	71,110,637	77,423,020	26,588,340	11,334,740	186,456,737
Deferred tax assets					<u>642,535</u>
Group's total assets					<u>187,099,272</u>
Segment liabilities	62,982,768	67,167,605	23,066,461	9,833,346	163,050,180
Deferred tax liabilities					<u>540,123</u>
Group's total liabilities					<u>163,590,303</u>
For the year ended December 31, 2017					
Other segment information					
Depreciation of investment properties	–	–	–	(19,618)	(19,618)
Depreciation of properties and equipment	(2,551,481)	(53,255)	(57,483)	(839)	(2,663,058)
Amortisation	(3,956)	(10,416)	(3,028)	(1,811)	(19,211)
Impairment losses	<u>(121,361)</u>	<u>(627,703)</u>	<u>179,540</u>	<u>(343,394)</u>	<u>(912,918)</u>

	Aircraft leasing <i>RMB'000</i>	Infrastructure leasing <i>RMB'000</i>	Vessel, commercial vehicle and construction machinery leasing <i>RMB'000</i>	Other leasing business <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
For the year ended					
December 31, 2016					
Segment revenue and results					
Finance lease income	227,127	3,314,994	1,004,276	817,430	5,363,827
Operating lease income	<u>5,226,973</u>	<u>123,039</u>	<u>86,662</u>	<u>16,483</u>	<u>5,453,157</u>
Segment revenue	5,454,100	3,438,033	1,090,938	833,913	10,816,984
Segment other income, gains and losses	<u>442,398</u>	<u>97,152</u>	<u>25,338</u>	<u>58,933</u>	<u>623,821</u>
Segment revenue and other income	5,896,498	3,535,185	1,116,276	892,846	11,440,805
Segment expenses	<u>(4,537,418)</u>	<u>(2,031,296)</u>	<u>(1,323,824)</u>	<u>(1,480,536)</u>	<u>(9,373,074)</u>
Profit before impairment losses and income tax	<u>1,666,730</u>	<u>1,495,044</u>	<u>366,998</u>	<u>364,732</u>	<u>3,893,504</u>
Profit before income tax	<u><u>1,359,080</u></u>	<u><u>1,503,889</u></u>	<u><u>(207,548)</u></u>	<u><u>(587,690)</u></u>	<u><u>2,067,731</u></u>
As at December 31, 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					<u>591,046</u>
Group's total assets					<u>166,512,149</u>
Segment liabilities	54,247,638	59,507,552	17,543,053	12,470,576	143,768,819
Deferred tax liabilities					<u>441,656</u>
Group's total liabilities					<u>144,210,475</u>

	Aircraft leasing <i>RMB'000</i>	Infrastructure leasing <i>RMB'000</i>	Vessel, commercial vehicle and construction machinery leasing <i>RMB'000</i>	Other leasing business <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
For the year ended December 31, 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	<u>(307,650)</u>	<u>8,845</u>	<u>(574,546)</u>	<u>(952,422)</u>	<u>(1,825,773)</u>

The customer, Airline Company A contributes 9.93% and 10.20% of the Group's revenue for the year ended December 31, 2017 and 2016, respectively.

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”	Articles of Association of China Development Bank Financial Leasing Co., Ltd.
“Board” or “Board of Directors”	the board of directors 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)
“CDB Capital”	CDB Capital Co., Ltd. (國開金融有限責任公司), a wholly-owned subsidiary of China Development Bank, the Controlling Shareholder of the Company
“CDB New Energy”	CDB New Energy Science and Technology Company Limited (國開新能源科技有限公司), which is held as to 30.46% equity interests by CDB Capital
“China” or “the PRC”	the People’s Republic of China, excluding, for the purpose of this results 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), the Controlling Shareholder and a Connected Person of the Company
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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(s)”	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 Hong Kong Public Offering and the International Offering as mentioned in the prospectus of the Company date June 24, 2016
“Group”, “we” or “us”	our Company and its subsidiaries or SPCs, or our Company and any one or more of its 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, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“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

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“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
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“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 asset”	leased asset under finance leases, consisting of finance leases receivable and accounts receivable (advances for finance lease projects)
“narrow-body aircraft”	single-aisle aircraft, such as Airbus A320 family and Boeing 737 family
“operating lease”	a lease arrangement classified under the International Financial Reporting Standards, pursuant to which substantially all of the risks and rewards of the leased assets remain with the lessors
“SPC(s)”	special purpose company(ies)
“wide-body aircraft”	twin-aisle aircraft, such as Airbus A330 family and Boeing 777 family

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

Shenzhen, the PRC, March 26, 2018

As at the date of this announcement, the executive Directors are Mr. WANG Xuedong 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.