国银租赁
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, 2018

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, 2018 together with the comparative figures for the corresponding period in 2017, 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.*

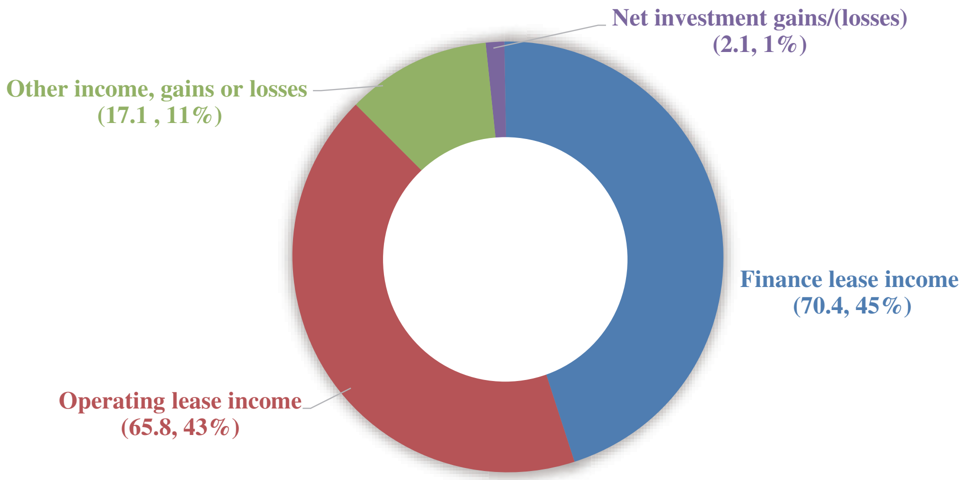
FINANCIAL HIGHLIGHTS

1. SUMMARY OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the year ended December 31,				
(RMB in thousands)	**2018**	2017	2016	2015	2014
Finance lease income	**7,036,316**	5,784,289	5,363,827	5,994,754	7,014,851
Operating lease income	**6,584,804**	6,016,001	5,453,157	4,646,164	4,310,041
Total revenue	**13,621,120**	11,800,290	10,816,984	10,640,918	11,324,892
Net investment gains/(losses)	**211,662**	176,160	(52,359)	77,209	(3,769)
Other income, gains or losses	**1,708,528**	338,272	676,180	263,162	343,949
Total revenue and other income	**15,541,310**	12,314,722	11,440,805	10,981,289	11,665,072
Total expenses	**(12,267,089)**	(9,506,870)	(9,373,074)	(9,681,663)	(9,285,513)
Of which: Depreciation and amortisation	**(2,989,253)**	(2,701,887)	(2,476,525)	(2,034,732)	(1,860,301)
Interest expense	**(6,863,247)**	(4,984,470)	(4,400,071)	(5,055,233)	(6,036,064)
Impairment losses	**(1,293,092)**	(912,918)	(1,825,773)	(2,008,170)	(798,412)
Profit before income tax	**3,274,221**	2,807,852	2,067,731	1,299,626	2,379,559
Profit for the year attributable to owners of the Company	**2,506,984**	2,130,963	1,561,339	1,052,506	1,916,061
Earnings per share attributable to owners of the Company *(expressed in RMB Yuan per share)*					
– Basic and diluted	**0.20**	0.17	0.14	0.11	0.20

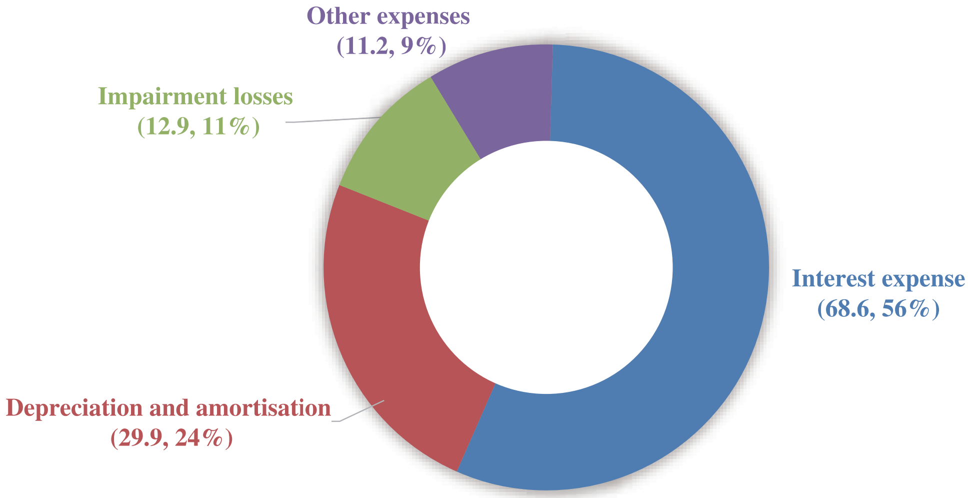
In 2018, the income of the Group mainly comprised finance lease income and operating lease income. Other income, gains or losses mainly comprised asset disposal income, exchange gains or losses and other income.

Breakdown of Operating Income in 2018
(RMB 00'million, Percentage)



In 2018, the operating expenses of the Group mainly comprised interest expense. The proportions of depreciation and amortisation, impairment losses and other expenses represented 24%, 11% and 9%, respectively, and other expenses mainly include staff costs, fee, commission expenses and others.

Breakdown of Operating Expenses in 2018
(RMB 00'million, Percentage)

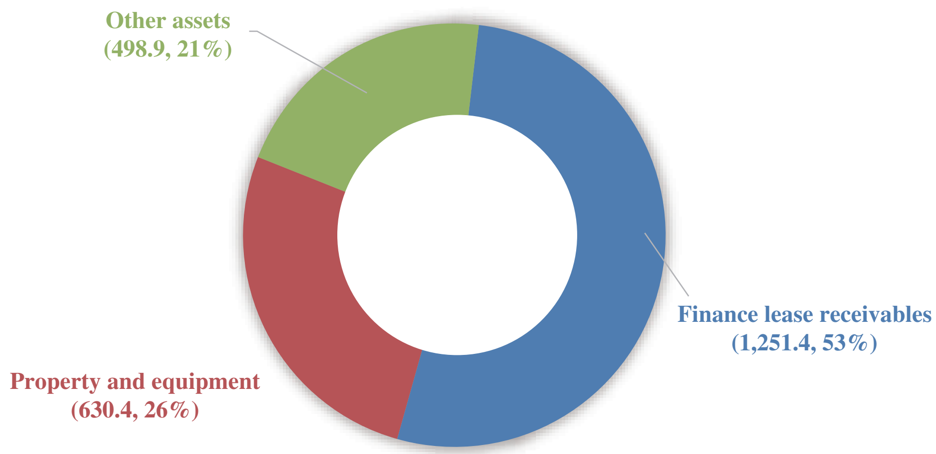


2. SUMMARY OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	For the year ended December 31,				
(RMB in thousands)	**2018**	2017	2016	2015	2014
Total assets	**238,066,986**	**187,099,272**	**166,512,149**	**155,695,092**	**140,365,938**
Of which: Cash and bank balances	**23,497,845**	16,207,073	9,336,415	6,313,850	6,010,711
Accounts receivable	**5,405,652**	6,610,039	6,841,777	13,827,135	14,064,541
Finance lease receivables	**125,141,605**	98,880,563	88,464,050	80,945,115	76,911,731
Prepayments	**12,332,839**	7,530,238	7,911,502	6,862,803	4,142,166
Property and equipment	**63,038,585**	49,532,281	47,344,054	42,248,688	36,201,740
Total liabilities	**213,863,956**	163,590,303	144,210,475	140,702,176	126,355,712
Of which: Borrowings	**157,186,898**	116,245,105	106,198,168	102,494,469	93,460,322
Bonds payable	**38,596,346**	32,326,713	17,793,886	13,834,811	13,017,025
Total equity	**24,203,030**	23,508,969	22,301,674	14,992,916	14,010,226
Net assets per share *(RMB)*	**1.91**	1.86	1.76	1.58	N/A

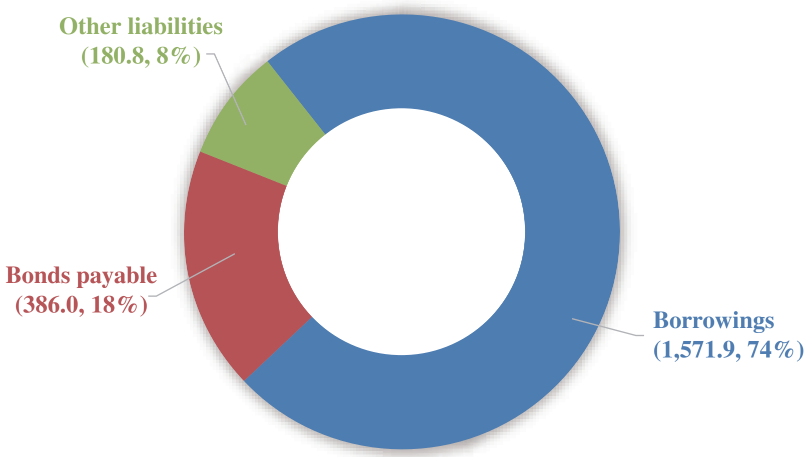
In 2018, the total assets of the Group mainly comprised finance lease receivables and property and equipment, which accounted for 79% of the total assets. The proportion of other assets was 21%.

Breakdown of Net Book Value of the Total Assets in 2018
(RMB 00'million, Percentage)



In 2018, the total liabilities of the Group mainly comprised borrowings, which accounted for 74% of the total liabilities. The proportion of bonds payable was 18%. The combination of the two accounted for 92% in total.

Breakdown of Net Book Value of The Total Liabilities in 2018
(RMB 00'million, Percentage)



3. SELECTED FINANCIAL RATIOS

	For the year ended December 31, /As at December 31,				
	2018	2017	2016	2015	2014
Return on average total assets(1)	**1.18%**	1.21%	0.97%	0.71%	1.36%
Return on average equity(2)	**10.73%**	9.30%	8.44%	7.26%	14.66%
Net interest spread of finance lease business(3)	**1.58%**	1.85%	2.10%	2.21%	2.49%
Net interest margin of finance lease business(4)	**1.80%**	2.33%	2.70%	2.61%	2.77%
Net lease yield of operating lease business(5)	**8.51%**	9.13%	8.74%	8.56%	7.63%
Profit margin before income tax of operating lease business(6)	**24.72%**	23.97%	21.77%	20.64%	16.55%
Cost-to-income ratio(7)	**6.99%**	7.08%	5.76%	5.05%	4.63%
Net profit margin before tax and impairment losses(8)	**33.53%**	31.53%	35.99%	31.09%	28.06%
Net profit margin(9)	**18.41%**	18.06%	14.43%	9.89%	16.92%
Non-performing asset ratio(10)	**0.89%**	0.78%	0.98%	1.39%	1.09%
Non-performing asset ratio of finance lease business(11)	**1.56%**	1.31%	1.63%	2.21%	1.67%
Gearing ratio(12)	**7.15x**	5.72x	5.46x	8.03x	7.85x
Credit ratings					
Standard & Poor's	**A**	A	A+	A+	A+
Moody's	**A1**	A1	Aa3	A1	A1
Fitch	**A+**	A+	A+	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.

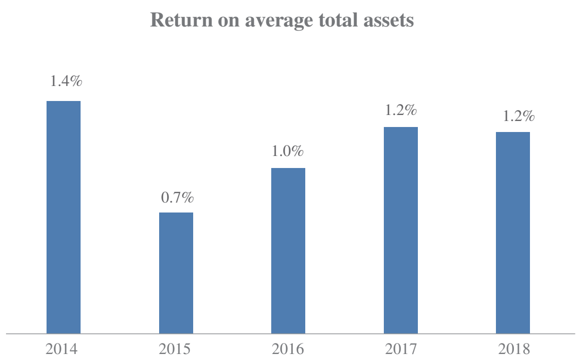
(9) Calculated by dividing net profit for the year by the total revenue for the year.

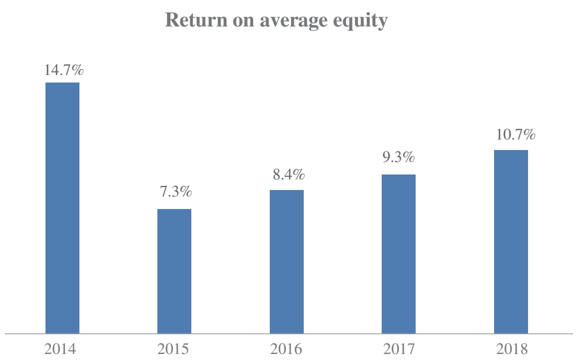
(10) Calculated based on the percentage of non-performing assets over total assets before allowance for impairment losses as of the dates indicated.

(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.

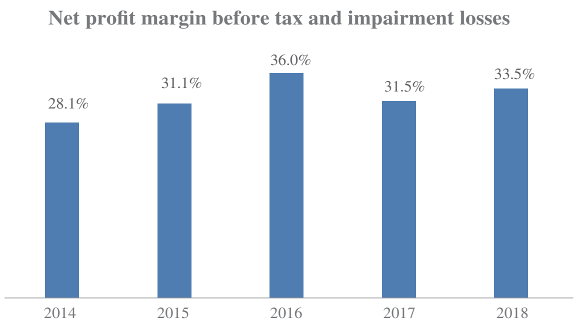
(12) Calculated by dividing net debt by total equity. Net debt is defined as total debt less cash and cash equivalents. Total debt comprises borrowings, due to banks and other financial institutions, financial assets sold under repurchase agreements and bonds payable.

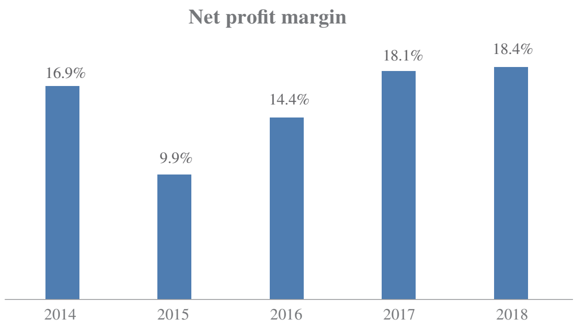
In 2018, the return on average assets of the Group represented a year-on-year decrease, mainly because of the larger growth rate of assets and inadequate achievement on gains. The return on average equity of the Group has experienced the trend of steady rise since 2015, reflecting continuous rise of ability in creating value for the Shareholders by the Company.





The net profit margin before tax and impairment losses in 2018 represented a year-on-year increase while net profit margin reached the highest level in the recent five years, reflecting the improvement of quality of the Group's assets, higher operating efficiency and strengthened profitability.





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

	Regulatory requirement	**As at December 31,**				
		2018	2017	2016	2015	2014
Capital adequacy indicators [1]						
Core tier-one capital adequacy ratio [2]	≥7.5%[3]	**10.72%**	13.19%	13.42%	9.54%	10.03%
Tier-one capital adequacy ratio [4]	≥8.5%[3]	**10.72%**	13.19%	13.42%	9.54%	10.03%
Capital adequacy ratio [5]	≥10.5%[3]	**11.91%**	14.10%	14.03%	10.23%	10.34%
Asset quality indicators						
Allowance to non-performing finance lease related assets [6]	≥150%[3]	**253.12%**	215.15%	164.28%	150.47%	127.48%

(1) Calculated based on the Capital Administrative Measures (《資本管理辦法》) published by the CBIRC 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 2018.

(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

Since 2018, the global economy continued to recover, but the external environment showed significant changes. Exchange rates in the capital markets in emerging economies fluctuated. The economy of the US showed a sign of remaining stable at a high level, debt risks intensified, the trade protectionism emerged, and uncertain factors have increased. The economy of China maintained a high resilience, however, along with profound changes in the external environment and the impact of removal of overcapacity and deleveraging, the growth rate of the Gross Domestic Product of China in 2018 was 6.6% year on year, representing a decrease of 0.3 percentage point as compared with that of 2017. At the stage of new and old kinetic energy conversion, the long-term accumulated risk exposures had increased, difficulties in financing faced by small and micro enterprises and private economy were still prominent, and the economy growth was subject to downward pressure. The economy operated steadily with changes and concerns.

In the short term, benefitting from a series of financial, monetary and industrial policies surrounding the maintenance of growth and remedying areas of weaknesses, the investment and financing needs in ships, infrastructure, energy equipment and other areas recovered gradually, and the capital advantage and professional capability of the Group will enable us to seize new opportunities in relevant business areas more effectively. In the medium- and long-term, China's development is in and will still remain in an important period of strategic opportunities for a long time. Since the "supply-side structural reform" was initially mentioned by the Country in November 2015, China's economy has experienced a complex process of bottoming and restructuring. Today, China has obtained initial success in cutting overcapacity, deleveraging, strict regulation and other aspects. Various industries realized capacity clearance, non-performing assets disposal and industry order rearrangement to different extents with structural opportunities in the market emerging gradually, which leads to a bright outlook in the development of the China's economy and the leasing industry in the future.

1.1.2 Industry Environment

As of the end of 2018, the number of finance leasing companies across China reached 11,777 (excluding single project companies, branches, subsidiaries and acquired overseas companies), representing an increase of 2,101 companies, or 21.7%, as compared with 9,676 companies as at the end of 2017. The balance of finance leasing contracts was approximately RMB6,650 billion, representing an increase of RMB570 billion, or 9.4%, as compared with RMB6,080 billion as at the end of 2017[1].

Although there has been severe competition in the industry arising from rapid growth of leasing companies, resources were further allocated to the preeminent players in the industry under the policy of financial deleveraging and strict regulation, while the leasing industry was showing an objective development trend of increase in market concentration. In the future, integration in the leasing industry will continue, the regulatory standards will also be gradually unified. A group of substandard and non-compliant finance leasing companies will be weeded out, providing large, standardized and professional leading leasing companies, like CDB Leasing, with a favorable development atmosphere and opportunities. In general, the development opportunities in the leasing industry still outweigh challenges.

1 Source: The "2018 China Finance Leasing Industry Development Report" (《2018年中國融資租賃業發展報告》) by China Leasing Union and Tianjin Binhai Financial Leasing Research Institute.

1.2 Company's Response

In 2018, faced with complex and ever-changing macro and industrial situation, the Group improved its market response capability through enhancing business structure, improving management efficiency, and strengthening risk management. The assets scale, newly added lease financing to lessees and the net profit of the Group hit a new historical high.

The Group strengthened the study and judgment of the macro environment and industrial situation, actively grasped the market opportunities to expand the leasing business, and paid closer attention to business development. The newly added lease financing to lessees hit a historical new high. The aviation sector successfully solved the re-financing problems of regional and old wide-body aircraft. The shipping business made use of the shipping recovery window period to actively carry out bulk carrier operating leases. The business with small and medium enterprises built a customer cooperation system focusing on strategic customers, actively deploying the passenger vehicle market. The new energy and equipment business actively expanded client base in the industry chain area. The infrastructure business adhered to the principles of compliance operation, focused on key areas and customers, and strengthened business cooperation of infrastructure in key regions.

The Group gave full play to the overall coordination role of the Lease Business Development and Examination Committee and Lease Business Review Committee, introduced the "jury system" into the Lease Business Review Committee to improve the efficiency of decision-making. The average development cycle of the projects was shortened by 15 days as compared with that in 2017. The Group reduced financing costs through various debt capital market instruments such as US$-denominated senior bonds and HK$-denominated private bonds and RMB financing by way of US dollar pledging. The Group established cooperation network for asset trading, promoted a breakthrough in the business model of "leasing+factoring". The Group improved financial management and tax planning, optimized capital management, promoted the effective implementation of national policies on tax reduction. The Group deepened comprehensive risk management, innovated and improved the comprehensive risk management system, increased risk prevention and control awareness, and took several measures to maintain risk bottom line. The Group strengthened the internal compliance management, conducted process management, improved internal control and compliance management system, actively promoted the self-inspection and implementation of rectification based on regulatory inspection opinions, organized and carried out compliance training, strengthened the concept of creating value based on compliance and fully consolidated the defensive line of compliance.

2. Financial Review

2.1 Analysis on Consolidated Statement of Profit and Loss

2.1.1 Overview of Consolidated Statement of Profit and Loss

In 2018, the Group maintained a steady increase in results. Total revenue and other income amounted to RMB15,541.3 million, representing an increase of RMB3,226.5 million or 26.2%, as compared with that of last year. Profit for the year amounted to RMB2,507.0 million, representing an increase of RMB376.0 million, or 17.6% as compared with that of last year, due primarily to the growth of total leasing assets resulting from the increase in financing to lessees, a high growth rate in leasing income and a rapid growth in non-leasing income such as asset trading and exchange gains or losses.

The following table sets forth the consolidated statement of profit and loss of the Group for the years indicated and the changes:

(RMB in millions, except percentages)	**For the year ended December 31, 2018**	2017	Change
Revenue			
Finance lease income	**7,036.3**	5,784.3	21.6%
Operating lease income	**6,584.8**	6,016.0	9.5%
Total revenue	**13,621.1**	11,800.3	15.4%
Net investment gains/(losses)	**211.7**	176.2	20.1%
Other income, gains or losses	**1,708.5**	338.3	405.0%
Total revenue and other income	**15,541.3**	12,314.8	26.2%
Depreciation and amortisation	**(2,989.3)**	(2,701.9)	10.6%
Staff costs	**(508.9)**	(351.6)	44.7%
Fee and commission expenses	**(74.6)**	(62.0)	20.3%
Interest expense	**(6,863.2)**	(4,984.5)	37.7%
Other operating expenses	**(538.0)**	(494.0)	8.9%
Impairment losses	**(1,293.1)**	(912.9)	41.6%
Total expenses	**(12,267.1)**	(9,506.9)	29.0%
Profit before income tax	**3,274.2**	2,807.9	16.6%
Income tax expense	**(767.2)**	(676.9)	13.3%
Profit for the year	**2,507.0**	2,131.0	17.6%

2.1.2 *Total Revenue*

Revenue of the Group was primarily derived from finance lease income and operating lease income. In 2018, the total revenue of the Group amounted to RMB13,621.1 million, representing an increase of RMB1,820.8 million or 15.4% as compared with that of last year, due primarily to continuous growth of business scale arising from greater investment in leasing assets.

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, 2018**	2017	Change
Finance lease income			
Aircraft Leasing	**202.3**	224.3	(9.8%)
Infrastructure Leasing	**4,579.2**	3,848.7	19.0%
Ship, Vehicle and Construction Machinery Leasing	**1,621.7**	1,023.9	58.4%
Other Leasing Business	**633.1**	687.4	(7.9%)
Total	**7,036.3**	5,784.3	21.6%

In 2018, finance lease income of the Group amounted to RMB7,036.3 million, accounting for 51.7% of total revenue and representing an increase of RMB1,252.0 million, or 21.6% as compared with that of last year, due primarily to the increase in income from finance lease projects of infrastructure and ship, vehicle and construction machinery.

With respect to Aircraft Leasing, in 2018, finance lease income from Aircraft Leasing of the Group amounted to RMB202.3 million, representing a decrease of RMB22.0 million, or 9.8% as compared with that of last year, due primarily to the decrease in scale of finance lease business resulting from the focus on the development of operating lease business of the aircraft segment in 2018.

With respect to Infrastructure Leasing, in 2018, finance lease income from Infrastructure Leasing of the Group amounted to RMB4,579.2 million, representing an increase of RMB730.5 million, or 19.0% 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, Vehicle and Construction Machinery Leasing, in 2018, finance lease income from Ship, Vehicle and Construction Machinery Leasing of the Group amounted to RMB1,621.7 million, representing an increase of RMB597.8 million, or 58.4% as compared with that of last year, due primarily to an increase in lease financing to lessees in the Ship, Vehicle and Construction Machinery segment.

With respect to Other Leasing Business, in 2018, finance lease income from Other Leasing Business of the Group amounted to RMB633.1 million, representing a decrease of RMB54.3 million, or 7.9% as compared with that of last year, due primarily to a further reduction of the assets scale of this segment resulting from the Group's proactive control over the finance lease business scale of this segment.

2.1.2.2 Operating Lease Income

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

	For the year ended December 31,		
(RMB in millions, except percentages)	**2018**	2017	Change
Operating lease income			
Aircraft Leasing	**6,049.2**	5,756.4	5.1%
Infrastructure Leasing	**53.7**	104.2	(48.5%)
Ship, Vehicle and Construction Machinery Leasing	**324.3**	138.9	133.5%
Other Leasing Business	**157.6**	16.5	855.2%
Total	**6,584.8**	6,016.0	9.5%

In 2018, operating lease income of the Group amounted to RMB6,584.8 million, accounting for 48.3% of total revenue and representing an increase of RMB568.8 million, or 9.5% as compared with that of last year, due primarily to the steady expansion of the scale of aircraft operating lease, an increase of number of shipping fleet for operating lease due to increase in investment in ships, the renting of the new office building after it came into use, the increased investment in projects of operating lease of high-end equipment, and the burgeoning income in operating lease of Other Leasing Business.

The operating lease income of the Group is mainly derived from aircraft operating lease business. In 2018, operating lease income generated from Aircraft Leasing amounted to RMB6,049.2 million, accounting for 91.9% 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, Vehicle and Construction Machinery Leasing, recording a revenue of operating lease of RMB324.3 million for the year, representing an increase of 133.5% than that of last year.

2.1.2.3 Net Investment Gains/(Losses)

In 2018, net investment gains of the Group amounted to RMB211.7 million, representing an increase of RMB35.5 million as compared with the net investment gains of RMB176.2 million in last year, due primarily to the Group's gains from fixed income investment in 2018.

2.1.2.4 Other Income, Gains or Losses

In 2018, other income and gains of the Group amounted to RMB1,708.5 million, representing an increase of RMB1,370.2 million, or 405.0% as compared with that of last year, due primarily to an increase of income from disposal of aircraft assets, an increase in financial subsidies of Aircraft Leasing business, exchange gains generated from net US dollar assets exposure arising from the increase in the exchange rate of US dollar to RMB.

2.1.3 Cost Expenses

In 2018, total expenses of the Group amounted to RMB12,267.1 million, representing an increase of RMB2,760.2 million, or 29.0% as compared with that of last year, due primarily to an increase in interest expense, impairment losses, depreciation and amortisation, and other operating expenses.

2.1.3.1 Depreciation and Amortisation

In 2018, depreciation and amortisation expenses of the Group amounted to RMB2,989.3 million, representing an increase of RMB287.4 million, or 10.6% as compared with that of last year, due primarily to an increase in operating lease assets, in particular those for Aircraft Leasing. The scale of fleet of owned aircraft held for operating lease increased from 184 as of the end of 2017 to 203 as of the end of 2018.

2.1.3.2 Staff Costs

In 2018, staff costs of the Group amounted to RMB508.9 million, representing an increase of RMB157.3 million, or 44.7% 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 development strategies and enhance the market competitiveness. As a result, the Group accordingly expanded the size of professional team, strengthened the strategic 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 2018, fee and commission expenses of the Group amounted to RMB74.6 million, representing an increase of RMB12.6 million, or 20.3% as compared with that of last year, due primarily to the increase in handling fees in the finance guarantee.

2.1.3.4 Interest Expense

In 2018, interest expense of the Group amounted to RMB6,863.2 million, representing an increase of RMB1,878.7 million, or 37.7% as compared with that of last year, due primarily to the increase of comprehensive financing costs in 2018 resulting from the increase in the market interest rates, as well as 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 2018, other operating expenses of the Group amounted to RMB538.0 million, representing an increase of RMB44.0 million, or 8.9% as compared with that of last year, due primarily to the increase in related business and management expenses resulting from the expansion of business scale.

2.1.3.6 Impairment Losses

In 2018, impairment losses of the Group amounted to RMB1,293.1 million, representing an increase of RMB380.2 million, or 41.6% as compared with that of last year, due primarily to the increase of the impairment losses arising from the Group's increased lease financed to lessees and leasing assets.

2.1.4 Profit before Income Tax

In 2018, profit before income tax of the Group amounted to RMB3,274.2 million, representing an increase of RMB466.3 million, or 16.6% as compared with that of last year, due primarily to an increase in lease income, asset transaction income and exchange gains.

2.1.5 Income Tax Expense

In 2018, income tax expense of the Group amounted to RMB767.2 million, representing an increase of RMB90.3 million, or 13.3% 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 2018, profit for the year of the Group amounted to RMB2,507.0 million, representing an increase of RMB376.0 million, or 17.6% 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:

(RMB in millions, except percentages)	**For the year ended December 31,**	
	2018	2017
Finance lease business		
Interest income [(1)]	**7,036.3**	5,784.3
Interest expense [(2)]	**4,845.9**	3,429.2
Net interest income	**2,190.4**	2,355.1
Average yield [(3)]	**5.79%**	5.72%
Average cost [(4)]	**4.21%**	3.87%
Net interest spread of finance lease business [(5)]	**1.58%**	1.85%
Net interest margin of finance lease business [(6)]	**1.80%**	2.33%

(1) Interest income represents finance lease income.

(2) Interest expense is the interest cost of interest-bearing liabilities of finance lease business of the Group.

(3) Calculated by dividing finance lease income by the average monthly balance of finance lease related assets.

(4) 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.

(5) 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.

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

In 2018, net interest spread of finance lease business of the Group was 1.58%, representing a decrease of 0.27 percentage point as compared with that of last year, due primarily to an upward financing interest rate in the market and increasingly intensive industrial competition. Net interest margin of finance lease business was 1.80%, representing a decrease of 0.53 percentage point as compared with that of last year, due primarily to the fact that the majority of finance lease business of the Group is RMB-denominated and market interest rate of RMB was increasing in the first half of 2018, thus the interest expense increased and the net interest spread reduced in return.

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,	
	2018	2017
Operating lease business		
Net lease yield of operating lease business [1]	**8.51%**	9.13%
Profit margin before income tax of operating lease business [2]	**24.72%**	23.97%

(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 2018, net lease yield and profit margin before income tax of operating lease business of the Group were 8.51% and 24.72%, respectively, representing a decrease of 0.62 percentage point and an increase of 0.75 percentage point as compared with those of last year, respectively. The year-on-year downslide of net lease yield of operating lease business was due primarily to the fact that the operating lease assets of the Group was mainly assets denominated in US dollars and the yield of operating lease such as aircraft decreased in the competitive market environment as the financing interest rate of US dollars increased. The profit margin before income tax of operating lease business represented year-on-year increase, due primarily to the year-on-year increase in the income of the disposal of aircraft assets of the Group, offsetting the impact of the decrease in the net lease yield of the operating lease business.

2.2 Analysis on the Consolidated Statement of Financial Position

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

(RMB in millions, except percentages)	**As of December 31, 2018**	2017	Change
Assets			
Cash and bank balances	**23,497.8**	16,207.1	45.0%
Placement to banks and other financial institutions	**500.0**	–	–
Financial assets at fair value through profit or loss	**1,919.1**	1,857.9	3.3%
Derivative financial assets	**36.9**	27.7	33.2%
Assets held-for-sale	**1,325.0**	2,697.5	(50.9%)
Financial assets at fair value through other comprehensive income	**495.7**	–	–
Available-for-sale financial assets	**–**	279.6	–
Accounts receivable	**5,405.7**	6,610.0	(18.2%)
Finance lease receivables	**125,141.6**	98,880.6	26.6%
Prepayments	**12,332.8**	7,530.2	63.8%
Investment properties	**1,075.3**	984.7	9.2%
Property and equipment	**63,038.6**	49,532.3	27.3%
Deferred tax assets	**1,088.2**	642.5	69.4%
Other assets	**2,210.3**	1,849.2	19.5%
Total assets	**238,067.0**	187,099.3	27.2%
Liabilities			
Borrowings	**157,186.9**	116,245.1	35.2%
Financial assets sold under repurchase agreements	**880.0**	2,030.0	(56.7%)
Derivative financial liabilities	**282.7**	69.1	309.1%
Accrued staff costs	**249.9**	160.5	55.7%
Tax payable	**440.6**	433.5	1.6%
Bonds payable	**38,596.3**	32,326.7	19.4%
Deferred tax liabilities	**614.1**	540.1	13.7%
Other liabilities	**15,613.5**	11,785.3	32.5%
Total liabilities	**213,864.0**	163,590.3	30.7%
Total equity	**24,203.0**	23,509.0	3.0%

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 96.4% of the Group's total assets as of December 31, 2018. As of December 31, 2018, total assets of the Group amounted to RMB238,067.0 million, representing an increase of RMB50,967.7 million, or 27.2% as compared with that as of 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 the operating lease rentals receivable provided as of December 31, 2018, 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 of December 31, 2018, accounts receivable of the Group amounted to RMB5,405.7 million, representing a decrease of RMB1,204.3 million, or 18.2% as compared with that as of 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

(RMB in millions, except percentages)	**As of December 31, 2018**	2017	Change
Finance lease receivables – gross	**159,252.6**	125,760.3	26.6%
Less: Unearned finance income	**(29,435.5)**	(24,075.6)	22.3%
Finance lease receivables – net	**129,817.1**	101,684.7	27.7%
Less: Allowance for impairment losses	**(4,675.5)**	(2,804.1)	66.7%
Finance lease receivables – carrying value	**125,141.6**	98,880.6	26.6%

As of December 31, 2018, finance lease receivables of the Group amounted to RMB125,141.6 million, representing an increase of RMB26,261.0 million, or 26.6% as compared with that as of the end of last year, due primarily to the continuous increase in business scale arising from an increase in investment of finance lease business of the Group.

2.2.1.3 Prepayments

As of December 31, 2018, prepayments of the Group amounted to RMB12,332.8 million, representing an increase in RMB4,802.6 million, or 63.8% as compared with that as of the end of last year. On the one hand, it was due to an increase prepayment arising from the increase in order of aircraft and ships; on the other hand, it was due to the impact of increase in exchange rate of US dollars to RMB.

2.2.1.4 Property and Equipment

Property and equipment were composed of equipment held for operating lease and property and equipment held for administrative purpose. As of December 31, 2018, equipment held for operating lease of the Group amounted to RMB62,117.7 million, representing an increase of RMB13,425.8 million, or 27.6% as compared with that as of the end of last year, due primarily to the expansion of scale of aircraft and ships for operating lease.

As of December 31, 2018, property and equipment held for administrative purpose of the Group amounted to RMB920.9 million, representing an increase of RMB80.5 million, or 9.6% as compared with that as of 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 of the dates indicated:

(RMB in millions, except percentages)	**As of December 31, 2018**	2017	Change
Property and equipment			
Equipment held for operating lease	**62,117.7**	48,691.9	27.6%
Property and equipment held for administrative purpose	**920.9**	840.4	9.6%
Property and equipment – carrying value	**63,038.6**	49,532.3	27.3%

2.2.1.5 Cash and Bank Balances

As of December 31, 2018, cash and bank balances of the Group amounted to RMB23,497.8 million, representing an increase of RMB7,290.7 million, or 45.0% as compared with that as of the end of last year, due primarily to the increase in liquidity reserve of the Group.

2.2.1.6 Other Assets

Other assets primarily included deductible input value-added tax, land use rights, maintenance right assets, other receivables and prepaid expenses. As of December 31, 2018, other assets of the Group amounted to RMB2,210.3 million, representing an increase of RMB361.1 million, or 19.5% as compared with that as of the end of last year, due primarily to increase in deductible input value-added tax.

2.2.2 Leased Assets

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

(RMB in millions, except percentages)	**As of December 31, 2018**	2017	Change
Finance lease related assets			
Finance lease receivables	**125,141.6**	98,880.6	26.6%
Accounts receivable – advances for finance lease projects	**4,679.4**	6,139.1	(23.8%)
Total	**129,821.0**	105,019.7	23.6%

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

(RMB in millions, except percentages)	**As of December 31, 2018**	2017	Change
Operating lease assets			
Investment properties	**1,075.3**	984.7	9.2%
Property and equipment – equipment held for operating lease	**62,117.7**	48,691.9	27.6%
Total	**63,193.0**	49,676.6	27.2%

Finance lease assets of the Group represented a year-on-year increase of 23.6%, lower than the growth rate of 27.2% of operating lease assets. In 2018, while maintaining steady growth of lease assets, the Group further laid a solid foundation of leased property and pledge management, optimized lease asset management system and valuation system, and strengthened the structural adjustment of asset quality. By conducting systematic analysis on multi-dimensions such as the industry, regions, customers and business segments, the Group optimized asset distribution structure, improved asset profitability quality, advanced its transformation from pursuing the scale to pursuing the quality and efficiency of the Group, laying a foundation for the Group's continually healthy development.

2.2.3 Total Liabilities

As of December 31, 2018, total liabilities of the Group amounted to RMB213,864.0 million, representing an increase of RMB50,273.7 million, or 30.7% as compared with that as of the end of last year, due primarily to the increases in borrowings and the balance of bonds payable.

2.2.3.1 Borrowings

As of December 31, 2018, the balance of borrowings of the Group amounted to RMB157,186.9 million, representing an increase of RMB40,941.8 million, or 35.2% as compared with that as of the end of last year, due primarily to the increase in financing for development of business scale.

2.2.3.2 Bonds Payable

As of December 31, 2018, the balance of bonds payable of the Group amounted to RMB38,596.3 million, representing an increase of RMB6,269.6 million, or 19.4% as compared with that as of the end of last year, due primarily to the Group's optimization of financing structure and the increase in the scale of issuance of offshore bonds in 2018.

2.2.3.3 Other Liabilities

As of December 31, 2018, the balance of other liabilities of the Group amounted to RMB15,613.5 million, representing an increase of RMB3,828.2 million, or 32.5% as compared with that as of the end of last year, due primarily to the increase in security deposits paid by customers, lease discount liabilities arising from purchase and operating leaseback transactions and notes payable.

2.3 Analysis on the Statement of Cash Flows

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

(RMB in millions, except percentages)	**For the year ended December 31, 2018**	2017	Change
Net cash flows from operating activities	**22,942.8**	103.6	22045.6%
Net cash flows from investing activities	**(22,968.3)**	(8,732.7)	163.0%
Net cash flows from financing activities	**2,833.5**	14,089.1	(79.9%)
Net increase in cash and cash equivalents	**2,808.0**	5,460.0	(48.6%)

In 2018, net cash inflow from operating activities of the Group amounted to RMB22,942.8 million, representing an increase of 22045.6% as compared with that of last year, due primarily to the increase in the scale of lease business of the Group as compared with that of last year. As a result, the financing scale of the Group increased, which was mainly through borrowings for financing from financial institutions, leading to the increase in cash inflows through operating activities. For the same period, net cash outflow from investing activities of the Group amounted to RMB22,968.3 million, representing an increase of 163.0% as compared with that of last year, due primarily to the increase in the amount of the Group's investment in properties and equipment as compared with that of last year. Furthermore, in 2018, net cash inflow from financing activities of the Group amounted to RMB2,833.5 million, representing a decrease of RMB11,255.6 million as compared with that of last year, due primarily to the decrease in the scale of new issuance of offshore bonds of the Group.

3. Business Operation

The major business segments of the Group include Aircraft Leasing, Infrastructure Leasing, Ship, Vehicle and Construction Machinery Leasing and Other Leasing Business. The Group achieved a stable growth in business scale and revenue by accurately capturing the economic situation and effectively and consistently implementing development strategies. In 2018, the Group insisted on regarding two large segments, namely Aircraft Leasing and Infrastructure Leasing, as the core businesses, actively carried out Ship, Vehicle and Construction Machinery Leasing business and expand Other Leasing Business in a prudent manner, thereby further optimizing its business layout. In 2018, the total lease financing to lessees amounted to RMB82.744 billion, among which the lease financing to lessees in Aircraft Leasing, Infrastructure Leasing, Ship, Vehicle and Construction Machinery Leasing and Other Leasing Business were RMB17.342 billion, RMB33.702 billion, RMB24.794 billion and RMB6.906 billion, respectively.

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

(RMB in millions, except percentages)	**For the year ended December 31,**			
	2018		2017	
Segment assets	**Amount**	**Percentage**	Amount	Percentage
Aircraft Leasing	**88,370.1**	**37.3%**	71,110.6	38.1%
Infrastructure Leasing	**94,546.7**	**39.9%**	77,423.2	41.5%
Ship, Vehicle and Construction Machinery Leasing	**42,976.8**	**18.1%**	26,588.3	14.3%
Other Leasing Business	**11,085.2**	**4.7%**	11,334.7	6.1%
Total	**236,978.8**	**100.0%**	186,456.8	100.0%

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

(RMB in millions, except percentages)	**For the year ended December 31,**			
	2018		2017	
Segment revenue and other income	**Amount**	**Percentage**	Amount	Percentage
Aircraft Leasing	**7,585.2**	**48.8%**	6,373.1	51.8%
Infrastructure Leasing	**5,010.4**	**32.2%**	4,163.8	33.8%
Ship, Vehicle and Construction Machinery Leasing	**2,098.2**	**13.5%**	1,052.7	8.5%
Other Leasing Business	**847.5**	**5.5%**	725.2	5.9%
Total	**15,541.3**	**100.0%**	12,314.8	100.0%

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

	For the year ended December 31,	
(RMB in millions)	**2018**	2017
Segment profit/(loss) before income tax	**Amount**	Amount
Aircraft Leasing	**2,069.4**	1,602.1
Infrastructure Leasing	**881.8**	971.0
Ship, Vehicle and Construction Machinery Leasing	**368.0**	333.4
Other Leasing Business	**(45.0)**	(98.6)
Total	**3,274.2**	2,807.9

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

	For the year ended December 31,	
	2018	2017
Segment profit margin before income tax[1]		
Aircraft Leasing	**33.10%**	26.79%
Infrastructure Leasing	**19.03%**	24.56%
Ship, Vehicle and Construction Machinery Leasing	**18.91%**	28.67%
Other Leasing Business	**(5.69%)**	(14.00%)

(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,	
	2018	2017
Segment return on assets before income tax[1]		
Aircraft Leasing	**2.60%**	2.40%
Infrastructure Leasing	**1.03%**	1.33%
Ship, Vehicle and Construction Machinery Leasing	**1.06%**	1.42%
Other Leasing Business	**(0.40%)**	(0.77%)

(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 reporting period.

3.1 Aircraft Leasing

The aircraft leasing industry remains a vibrant market, following the trend of the last several decades. The year 2018 marked another period of stable growth, above-trend traffic demand, and good airline profitability.

In 2018, airlines showed an exceptional level of resiliency in a dynamic environment, demonstrating the underlying strength and value of air travel. The aviation industry, as a whole, was on a more solid financial footing than at any time in its history, however cost pressures trimmed profitability, driving airline profits down to US$32.3 billion in 2018, according to the International Air Transport Association (IATA)[1].

Industry-wide revenue passenger kilometers (RPKs) grew by a robust 6.5% in 2018. Although it was another year of above-trend growth, the pace was still slower compared to 2017 (8.0%), moderating year-on-year passenger demand. Capacity grew at a slower pace than traffic in 2018 and the passenger load factor increased to a record high of 81.9%[2].

Ongoing uncertainty around global geopolitical developments and issues such as Brexit and rising US- China trade tensions contributed to the RPK/GDP multiplier returning to its long-term median level for the first time since 2011[2]. These developments are expected merely to slow, not stop, long-term growth.

Both Airbus and Boeing forecast traffic growth to continue to outpace world GDP growth, at rates between 4.5 to 5% for the next 20 years. This long-term outlook is expected to be driven by continued solid economic growth, growing middle classes, increasing consumer spending on services, and evolving airline business models that bring more value to passengers. The air travel market will be 2.5 times larger in 20 years, while the global commercial fleet is expected to require more than 42,000 new airplanes by 2037, with almost 74% in the single-aisle category[3].

1 International Air Transport Association (IATA), December 2018 and February 2019
2 CAPA – Centre for Aviation, 2018
3 Boeing and Airbus forecasts, 2018

In 2018, the airline industry continued to be resilient to external shocks and demonstrated consistent profitability underpinned by improved capacity management. Load factors and aircraft utilization improved substantially and made a major contribution to the improvement in profitability. Airlines added flying capacity to their networks in order to take advantage of the growing demand, particularly in Asia Pacific. As fuel costs were on the rise, airlines increasingly opted to add new generation aircraft with better fuel efficiency.

These factors continue to support the demand for leased aircraft. It is projected that leased aircraft will continue to grow as a percentage of the worldwide fleet. The share of leased aircraft in the commercial airline fleet has been nearing 50% for the past decade. The penetration of leased aircraft is highest in Latin America, Europe, and Asia Pacific[2].

The number of operating lessors has increased significantly within the last decade, with lessors' orderbooks at historic highs. Lessors continue to play a vital role in providing airlines access to capital funding[2].

Competition from lessors and other investors remains heightened, as investors continue to be drawn to the aircraft leasing sector.

Amidst these market conditions, the Group has been able to leverage its aircraft leasing platform to deliver its strategies. With rising fuel prices, the Group is well positioned to serve airline customers with its orderbook, nearly all of which comprises the latest technology and most fuel-efficient aircraft types.

Aircraft Leasing is one of the core business segments of the Group. 2018 witnessed another growth year in which the Group executed an increased volume of transactions to support the continued growth of its industry-leading Aircraft Leasing platform. The growth in 2018 is evidence of the strength and scale of the Group's Aircraft Leasing segment, and demonstrates its unwavering commitment to execution through a combination of its business model, cooperation opportunities with manufacturers and strong relationships with the airlines.

Major highlights for 2018 include:

- Signed lease transactions for 62 aircraft with 22 customers;

- Signed agreements to sell 17 aircraft and to acquire 28 aircraft;

- Acquired 42 aircraft on operating lease, representing over 20% growth by number of aircraft in the fleet at the start of 2018;

- Signed financing transactions for US$3.2 billion;

- Ended the year with 104 total employees, adding 36 new staff members in 2018; and

- Added 9 new airline customers.

As of December 31, 2018, the Group owned and managed a well-diversified portfolio of 231 aircraft assets on lease to 56 lessees in 29 jurisdictions. Total assets of the Aircraft Leasing segment of the Group amounted to RMB88,370.1 million, representing an increase of 24.3% compared to December 31, 2017, and the total revenue and other income of the Aircraft Leasing segment amounted to RMB7,585.2 million, representing an increase of 19.0% compared to the same period last year. The assets of the Aircraft Leasing segment accounted for 37.3% of the overall Group, representing a decrease of 0.8% compared to December 31, 2017. The revenue and other income of the Aircraft Leasing segment accounted for 48.8% of the overall Group, representing a decrease of 3.0% compared to the same period of last year.

In 2018, the Group delivered 33 new aircraft and acquired 9 aircraft by way of portfolio acquisition, all of which were leased to airlines under operating leases. As of December 31, 2018, the Group had a portfolio of 427 aircraft, consisting of 226 owned aircraft, 5 managed aircraft and 196 committed aircraft. As of December 31, 2018, 203 owned aircraft of the Group were held for operating leases and 23 owned aircraft of the Group were under finance leases; the Group also has three flight simulators under finance lease. As of December 31, 2018, 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 leases was 7.0 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 A330 and the Boeing 777–300ER. Weighted by net book value the aircraft portfolio consists of 65% narrow-body aircraft, 30% wide-body aircraft and 5% regional, cargo, and other aircraft types.

The Group's orderbook contains next-generation, liquid, narrow-body types from the Airbus A320neo and Boeing 737 Max families. As of 31 December 2018, the Group has committed to purchase 100 aircraft from Boeing and 86 aircraft from Airbus. These aircraft are scheduled to deliver between 2019 and 2025. Of these total orders, 22 Boeing 737 aircraft were converted from the eight 787–9 aircraft in the original order book. The Group also has contractual commitments to acquire a further 10 aircraft under sale and leaseback and portfolio acquisition transactions. The aggregate of these commitments at manufacturer list prices is US$23,458 million.

The following table shows the composition of the Group's fleet and committed aircraft as of December 31, 2018:

	Owned aircraft	**Managed aircraft**	**Committed aircraft**	**Total**
Airbus				
A319–100	7			7
A320–200	49		3	52
A321–200	19			19
A330–200	8			8
A330–300	25			25
A330–900			2	2
A320neo	23		56	79
A321neo			30	30
Airbus Total	**131**	**0**	**91**	**222**

	Owned aircraft	Managed aircraft	Committed aircraft	Total
Boeing				
737–700	2			2
737–800	58	3	2	63
777–300ER	3	2		5
737 Max 8			93	93
737 Max 10			10	10
Boeing Total	**63**	**5**	**105**	**173**
Embraer				
E190–100LR	20			20
Embraer Total	**20**			**20**
Other	**12**			**12**
Total	**226**	**5**	**196**	**427**

In the above table, 12 Other aircraft, seven A320–200, three 737-800 and one A330–200 aircraft were all held under finance lease.

In addition to the above committed aircraft, the Group has 65 non-binding entitlements with other aircraft manufacturers, consisting of 20 ARJ21 and 15 C919 aircraft from The Commercial Aircraft Corporation of China, Ltd., and 30 MA700 aircraft from AVIC Aircraft Co., Ltd.

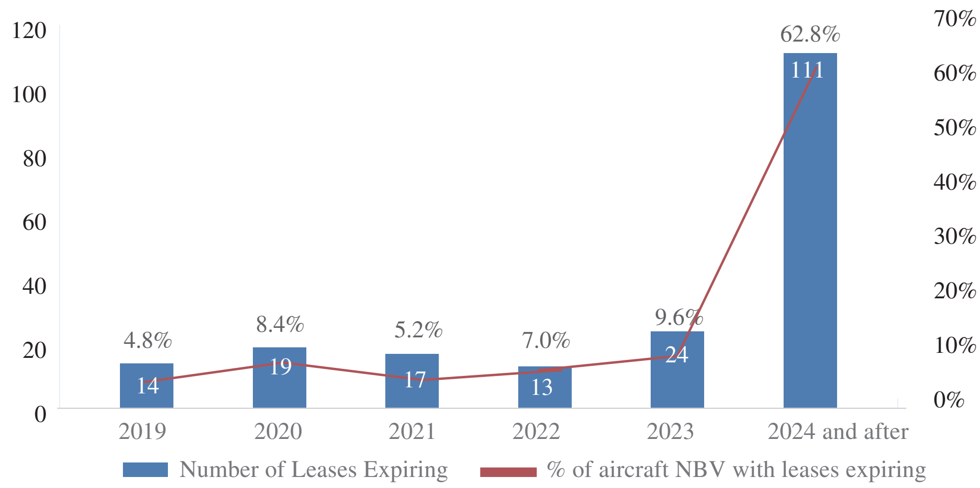
As of December 31, 2018, the number of committed aircraft (including SLBs and portfolio acquisitions) scheduled for delivery was 33 in 2019, 28 in 2020, 27 in 2021, 32 in 2022 and 76 after 2022.

As of December 31, 2018, of the 186 aircraft committed to be purchased directly from OEMs, 19 were committed for lease. Of the 23 new aircraft scheduled for delivery directly from OEMs in 2019, 18 were committed for lease.

As of December 31, 2018, the Group was committed to sale-and-leaseback transactions covering five aircraft, which are scheduled for delivery in 2019; the Group was also committed to portfolio acquisitions covering five aircraft, which are scheduled for delivery in 2019.

The following chart shows the breakdown of the number of leases and percentage of net book value balance at December 31, 2018 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.

Number of Aircraft with Leases Expiring & Percentage of Net Book Value under Operating Lease



During 2018, the Group signed agreements for lease extensions for 20 aircraft and for lease transitions for seven aircraft. As of December 31, 2018, all owned and managed aircraft were committed to lease except for one aircraft whose previous lease expired in November 2018 and next lease starts in January 2019.

The Group continued to trade aircraft during 2018, selling 23 aircraft in total with a gain on disposal of US$98.6 million and a total net book value of US$875.5 million. In 2018, the lease term of three aircraft under finance lease expired and the Group's owned aircraft under operating lease maintained 99.9 % fleet utilization.

The net lease yield of the operating leased aircraft for 2018 was 8.0%[4]. In 2018, the annualized pre-tax return on Aircraft Leasing assets was 2.6%, an increase of 0.2 percentage point from 2.4% in full year 2017.

The following table sets forth a breakdown of the Group's revenue and assets of Aircraft Leasing by region of lessee for 2018:

Region	**Percentage of lease revenue for 2018**	**Percentage of net book value as at December 31, 2018**
The PRC	57.0%	55.9%
Asia Pacific (excluding the PRC)	17.8%	17.3%
Europe	16.9%	16.3%
Middle East and Africa	3.1%	4.3%
Americas	5.2%	5.6%
Off-Lease	–	0.6%
Total	**100.0%**	**100.0%**

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

Manufacturer	**Percentage by net book value as at December 31, 2018**
Airbus	**67.0%**
Boeing	**27.9%**
Others	**5.1%**
Total	**100.0%**

4 The calculation is net lease income / average monthly balance of aircraft operating lease assets. Net lease income of the aircraft operating lease business is defined as the difference between aircraft operating lease income and interest expense of the aircraft operating lease business.

3.2 Infrastructure Leasing

In 2018, the Country stated the key areas and weaknesses, maintaining the remedy of shortcomings in infrastructural area. On October 31, 2018, the General Office of the State Council issued the *Guiding Opinions on Maintaining Efforts to Remedy Shortcomings in the Area of Infrastructure*, and further defined the division of labor and main responsibilities in relation to remedial policies of shortcomings in infrastructural area. The Group adhered to the implementation of overall deployment of the Country, strictly complied with the regulatory requirements and insisted on setting boundaries for decision-making, so as to constantly optimize the capital structure of infrastructure, and provide capital support for construction in local key areas and resolution of debt risks.

In 2018, the Group adhered to legitimate and compliant operation, resolutely eliminated hidden debt projects involving local government, and maintained stable and compliant development of the infrastructure leasing business. The business of Infrastructure Leasing segment accounted for 47.9% of the newly increased investment amount of the Group throughout the year. On business development strategies, the Group conducted active synergy with the branches of China Development Bank, mainly cooperated with provincial and municipal financing platforms with controllable debt risks, reduced the county- and district-level platform business, actively explored high-quality customers such as central enterprises, provincial and municipal state-owned enterprises, and participated in and promoted market-oriented transformation of financing platforms to enhance business concentration and depth for quality customers.

The Group had established a relatively mature business model for the Infrastructure Leasing segment, accumulated extensive business experience and gradually enhanced business scale and profitability. As of December 31, 2018, the total assets of the Infrastructure Leasing segment of the Group amounted to RMB94,546.7 million, representing an increase of RMB17,123.5 million, or 22.1%, as compared with that as of the end of last year. In 2018, such business segment realized revenue and other income of RMB5,010.4 million, representing an increase of RMB846.6 million, or 20.3%, as compared with that of last year.

The majority of the Infrastructure Leasing business of the Group was under finance lease, while a minority was under operating lease, thus the overall asset quality was good. The finance leasing mode of Infrastructure Leasing of the Group is carried out primarily through sale-and-leaseback model, which effectively helps enterprises activate the existing assets.

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

Transportation Infrastructure Leasing

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

As of December 31, 2018, the existing leasing projects of the Group include toll roads in 10 provinces and rail transit equipment in 10 provinces in the PRC.

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. Such business typically requires other guarantees to provide joint liability guarantee in order to reduce business risks.

Affected by the policies, the urban infrastructure leasing objects experienced increasingly stringent compliance requirements. By integrating the policy of "Remedy Shortcomings in the Area of Infrastructure", the Group adjusted the business model, achieving considerable results.

As of December 31, 2018, the Group provided leasing services for water, gas, heating, pipelines and other operational facilities in 17 provinces, autonomous regions and direct controlled municipalities in the PRC, and provided social housing leasing service in four provinces, autonomous regions and direct controlled municipalities in the PRC.

Energy Infrastructure Leasing

In 2018, in active response to national polices, the Group cooperated with a number of enterprises, including BOE Technology Group Co., Ltd., Xinjiang Goldwind Science Technology Co., Ltd., Beijing Enterprises Clean Energy Group Limited, Kong Sun Holdings Limited, in photovoltaic and wind power areas, exploring the areas including clean heat supply and gas supply, supporting green energy construction and implementing green financing.

As of December 31, 2018, the Group mainly provided energy and electric power equipment leasing services to enterprises in 18 provinces, autonomous regions and direct controlled municipalities in the PRC.

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:

(RMB in millions, except percentages)	**Net carrying amount of sub-segment's assets related to leasing business as of December 31, 2018**	**Percentage of net carrying amount of sub-segment's assets related to leasing business as of December 31, 2018**
Transportation Infrastructure Leasing	36,469.3	38.6%
Urban Infrastructure Leasing	44,816.3	47.4%
Energy Infrastructure Leasing	13,261.1	14.0%
Total	**94,546.7**	**100.0%**

In 2019, the Group will stringently implement the requirements of policies in local debt management set by relevant ministries and commissions and local government at all levels, arrange the inspection of lease projects in regions with a higher rate of government debt, and set up risk prevention and control plan. Surrounding the strategy of serving the Country, the Group will take advantages of China Development Bank's quality customer resources and rich experience in long-term loans in the area of infrastructure, carry out leasing business in the areas with sufficient cash flow and clear standards of property rights, such as toll roads, rail transit, water treatment, heat supply, gas supply and parking lot, and continuously provide support for local construction and resolution of risks.

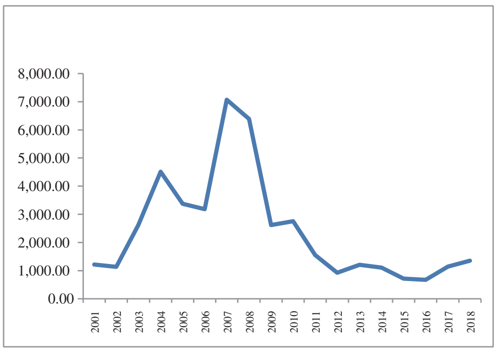
3.3 Ship, Vehicle and Construction Machinery Leasing

In 2018, the Group focused on optimizing its business layout, selected quality leasing assets and quality clients with a prudent approach for ship and vehicle leasing business and advanced healthy development of construction machinery leasing business. As of December 31, 2018, total assets of the Ship, Vehicle and Construction Machinery Leasing segment amounted to RMB42,976.8 million, representing an increase of RMB16,388.5 million, or 61.6%, as compared with that as of the end of last year. In 2018, total revenue and other income of the Ship, Vehicle and Construction Machinery Leasing segment of the Group amounted to RMB2,098.2 million, representing an increase of RMB1,045.5 million, or 99.3%, as compared with that of last year, due primarily to the increase in the ship and construction machinery business.

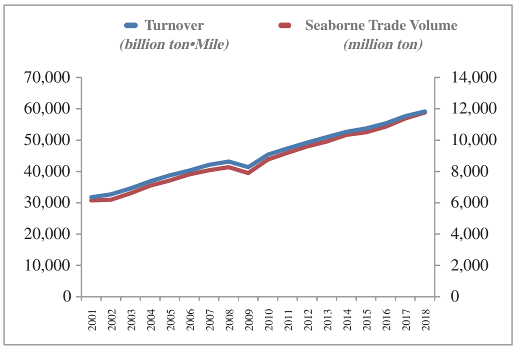
Ship Leasing

In terms of Ship Leasing business, in 2018, BDI index remained a gradual upward trend of recovery. The average annual index amounted to 1,353.43 points, boosting 18.2% as compared to 1,145.23 points in 2017. The global seaborne trade volume (million ton) grew by 2.7%; the seaborne trade turnover (billion ton • Mile) increased by 3.1%, while the capacity increased by 2.6%.

Baltic Exchange Dry Index (BDI)



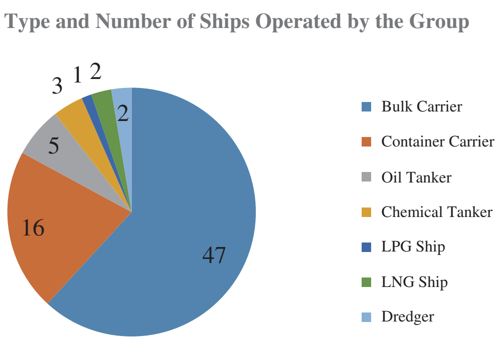
Global Seaborne Trade Volume Movement

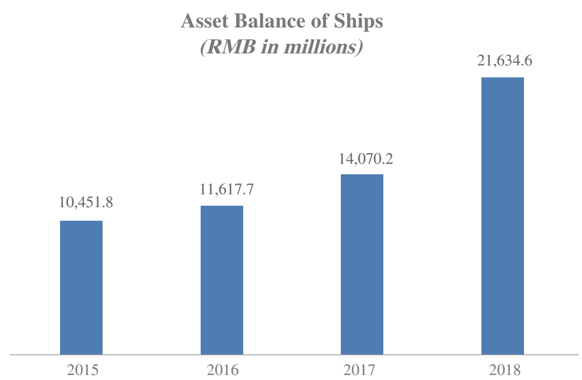


Source: Clarksons, 2018.12

Based on the research and judgement of the shipping market, the Group formulated three fundamental strategies to commence the ship leasing business in 2018: firstly, the Group accelerated the investment layout for ships, optimized the structure of types of ships, and stressed the development of general and high preservability bulk carriers by capturing opportunities when the market stayed at low position; secondly, the Group targeted on quality customers and high-end ships and, at the same time, commenced financing leases; thirdly, the Group adhered to a spirit of prudence in its business to strengthen team-building and promote professionality and capability of the employees. In terms of specific strategies, the Group continued to grasp the window period of recovery of the shipping market, choosing the mainstream general bulk carriers which are energy saving and environmental friendly with advanced technology in the world, while satisfying the international standard with a high preservability and value-added capability to be leasing assets. The Group partnered with preeminent cargo owners, traders, ship owners and shipyards in the domestic and overseas market, actively developed the ship operating lease business, created new growth drivers for business, effectively prevented risks, enhanced market competitiveness, and better served the real economy with the help of third parties platforms such as renowned ship management companies, ship classification society, and ship research institutes.

In 2018, the Group obtained a relatively great breakthrough in ship leasing business. There were two newly-added finance leasing decision-making projects, involving four leased ships. There were 14 newly-added operating leasing decision-making projects involving 59 leased ships, in which 20 operating ships were delivered during the year. As of December 31, 2018, the Group owned and leased 76 (including 10 under construction) ships of different types. The Group provided ship leasing services to 29 domestic and overseas customers. The average age of our operating fleet was five years. As of December 31, 2018, the underlying assets of ship leasing business amounted to RMB21,634.6 million, representing an increase of RMB7,564.4 million or 53.8% as compared with that as of December 31, 2017, accounting for approximately 50.3% of the total assets of the Ship, Vehicle and Construction Machinery Leasing business segment.

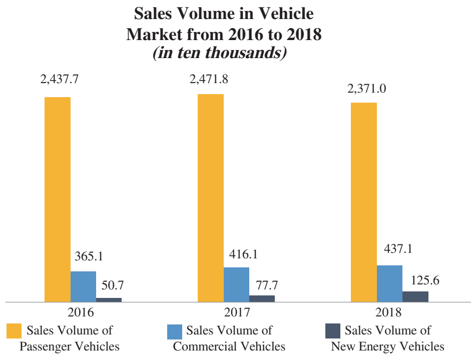


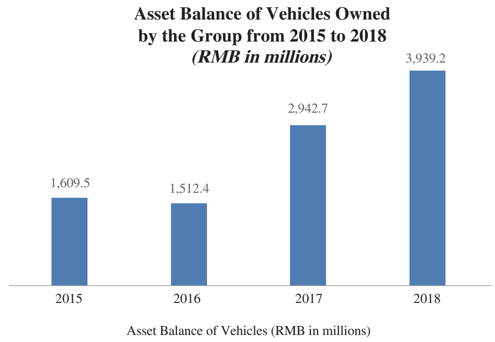


In order to better conduct ship leasing business and adhere to the philosophy of "talent as the top resource", in 2018, the Group successfully engaged a group of professional talents from different fields like shipping management, shipbuilding, ship operations, ship management and shipping finance with rich practical experience through social recruitment. The Group has built a relatively mature ship leasing business operation and management team, further laying a solid foundation for the development of the Group's ship leasing business, especially operation leasing business. In 2019, the Group will pay close attention to the movement in shipping market represented by BDI index, strengthen the philosophy of risks and continue to cultivate the market segments, maintain a close relationship with related market entities, strive to timely and effectively capture business opportunities, expand the scale of fleet, further consolidate the position of the Group in domestic and overseas ship leasing market, and gradually establish the brand of "CDB Ships (國銀船舶)".

Vehicle Leasing

In 2018, with the slowdown of domestic economic growth, domestic vehicle market gradually reached a mature period, maintaining an overall steady operation. However, various factors led to a year-on-year decrease in production and sale. The income of principal business of key enterprises focusing on automotive maintained a trend of growth, but the growth levelled off. According to the statistic of the Ministry of Industry and Information Technology of the PRC, in 2018, while the domestic passenger vehicle market recorded a slight decrease, the commercial vehicle market maintained the trend of certain growth. The sales volume of passenger vehicles is 23.71 million, representing a year-on-year decrease of 4.1%; while the sales volume of commercial vehicles reached 4.371 million, representing a year-on-year increase of 5.1%. In 2018, although there was a lifting of threshold for subsidies for new energy vehicles, development trend of new energy vehicle market was still strong, which remained a high-speed growth. According to the statistic of the Ministry of Industry and Information Technology of the PRC, the sales volume of new energy vehicles was 1.256 million, representing a year-on-year increase of 61.7%.





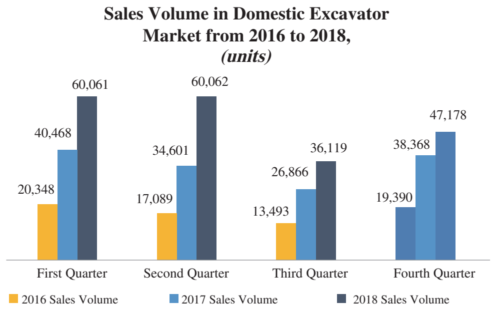
Since 2015, the Country has been attaching great importance to the development of inclusive finance business. In particular, in 2018, the PBOC, the CBIRC, the China Securities Regulatory Commission, the National Development and Reform Commission of the PRC and the Ministry of Finance of the PRC have jointly issued a series of policies and measures for deepening financial services of small and micro enterprises and exerted greater efforts in addressing the financing issues faced by small and micro enterprises. For both commercial vehicles and passenger vehicles, downstream customers of vehicle leasing business involved medium, small and micro customer, which is highly in line with policy orientation and has a relatively stable market demand. Reliable financial services can be offered to medium, small and micro customers, to address the issue of "difficult, troubled and costly financing" faced by medium, small and micro customers through vehicle leasing business. Therefore, integrating the market needs and orientation of the policies, in 2018, the Group attempted to expand the passenger vehicle leasing business for the first time, and commenced asset portfolio sale-and-leaseback business of passenger vehicles with various leasing companies. Through the passenger vehicle leasing business, the Group enriched the types of vehicle financial leasing products, expanding suitable area of Vehicle Leasing business to lay a foundation for sustainable development of Vehicle Leasing business. Meanwhile, by combining the actual demand of major manufacturers, the Group selectively developed manufacturers cooperative mode, asset portfolio cooperation mode and other types of Vehicle Leasing business to better satisfy the demands of manufacturers for different products, and further enhanced the cooperative relationship with major manufacturers.

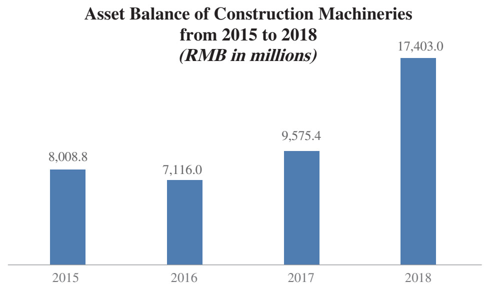
All vehicle leasing business of the Group is under finance leases, which is an ancillary financing service provided to the end-sales primarily through a wholesale business model with credit line granted to manufacturers or distributors and repurchase guarantee by manufacturers or joint and several liability 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, the Group carried out commercial vehicle leasing business and passenger vehicle leasing business with the leasing companies under manufacturers and professional leasing platforms through asset portfolio sale-and-leaseback business. On the one hand, the Group achieved a diversified cooperation with major manufacturers, thereby enhancing the loyalty of cooperation between the Group and major manufacturers. On the other hand, the Group opened up a cooperative channel for passenger vehicle leasing business, gradually forming a pattern of parallel development of multi-level vehicle financial leasing products.

In 2019, the Group will devote more efforts in the innovation of business varieties, expand the scope of cooperation, and further improve professional expertise in order to satisfy various financing needs from all levels and perspectives in the market under the complex economic situation. At the same time, the Group will pay close attention to the development trend of the vehicle market, moderately expand the passenger vehicle leasing business, consolidate the cooperation with key manufacturers of commercial vehicles, provide reliable channels for financing of small and medium enterprises and natural persons, and strive to build the inclusive finance system of the Group.

Construction Machinery Leasing

Under the slowdown of the macro-economic growth, the construction machinery market maintained steady growth, sales continued to maintain at a “high growth” trend, and financing demand of the terminal sales remained high. According to the statistics of China Construction Machinery Industry Association, the sales volume of the “indicating” product of the industry – excavator was 203 thousand units in 2018, representing a year-on-year increase of 45%. After experiencing rapid growth in the past two years, with the implementation of the policy of “cutting overcapacity, reducing inventory, de-leveraging, lowering costs and bolstering areas of weakness”, the enhancement of supply-side structural reform as well as the management and control of government debt, it is expected that the growth rate of construction machinery industry will slow down starting from 2019, and return to a reasonable space, but the overall sales volume of the construction machinery industry will still remain at a high level.





As one of the professional segments, the construction machinery leasing business gained popularity among numerous leasing companies and as a result, the competition of leasing market was relatively fierce. In this regard, the Group adhered to the principle of "seeking excellence while ensuring stability" in 2018, put emphasis on strengthening and enhancing cooperation with key manufacturers, formed a variety of business cooperation models, improved financial comprehensive service level, so as to greatly support the development of natural persons and small and micro enterprises.

All construction machinery leasing business of the Group is under finance leasing model. Similar to vehicles, such business is mainly carried out through the wholesale business model under the cooperation with manufacturers and distributors, including two models, namely sale-and-leaseback model and the model of direct leasing after purchase from manufacturers. Meanwhile, the Group also carried out asset portfolio sale-and-leaseback model with leasing platforms affiliated to key manufacturers.

In 2018, the Group seized the stable and positive momentum 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 management and control of risks. Business investment represented an increase of 92.0% as compared with that in the same period of last year. In 2019, the Group will conduct research and judgement on the development trend of the industry, strengthen the risk management and control, make rational plans for the pace of business development, continue to deepen the cooperation relationship with key manufacturers, 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 keys of national strategy, extend its business cooperation to the entire industrial chain, 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, Vehicle and Construction Machinery Leasing of the Group as of the dates indicated:

(RMB in millions, except percentages)	**Net carrying amount of sub-segment's assets related to leasing business as of December 31, 2018**	**Percentage of net carrying amount of sub-segment's assets related to leasing business as of December 31, 2018**
Ship Leasing	21,634.6	50.3%
Vehicle Leasing	3,939.2	9.2%
Construction Machinery Leasing	17,403.0	40.5%
Total	**42,976.8**	**100.0%**

3.4 *Other Leasing Business*

In 2018, the Group insisted on setting boundaries for decision-making. While compressing other leasing business, the Group continued to promote the development of leasing business including machine tool, high-end equipments and other sub-segments and support the overall upgrade of equipment manufacturing of China.

As of December 31, 2018, total assets of Other Leasing Business segment amounted to RMB11,085.2 million, representing a decrease of RMB249.5 million, or 2.2%, as compared with that as of the end of last year, indicating an overall shrinking trend. In terms of net carrying amount of leased assets, finance leases and operating leases accounted for 84.3% and 15.7%, respectively.

4. Financing

Benefiting from 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, 2018, the Group had established business relationships with 109 banks and was granted uncommitted credit facilities amounting to a total of approximately RMB554.1 billion including unused uncommitted credit facilities of approximately RMB380.6 billion. Meanwhile, under the complex and ever-changing macroeconomic conditions in domestic and overseas markets, the Group timely adjusted financing strategies based on macroeconomic trend, innovated financing products and expanded financing channels continually to further optimize debt structure and maintain an appropriate financing costs. As for financing in debt capital market, the Group successively conducted issuances of a one-year US$100 million (tap issuance), a three-year US$500 million and a three-year US$400 million senior bonds in March, July and November 2018; In October 2018, the Group successfully issued the first offshore private placement bonds in non-dollar currency, and issued five private placement bonds with an accumulated amount of US$265 million throughout the year, further expanding the financing channels. As for RMB financing, the Group completed the bank borrowings amounted to a total of RMB3,375 million by way of US dollar pledging. In addition, the Group invested in lease projects amounted to RMB1,850 million by way of bank acceptance bills for the first time, of which the comprehensive financing costs were significantly lower than that by using other financing sources during the same period. The use of the abovementioned innovative financing sources and financing tools created positive effects in controlling the financing costs of the Group in 2018, and concurrently expanded sources and channels for future cost control.

In 2018, due to the fluctuation of international macroeconomic environment and the contraction of liquidity, the interest rates of US dollar continuously increased; since the domestic financial market was under increasingly stringent regulatory supervision, the inter-bank financing costs experienced a rapid increase in the first half of the year; while in the second half of the year, there were changes in macro environment and monetary policies turned to moderately easy to a certain extent. The Group took the initiative to grasp the changes in market trends, timely adjusted financing strategies and actively innovated financing instruments and financing sources to effectively control comprehensive financing costs. As for RMB financing, the strategic combination of short-term financings within three months and financings with tenors of 6–12 months were adopted to effectively manage the liquidity risks of the end of a quarter or a year and to effectively control the financing costs. The Group also actively made use of innovative financing instruments to expand financing channels and control financing costs through seizing the opportunities in the market. As for financing by US dollar, the Group continued to optimize the structure of interest-bearing liabilities by selection of financing products dominated in US dollars and strategic adjustment of term structure. Despite of the rate hike cycle of US dollars, the Group's financing costs of US dollar remained at a relatively low level. In terms of the interest rate structure, the Group continued to maintain its original strategies for the risk management on interest rate, and actively managed the matching of the interest rate structure of assets and liabilities. In terms of the exchange rate structure, the Group continued to maintain its original strategies for the risk management on exposure of foreign exchange and maintained the matching of currency between assets and liabilities.

In 2018, the financing sources of the Group mainly included bank borrowings, issuance of bonds, bank acceptance bills and short term inter-bank borrowings through national interbank funding centre. As of December 31, 2018, the Group's borrowings, bonds payable, bank acceptance bills and short term inter-bank borrowings through national interbank funding centre were RMB157,186.9 million, RMB38,596.3 million, RMB758.8 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's risk management regards the support for sustainable development of the business and enhancement of the Group's value as the strategic objectives, and 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 risk philosophy and culture that "everyone shall be equal in the face of risks, everyone shall be responsible for risk control", in which it forms an impeccable risk management framework and system with a detail-defined division among all business segments, risk management departments 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 as much as possible on the Group's financial performance. The Group has, with the help of relevant risk evaluation resources and credit experience of China Development Bank, unleashed its potential in resources to improve the sense of activeness and forward-looking in risk management for safeguarding the business development.

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 Group, taking the first responsibility for the management of the comprehensive risks. The relevant risk management departments (including the Risk Management Department, the Office of the Board, Appraisal Department, Compliance Department, Legal Affairs Department and Accounting 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, liquidity risk, operational risk, country risk and information technology risk; the Office of the Board is responsible for the management of strategic risk and reputational 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, money laundry risk, related party transaction risk and internal control; the Legal Affairs Department is responsible for the management of legal risk; and the Accounting Department is responsible for the management of financial 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 and accelerate the transfer of leased assets by combining operation 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.

The Group identifies, evaluates, monitors, warns, controls, mitigates and reports 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 operation 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 creative value of risk management can be achieved.

In 2018, the Group strengthened the establishment of comprehensive risk management system, improved risk preference, limitation and warning management system, and further optimized comprehensive risk management system. The Group constantly optimized credit rating model and pricing plan, improved the measurement level of credit risk, enhanced the accuracy of risk management and control. The Group 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. The Group deepened the listing system management, strengthened the alert, monitor and control of risk-bearing projects, stably improved the efficiency of risk mitigation, management and control, strictly implemented the accountability system, strengthened special training of risks, positively guided the staff to develop the senses of compliance and responsibilities.

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. The Group has regarded aircraft and infrastructure leasing segments as core business, proactively developed ship, vehicle and construction machinery leasing businesses, and prudently developed other leasing business. 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- to 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 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 the non-performing assets ratio is of leading level comparing with that of the peers in the domestic finance leasing industry.

In 2018, the global economic growth experienced an apparent slowdown trend, debt risks intensified and trade protectionism powered back strongly. Along with the in-depth changes of the external environment, together with the impact of removal of overcapacity and deleveraging, the downward pressure on domestic economy was further intensified and the risks accumulated for a long term continuously exposed. Faced with the serious risk management and control situation, the Group further optimized the establishment of comprehensive risk management system, continuously enhanced the management and control of risk-bearing projects. Taking advantage of the listing system management, the Group continuously improved the management and control level of credit risks through special studies of the risk situation, risk alert of projects, multi-dimensional risk investigation and other forms.

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

	As of December 31,	
(RMB in millions)	**2018**	2017
Financial assets		
Cash and bank balances	**23,497.8**	16,207.0
Placement to banks and other financial institutions	**500.0**	–
Financial assets at fair value through profit and loss	**1,749.6**	1,857.9
Derivative financial assets	**36.9**	27.7
Financial assets at fair value through other comprehensive income	**495.7**	–
Available-for-sale financial assets	**–**	266.6
Accounts receivable	**5,405.7**	6,610.0
Finance lease receivables	**125,141.6**	98,880.6
Other financial assets	**231.6**	705.8
Total	**157,058.9**	124,555.6

Asset quality

The Group evaluates asset quality and adjusts asset categories quarterly based on the asset risk degree, and adopts measures to mitigate risks for the projects with overdue rent and material risks in a timely manner. The Group's asset 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 CBIRC on February 5, 2004 and the Guidelines on the Risk-based Classification of Loan (《貸款風險分類指引》) issued by the CBIRC on April 4, 2007. In addition, the Group formulated its financial assets impairment policies 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:

	As of December 31,	
(RMB in millions, except percentages)	**2018**	2017
Five-category		
Normal	**229,263.8**	182,711.1
Special mention	**12,611.1**	6,263.5
Substandard	**895.9**	372.0
Doubtful	**528.1**	1,044.7
Loss	**748.2**	65.3
Total assets before allowance for impairment losses	**244,047.1**	190,456.6
Non-performing assets [(1)]	**2,172.2**	1,482.0
Non-performing asset ratio [(2)]	**0.89%**	0.78%

(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:

(RMB in millions, except percentages)	**As of December 31, 2018**	2017
Five-category		
Normal	**125,120.6**	101,843.8
Special mention	**7,927.4**	4,807.8
Substandard	**895.9**	372.0
Doubtful	**528.1**	1,044.7
Loss	**683.4**	0.6
Finance lease related assets before allowance for impairment losses	**135,155.4**	108,068.9
Non-performing finance lease related assets [(1)]	**2,107.4**	1,417.3
Non-performing asset ratio of finance lease business [(2)]	**1.56%**	1.31%

(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, 2018, the non-performing assets of the Group was RMB2,172.2 million, representing an increase of RMB690.2 million as compared with that as of the end of last year, while the non-performing asset ratio was 0.89%, representing an increase of 0.11 percentage point as compared with that as of the end of last year. As of December 31, 2018, the non-performing finance lease related assets of the Group were RMB2,107.4 million, representing an increase of RMB690.1 million as compared with that as of the end of last year, while the non-performing asset ratio of finance lease business was 1.56%, representing an increase of 0.25 percentage point as compared with that as of the end of last year. The Group will constantly promote the assets quality: for new businesses, the Group will follow the principle on the selection of industries and customers strictly; for existing businesses, the Group will take 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, 2018:

(RMB in millions, except percentages)	**Aircraft leasing**	**Infrastructure leasing**	**Ship, Vehicle and Construction Machinery Leasing**	**Other Leasing Business**	**Total**
Five-category					
Normal	2,041.8	86,196.4	28,862.4	8,020.0	125,120.6
Special mention	1.1	2,377.5	5,062.4	486.4	7,927.4
Substandard	–	148.4	–	747.5	895.9
Doubtful	–	–	–	528.1	528.1
Loss	–	–	514.9	168.5	683.4
Finance lease related assets before allowance for impairment losses	2,042.9	88,722.3	34,439.7	9,950.5	135,155.4
Non-performing finance lease related assets	–	148.4	514.9	1,444.1	2,107.4
Non-performing asset ratio of finance lease business	–	0.17%	1.50%	14.51%	1.56%

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, 2018, 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 affiliated to local governments to conduct Infrastructure Leasing business, while the credit risk of such segment improved in 2018, resulting in a corresponding decrease 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, Vehicle and Construction Machinery Leasing segment decreased as compared with that of last year. Part of the stock projects in Other Leasing Business segment was exposed to risk due to economic downturn pressure, leading to a year-on-year increase in non-performing asset ratio.

The Group for the first time adopted the standard of "IFRS 9: Financial Instruments" ("**New Financial Instruments Standard**") on January 1, 2018, measuring the expected credit losses of the Group's finance lease receivables on the basis of Expected Credit Loss ("**ECL**") model in accordance with the requirements of New Financial Instruments Standard.

On the basis of ECL model, the Group divided the credit level changes of finance lease receivables into the following three stages:

– Stage 1: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage 1.

– Stage 2: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is included in stage 2.

– Stage 3: If the financial instruments is credit-impaired, the financial instrument is included in stage 3.

With the ECL model and the above division of credit levels, the followings are carrying amount of finance lease related assets and balances of allowance for impairment losses of finance lease related assets after the initial adoption of New Financial Instruments Standard by the Group on January 1, 2018 (Unit: RMB thousand):

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Carrying amount of finance lease related assets	93,962,333	12,688,627	1,418,012	108,068,972
Allowance for impairment losses of finance lease related assets	796,788	2,460,868	1,072,621	4,330,277

The followings are carrying amount of finance lease related assets and balances of allowance for impairment losses of finance lease related assets after the adoption of New Financial Instruments Standard by the Group as of December 31, 2018 (Unit: RMB thousand):

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Carrying amount of finance lease related assets	115,166,706	17,671,497	2,317,219	135,155,422
Allowance for impairment losses of finance lease related assets	1,158,150	2,102,878	2,073,431	5,334,459

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

	As of December 31,	
(RMB in millions)	**2018**	2017
Neither overdue nor impaired	**128,425.3**	100,267.4
Overdue but not impaired	**–**	–
Impaired	**1,391.8**	1,417.3
	129,817.1	101,684.7
Less: Allowance for impairment loss	**(4,675.5)**	(2,804.1)
Total	**125,141.6**	98,880.6

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, 2018, the balance of finance lease transactions for the largest single client of the Group accounted for 14.06% of the net capital while the balance of finance lease transactions for the largest single group client accounted for 17.26% of the net capital.

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

Concentration indicator	As of December 31, 2018	2017
Degree of concentration of single client financing [1]	**14.06%**	17.66%
Degree of concentration of single group client financing [2]	**17.26%**	18.53%

(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, 2018, in terms of finance lease related assets before allowance for impairment losses, the total financing raised by the top ten single clients amounted to RMB27,623.3 million, accounting for 20.5% 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, 2018:

(RMB in millions, except percentages)	**Business segment**	**Financing amount**	**Percentage of finance lease related assets before allowance for impairment losses**
Client A	Infrastructure	3,778.4	2.8%
Client B	Infrastructure	3,778.2	2.8%
Client C	Infrastructure	3,626.6	2.7%
Client D	Infrastructure	3,011.9	2.2%
Client E	Transportation and Construction Machinery	2,901.8	2.1%
Client F	Infrastructure	2,425.3	1.8%
Client G	Transportation and Construction Machinery	2,256.4	1.7%
Client H	Infrastructure	2,133.5	1.6%
Client I	Infrastructure	1,867.1	1.4%
Client J	Transportation and Construction Machinery	1,844.1	1.4%
Total		27,623.3	20.5%

If lessees are overly concentrated in a single industry or region, or have 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:

(RMB in millions, except percentages)	**As of December 31,**			
	2018		2017	
	Amount	**Percentage**	Amount	Percentage
Aircraft Leasing	**2,042.9**	**1.6%**	2,543.9	2.5%
Infrastructure Leasing	**84,099.7**	**64.8%**	66,236.0	65.1%
Transportation Infrastructure	**31,925.6**	**24.6%**	27,047.3	26.6%
Urban Infrastructure	**42,318.8**	**32.6%**	33,518.1	33.0%
Energy Infrastructure	**9,855.3**	**7.6%**	5,670.6	5.5%
Ship, Vehicle and Construction Machinery Leasing	**34,439.7**	**26.5%**	23,430.4	23.1%
Ship	**14,274.8**	**11.0%**	11,346.3	11.2%
Vehicle	**3,832.0**	**2.9%**	2,931.8	2.9%
Construction Machinery	**16,332.9**	**12.6%**	9,152.3	9.0%
Other Leasing Business	**9,234.8**	**7.1%**	9,474.4	9.3%
Commercial Property	**1,791.2**	**1.4%**	3,239.8	3.2%
Other Sectors	**7,443.6**	**5.7%**	6,234.6	6.1%
Total	**129,817.1**	**100.0%**	101,684.7	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 be narrowed down as a result of the fluctuation in market interest rates. Therefore, the Group primarily manages the interest rate risk through balancing the durations of the leasing assets and its corresponding liabilities.

The Group mainly receives fixed rental income under operating leases in foreign currencies while the corresponding bank borrowings bear floating rate interests. The Group reduced its liability exposure of overall floating interest rate denominated in US dollar mainly through issuance of fixed-rate bonds, switched the borrowings with floating rate into fixed rate through interest rate swap contracts and hedged the cash flow volatility risk as a result of the liability interest rate fluctuation to effectively match the future fixed rental income and stabilize the interest rate margins while mitigating the effect of fluctuation in interest rates of US dollars on the operating and financial performance of the Group.

The majority of rental income from RMB-denominated leasing business of the Group floats with the benchmark interest rate published by the PBOC, while liabilities mainly bear a fixed rate interest. For this particular situation, the Group proactively matches the duration of RMB-denominated liabilities with that of RMB-denominated lease assets to reduce interest rate risk.

5.2.2 Foreign Exchange Risk

Foreign exchange risk refers to the risk of losses in the Group's overall income and economic value resulting from an adverse movement in foreign exchange rates. The foreign exchange risk exposure primarily arises from the US dollar-denominated profits generated from subsidiaries conducting US dollars-denominated leasing business and the exchange of proceeds raised in listing into US dollars.

The strategy for foreign exchange 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 foreign exchange risk from exposure which affects profits through derivatives instruments. Most of the aircraft and ships under the operating lease and finance lease business of the Group are purchased and dominated in US dollars and the corresponding operating lease assets and finance lease receivables are denominated in US dollars, while the major funding sources of which are onshore and offshore US dollar-denominated bank borrowings and offshore US dollar-denominated bonds. Apart from Aircraft Leasing and Ship Leasing businesses, other leasing businesses of the Group are substantially denominated in Renminbi. Hence, there is no significant foreign exchange risk exposure.

As of December 31, 2018, the Group's exposure for foreign exchange that affects profit or loss amounted to US$1,039.1 million, and the ending balance of notional amount for hedging transactions amounted to US$620.0 million. The Group effectively managed the foreign exchange risk and recorded exchange revenue of RMB144.4 million through monitoring the exposure, hedging by derivatives instruments, etc.

5.3 Liquidity Risk

Liquidity risk refers to the risk that the Group is unable to obtain funds at a reasonable cost to repay the liabilities or seize other investment opportunities. The target of the Group's liquidity risk management is to maintain moderate liquidity reserves and sufficient funding resources at any time to meet the funding needs of matured liabilities and new investment in leasing businesses, and to achieve a higher interest rate margins level and lower management costs on condition that liquidity risks have been well managed.

The Group managed and balanced between liquidity risk and interest rate margin by adopting the following measures: proactively management of the maturity profile of our assets and liabilities and cash flow mismatch gap control to reduce structured liquidity risk; through adequate bank credit line, the Group established diversified funding sources and channels, thereby continuously increasing the transaction capability of the money market, the financing and the daily liquidity management capabilities of the Group, thus and so preserved sufficient funds to repay debts and fuel the Group's business development. The Group established a three-level liquidity reserve system to mitigate and defuse liquidity risk. The three-level liquidity reserve system consists of quasi-cash assets from bank deposits and the money market, etc. as the first level liquidity reserve, bank-committed credit line of overdraft as the second level liquidity reserve and a portion of domestic quasi-sovereign bonds held by the Group as the third level liquidity reserve. As of December 31, 2018, the Group had an interbank borrowing and lending limit of RMB12.64 billion. In addition, the Group strived to improve its trading capacity in the money market, especially the online financing capacity through national interbank funding centre, where accumulated due to banks and other financial institutions (including bond collateral repo) amounted to RMB63.9 billion. Meanwhile, the Group maintained a bank-committed overdraft line of RMB1.45 billion and held a certain portion of domestic quasi-sovereign bonds, thus ensuring that its liquidity asset reserve can fully mitigate liquidity risk.

During 2018, the liquidity of the Group remained strong. According to the market liquidity situation, the Group arranged financing plans in a reasonable and orderly manner, further optimized the liquidity management mechanism, and gradually optimized the three-level liquidity reserve system to further improve the liquidity risk management capability.

5.4 *Other risk*

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 2018, the Group improved the overall operational risk management level, while the overall situation was steady. Firstly, the Group further optimized the internal control and management system, inspecting and remedying omissions in the reserve system as well as improving the system of the Group. Secondly, the Group strengthened the accountability management, improved risk and business trainings, increased the sense of risk responsibility and compliance of all employees. Thirdly, the Group improved the construction of information system, and launched a number of new systems such as leasing, fee control, accounting, capital, manpower, legal affairs and master information. Meanwhile, the Group realized the business and financial integration for the first time, and gradually improved the information system, providing technical support for further prevention of operation risk. Fourthly, the Group strengthened the management of weak aspects and further sorted out the risk points in all steps of the business by carrying out various types of special risk investigation.

5.4.2 Information Technology Risk

In 2018, the Group further optimized its management of information technology risk. Firstly, the Group reinforced the construction of information technology management system by establishing the Administrative Measures on Data Standards (《數據標準管理辦法》) and the Administrative Measures on Establishing an Information System (《信息系統建設管理辦法》), regulating the organizational structure, standard formulation, implementation, changes and review process for data standard management. The Group clarified the organizational structure of information system establishment and management, demand management and management of comprehensive flow for system construction. Optimization of system further improved the regulation of information technology management. Secondly, the

Group set up risk monitoring indicators of information technology risk, and incorporated them into the risk appetite, risk limits and alert indicator system of the Group for centralized management, while monitoring, evaluating and reporting were conducted on a quarterly basis. Thirdly, the Group optimized the management process and technical management and control of the change in production to ensure that the change in production environment under massive development and production of system in 2018 were safe and controllable and reduced operational risks. The Group organized tests of data backup and recovery technology of important system newly operated to prevent the risk of losing important data.

5.4.3 Reputational risk

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

In 2018, the Group enhanced its reputational risk management and focused on the reputational risk prevention and control as well as brand building. According to the Measures for the Management of Reputational Risks (《聲譽風險管理辦法》), the Group conducted regular self-inspection and investigation of reputational risk, and carried out daily public opinions monitoring through professional institutions, prevented reputation-related issues of the Group in advance and timely and promptly dealt with the issues, thereby effectively improving the capability of responding to the public sentiment and guiding public opinions. In addition, the Group facilitated the brand building of the Company in markets with great efforts through strengthening cooperation with domestic and foreign authoritative media, boarded the promotion channels of the Group by fully adapting to the features of new media, increased the flow of "Two Ws" (i.e. "Wechat and Weibo"), expanded the audience of the new media channels, strengthened positive advertising, accumulated positive energy and guided public opinions in an active manner through improving the operational quality of the Group's new media channels. 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 maintain a reasonable capital sufficiency rate to meet the requirements of capital regulations and policies, 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 CBIRC, capital adequacy ratio, leverage ratio and the utilization of regulatory capital are closely monitored by the management of the Group.

In 2018, the Group continued to consolidate the foundation of capital management, actively promoted the operating transformation of capital intensification. Firstly, the Group complied with the requirements of regulations and policies, further strengthened the capital management mechanism, optimized capital management system, and continued to implement the internal capital adequacy ratio assessment procedures. Secondly, the Group deepened the concept of refined capital management based on the rolling supervision of capital and capital planning, conducted in-depth organizational management of capital replenishment and capital use for improving the efficiency of capital use and capital return level. Thirdly, the Group strengthened internal and external capital replenishment capabilities, and developed mechanism for long-term capital replenishment. The Group maintained stable profit growth and effective management on non-performing asset and provision of impairment, formed a solid foundation for internal capital replenishment, and at the same time, actively promoted external capital replenishment, continuously consolidated the capital strength of the Group, and enhanced the capability to serve the real economy. The capital indicators throughout the year were positive, while the capital adequacy ratio remained at a stable and reasonable level, and various management system and management measures were further implemented.

On June 7, 2012, the CBIRC 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 CBIRC issued the Notice on Arranging Related Matters in the Transitional Period of Carrying out the Administrative Measures for 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, 2018, the Group's core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 10.72%, 10.72% and 11.91%, respectively, which were all above the regulatory requirements.

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

(RMB in millions, except percentages)	Regulatory requirement	As of December 31, **2018**	2017
Net capital:			
Net core tier-one capital		**24,199.1**	23,502.8
Net tier-one capital		**24,199.1**	23,502.8
Net capital		**26,873.5**	25,134.8
Capital adequacy ratio:			
Core tier-one capital adequacy ratio	≥7.5%[1]	**10.72%**	13.19%
Tier-one capital adequacy ratio	≥8.5%[1]	**10.72%**	13.19%
Capital adequacy ratio	≥10.5%[1]	**11.91%**	14.10%

(1) The indicating requirement to be fulfilled before the end of 2018.

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 2018, the capital expenditures of the Group amounted to RMB19,855.7 million, which were mainly used for the purchase of aircraft. The Group financed the capital expenditures through cash from operating activities, bank borrowings and net proceeds from the Global Offering.

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

(RMB in millions)	For the year ended December 31, **2018**	2017
Capital expenditures	**19,855.7**	14,019.4

8. Pledge of Assets

For the year ended December 31, 2018, properties and equipment for operating lease (net), properties and equipment for finance lease (net), finance lease receivables and bank deposits (net) of the Group amounted to RMB25,146.3 million, RMB4,015.8 million, RMB6,172.5 million and RMB3,682.8 million, respectively, were paid to the bank for bank borrowings. No property or equipment for pre-paid operating lease were pledged to banks for bank borrowings. The total collateral assets as aforesaid accounted for 16.39% 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 of the Group to achieve tremendous operating results by the top notch talents.

As of December 31, 2018, the Group had 329 employees in total, 225 of which were domestic employees, 104 were overseas employees. The Group has a team of high-quality talents with good academic qualifications. As of December 31, 2018, approximately 94% of the Group's employees had bachelor's degrees or above, while approximately 57% of the Group's employees had master's degrees or above.

The Group attaches great importance to talents. The Group comprehensively enhanced the human resources management construction of institutional organization, remuneration management, performance assessment, position and title, training management and talent introduction to lay a sound foundation for the business development. The Group developed and improved the result-oriented remuneration incentive system for employees, established multi-channels to introduce talents, effectively replenishing strength to the capital of human resources. The Group systematically organized the department functions and post functions, consolidated the foundation of scientific and standardized management of human resources management. By developing multi-level training system, the Group organized 105 sessions of training, and commenced the development of human resources management system to effectively realize the informationalization management of human resources.

In 2019, the Group will continue to deepen the reform in human resources, inherit to the concept of talents as the first capital, strive to create a "platform for working and starting a business, a stage for self-realization". The Group will uphold the "people-oriented" concept, focusing on enhancing the building of talents team with professionalism, high quality and struggling spirit, especially for selection, usage, education and management of core talents, in order to promote the quality and efficiency of development and push forward the sustainable and healthy development of the Group through strengthening management of employees and unleashing their potential.

For the year ended December 31, 2018 and December 31, 2017, our staff costs were RMB508.9 million and RMB351.6 million, which accounted for 3.3% and 2.9%, respectively, in the operating revenue and revenue for other businesses of the Group in the same year.

10. Use of Net Proceeds from the Initial Public Offering

The Company was listed on the Hong Kong Stock Exchange on July 11, 2016. The net proceeds from the Global Offering (including the exercise of over-allotment option, after deducting underwriting commissions and relevant expenses) amounted to HK$6,125.3 million. The Company used all the proceeds according to the disclosure in the Prospectus dated June 24, 2016.

11. Industrial Regulations

In 2018, 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 defense". Firstly, 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. Secondly, the Group promoted efficient communication with regulatory authorities, promoted effective interaction between self-compliance and external regulation, fully cooperated with supervision and inspection work, and further optimized the compliance and internal control management system of the Group by promoting the rectification of inspection opinion. Thirdly, the Group further strengthened the building of compliance culture, and promoted occupational ethics and values of honesty and integrity in the Group, developed effective compliance accountability mechanism as well as employee behavior investigation and handling mechanism, regularly carried out compliance culture training and lectures, improved the compliance awareness of all employees, and further improved the compliance risk prevention and control capability.

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

	Regulatory requirement	**As of December 31, 2018**
Capital adequacy ratio	Above 10.5%	11.91%
Tier-one capital adequacy ratio	Above 8.5%	10.72%
Core tier-one capital adequacy ratio	Above 7.5%	10.72%
Degree of concentration of single client financing	Not more than 30%	14.06%
Degree of concentration of single group client financing	Not more than 50%	17.26%
Ratio of a single related client(1)	Not more than 30%	4.36%
Ratio of all related parties (2)	Not more than 50%	4.58%
Ratio of a single related Shareholder (3)	Not more than 100%	14.29%
Ratio of interbank lending (4)	Not more than 100%	–
Allowance to non-performing finance lease related assets	Above 150%	253.12%
Allowance to total finance lease related assets (5)	Above 2.5%	3.95%
Investment in fixed-income securities (6)	Not more than 20%	8.37%

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

(2) Calculated by dividing the balance of all finance lease transactions of the Group to all related parties by the net capital of the Group.

(3) Calculated by dividing the balance of financing of the Group 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 micro 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. CBIRC indicated that it would 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. 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.

12. Prospects

In 2019, the recovery of global real economy will enter a turning point, the downward pressure is increasingly emerging. The changes in the U.S. economy, the intensified trade war between the PRC and the U.S. as well as the rise in global debt burden will bring more uncertainties. China's economy will still maintain a medium-high growth rate. Faced with steady internal and external situation with changes and concerns, the Group has to firmly seize the propitious moment when financial policies focus on tax reduction and fee reduction and the monetary policies become moderate, utilize the opportunities of renewal of the fleet in the international aviation market, the slow recovery in the ship and shipping industry and the infrastructure upgrading brought by the "remedy for weaknesses" policy, and strengthen the internal construction to promote the steady growth of our business.

In terms of business, the Group will continue to enhance professional capabilities in aircraft, ship, vehicle and construction machinery business, probe the policies, deepen the cooperation with key customers in the infrastructure sector, strengthen the business development in new energy and equipment manufacturing sector and put green finance and service entity economy into practice. In terms of internal management, the Group will insist on the guidance of compliance, accelerate the establishment of comprehensive compliance and risk management system, adequately acknowledge the importance in preventing and resolving significant risks, and strictly defense against the bottom line of risks. The Group will push forward the asset and liability management. At the asset side, the Group will steadily push forward the launch of "leasing+factoring", asset securitization, listing and transfer in the Register and Transfer Centre for Credit Assets in Banking Industry and multi-channel asset transfer business to adjust the structure and increase the revenue. At the liability side, the Group will keep enriching the financing means by making use of the capital market to optimize financing structure to further reduce financing costs and to enhance capability of fixed income investment and trading of derivatives, reduce market and liquidity risks and expand sources of profits through better interest rate, exchange rate management.

In 2019, we will continually promote the Group to obtain new achievements and new progress in pushing forward all duties of operation and development, and return our Shareholders with brilliant results.

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, 2018, except for the code provision A.4.2 of the Corporate Governance Code, the Company has been complying with all other applicable code provisions set out in the Corporate Governance Code.

Pursuant to code provision A.4.2 of the Corporate Governance Code, every director should be subject to retirement by rotation at least once every three years. The term of the first session of the Board of Directors and the Board of Supervisors expired on 8 September 2018. As the nomination of candidates for Directors and Supervisors of the second session of the Board of Directors and the Board of Supervisors has not been completed, the election of the Board of Directors and the Board of Supervisors is still in proactive preparation, and in order to ensure the continuity of the relevant work of the Company, the election of the Board of Directors and the Board of Supervisors has been postponed. The term of the Directors of the first session of the Board of Directors and the Supervisors of the first session of the Board of Supervisors will be extended till the election of the second session of the Board of Directors and the Board of Supervisors at a Shareholders' general meeting of the Company, and the term of each special committee of the Board of Directors, the Board of Supervisors and the senior management will be correspondingly extended. The Company will determine relevant matters as soon as possible, actively promote the process of election of the Board of Directors and the Board of Supervisors, and fulfil its corresponding obligations of information disclosure in a timely manner. For details, please refer to the announcement published by the Company on the websites of the Hong Kong Stock Exchange and the Company on September 7, 2018. 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, 2018.

Final Dividend

The Board recommended to distribute a final dividend of RMB0.8923 (tax inclusive) per 10 ordinary Shares for the year ended December 31, 2018, with the total amount of profit distribution amounted to RMB1,128,079,567.40. 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, 2019 to the Shareholders. Notice of the 2018 annual general meeting will announce the date of the 2018 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, 2018, 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, 2018 of the Group were audited by PricewaterhouseCoopers. The audit committee of the Board has also reviewed the audited annual results of the Group for the year ended December 31, 2018. The figures in respect of the Group's results for the year ended December 31, 2018 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, 2018.

Publication of Annual Report

The annual report of the Company for the year ended December 31, 2018 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.

FINANCIAL STATEMENTS AND MATERIAL NOTES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Finance lease income	**7,036,316**	5,784,289
Operating lease income	**6,584,804**	6,016,001
Total revenue	**13,621,120**	11,800,290
Net investment gains	**211,662**	176,160
Other income, gains or losses	**1,708,528**	338,272
Total revenue and other income	**15,541,310**	12,314,722
Depreciation and amortisation	**(2,989,253)**	(2,701,887)
Staff costs	**(508,889)**	(351,644)
Fee and commission expenses	**(74,559)**	(61,986)
Interest expense	**(6,863,247)**	(4,984,470)
Other operating expenses	**(538,049)**	(493,965)
Net Impairment losses on financial assets	**(992,118)**	(851,572)
Net Impairment losses on other assets	**(300,974)**	(61,346)
Total expenses	**(12,267,089)**	(9,506,870)
Profit before income tax	**3,274,221**	2,807,852
Income tax expense	**(767,237)**	(676,889)
Profit for the year attributable to owners of the Company	**2,506,984**	2,130,963
Earnings per share attributable to owners of the Company *(expressed in RMB per share)*		
–Basic and diluted	**0.20**	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**2,506,984**	2,130,963
Other comprehensive income:		
Item that may be reclassified subsequently to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	**24,243**	–
Change in value of available-for-sale financial assets, net of tax	**–**	(35,723)
(Losses)/gains on cash flow hedges, net of tax	**(192,636)**	94,374
Currency translation differences	**289,309**	(279,792)
Total other comprehensive income for the year, net of tax	**120,916**	(221,141)
Total comprehensive income for the year attributable to owners of the Company	**2,627,900**	1,909,822

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
ASSETS		
Cash and bank balances	**23,497,845**	16,207,073
Placement to banks and other financial institutions	**500,000**	–
Financial assets at fair value through profit or loss	**1,919,055**	1,857,927
Derivative financial assets	**36,877**	27,728
Assets held-for-sale	**1,324,969**	2,697,457
Financial assets at fair value through other comprehensive income	**495,740**	–
Available-for-sale financial assets	**–**	279,573
Accounts receivable	**5,405,652**	6,610,039
Finance lease receivables	**125,141,605**	98,880,563
Prepayments	**12,332,839**	7,530,238
Investment properties	**1,075,266**	984,709
Property and equipment	**63,038,585**	49,532,281
Deferred tax assets	**1,088,172**	642,535
Other assets	**2,210,381**	1,849,149
Total assets	**238,066,986**	187,099,272
Liabilities		
Borrowings	**157,186,898**	116,245,105
Financial assets sold under repurchase agreements	**880,000**	2,030,000
Derivative financial liabilities	**282,711**	69,125
Accrued staff costs	**249,855**	160,506
Tax payable	**440,571**	433,529
Bonds payable	**38,596,346**	32,326,713
Deferred tax liabilities	**614,081**	540,123
Other liabilities	**15,613,494**	11,785,202
Total liabilities	**213,863,956**	163,590,303

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Equity		
Share capital	**12,642,380**	12,642,380
Capital reserve	**2,418,689**	2,418,689
Hedging and fair value reserve	**(177,698)**	(9,305)
Translation reserve	**173,185**	(116,124)
General reserves	**4,042,728**	3,188,170
Retained profits	**5,103,746**	5,385,159
Total equity	**24,203,030**	23,508,969
Total liabilities and equity	**238,066,986**	187,099,272

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company						
	Share capital *RMB'000*	**Capital reserve** *RMB'000*	**Hedging and fair value reserve** *RMB'000*	**Translation reserve** *RMB'000*	**General reserves** *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2017	12,642,380	2,418,689	(67,956)	163,668	2,665,268	4,479,625	22,301,674
Profit for the year	–	–	–	–	–	2,130,963	2,130,963
Other comprehensive income for the year	–	–	58,651	(279,792)	–	–	(221,141)
Total comprehensive income for the year	–	–	58,651	(279,792)	–	2,130,963	1,909,822
Dividends paid	–	–	–	–	–	(702,527)	(702,527)
Appropriation to general reserves	–	–	–	–	522,902	(522,902)	–
At 31 December 2017	12,642,380	2,418,689	(9,305)	(116,124)	3,188,170	5,385,159	23,508,969
At 31 December 2017	**12,642,380**	**2,418,689**	**(9,305)**	**(116,124)**	**3,188,170**	**5,385,159**	**23,508,969**
Impact of adoption of IFRS 9	**–**	**–**	**–**	**–**	**–**	**(966,771)**	**(966,771)**
At 1 January 2018	**12,642,380**	**2,418,689**	**(9,305)**	**(116,124)**	**3,188,170**	**4,418,388**	**22,542,198**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**2,506,984**	**2,506,984**
Other comprehensive income for the year	**–**	**–**	**(168,393)**	**289,309**	**–**	**–**	**120,916**
Total comprehensive income for the year	**–**	**–**	**(168,393)**	**289,309**	**–**	**2,506,984**	**2,627,900**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(967,068)**	**(967,068)**
Appropriation to general reserves	**–**	**–**	**–**	**–**	**854,558**	**(854,558)**	**–**
At 31 December 2018	**12,642,380**	**2,418,689**	**(177,698)**	**173,185**	**4,042,728**	**5,103,746**	**24,203,030**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before income tax	**3,274,221**	2,807,852
Adjustments for:		
Bonds payable interest expenses	**1,244,488**	815,948
Depreciation and amortisation	**2,989,253**	2,701,887
Net Impairment losses on financial assets	**992,118**	851,572
Net Impairment losses on other assets	**300,974**	61,346
Gains on disposal of equipment held for operating lease business	**(651,418)**	(41,098)
Net realised losses from derivatives	**–**	(6,296)
Net realised gains from financial assets at fair value through other comprehensive income	**(75,757)**	–
Net realised gains from financial assets at fair value through profit or loss	**(8,961)**	–
Net realised gains from disposal of finance lease receivables	**(8,839)**	–
Unrealised fair value changes from derivatives	**(4,613)**	(12,943)
Unrealised fair value changes in financial assets at fair value through profit or loss	**(113,492)**	(63,651)
Operating cash flow before movements in working capital	**7,937,974**	7,114,617
(Increase)/decrease in mandatory reserve deposits with central banks	**(71,463)**	28,043
Decrease in accounts receivable	**787,028**	202,449
Increase in finance lease receivables	**(28,297,989)**	(10,795,847)
Increase in other assets	**(380,979)**	(694,450)
Increase in borrowings	**40,941,793**	10,046,937
Decrease in due to banks and other financial institutions	**–**	(4,000,000)
Decrease in financial assets sold under repurchase agreements	**(1,150,000)**	(1,106,000)
Increase in accrued staff costs	**89,349**	66,318
Increase/(decrease) in other liabilities	**3,889,786**	(429,787)
Cash from operations	**23,745,499**	432,280
Income taxes paid	**(802,691)**	(328,660)
NET CASH FROM OPERATING ACTIVITIES	**22,942,808**	103,620

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Disposal of financial assets at fair value through profit or loss	**896,128**	809,440
Disposal of financial assets at fair value through other comprehensive income	**1,717,799**	–
Disposal of available-for-sale financial assets	**–**	167,152
Disposal of property and equipment	**7,301,667**	4,201,975
Change in pledged and restricted bank deposits	**(4,346,891)**	(585,007)
Purchase of financial assets at fair value through profit or loss	**(675,410)**	(470,000)
Purchase of financial assets at fair value through other comprehensive income	**(1,845,922)**	–
Purchase of available-for-sale financial assets	**–**	(293,724)
Purchase of property and equipment	**(26,015,684)**	(12,562,498)
NET CASH USED IN INVESTING ACTIVITIES	**(22,968,313)**	(8,732,662)
FINANCING ACTIVITIES		
Proceeds from issue of bonds payable	**8,679,659**	18,959,181
Repayment of bonds payable	**(3,500,000)**	(3,301,700)
Bonds issuance cost	**(130,946)**	(49,929)
Bonds interest paid	**(1,241,856)**	(815,948)
Dividends paid	**(973,397)**	(702,527)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**2,833,460**	14,089,077
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,807,955**	5,460,035
Effects of exchange rate changes on cash and cash equivalents	**564,464**	(246,342)
Cash and cash equivalents at the beginning of the year	**15,002,791**	9,789,098
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**18,375,210**	15,002,791
NET CASH FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**7,393,296**	5,886,082
Interest paid, exclusive bonds payable interest expenses	**(4,841,388)**	(3,901,512)
Net interest received	**2,551,908**	1,984,570

1 GENERAL INFORMATION

The Company was established as Shenzhen Leasing Co., Ltd. (深圳租賃有限公司) on 25 December 1984, with the approval of the former Shenzhen Special Economic Zone Branch of People's Bank of China ("**PBOC**"), and subsequently renamed as Shenzhen Finance Leasing Co., Ltd. (深圳金融租賃有限公司) after reorganisation in December 1999. In 2008, China Development Bank 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 8 September 2015, pursuant to the resolution of shareholders' meeting, the Company's total paid-in capital was increased to RMB9,500,000,000. Pursuant to the approval of China Banking Regulatory Commission (the "**CBRC**"), the Company became a joint stock company by issuing a total of 9,500,000,000 shares to existing shareholders at par value of RMB1 each, representing 100% of share capital of the Company on 28 September 2015 (the "**Financial Restructuring**"). On the same date, the Company also changed its name to China Development Bank Financial Leasing Co., Ltd. (國銀金融租賃股份有限公司). The registered address of the Company's office is CDB Financial Center, No. 2003 Fuzhong Third Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China ("**PRC**").

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

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standard:

- IFRS 9 Financial Instruments

- IFRS 15 Revenue from contracts with customers

The impact of the adoption of these standards are disclosed in Note 3 below. The other new and amended standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

2.1.1.2 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2.1.1.2.1 IFRS 16 Lease

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the lessee's balance sheet, as the distinction between operating and finance leases is removed from lessee's perspective. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

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

Total operating lease commitment of the Group in respect of leased premises with terms more than 12 months as at 31 December 2018 amounted to RMB244 million. The directors of the Group do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Company's result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Mandatory for financial years commencing on or after 1 January 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 material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Revenue recognition

Revenue, is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for goods or services provided in the normal course of business. Revenue is shown net of value-added tax. Specific revenue recognition criteria is set out below:

(i) Operating lease income is recognised on a straight-line basis over the term of the relevant lease;

(ii) Finance lease income is recognised as revenue in each period according to the effective interest rate method during the lease term;

(iii) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

(iv) Other income mainly includes consultancy fee income, leasing project management fee income and gains on disposal of equipment held for operating lease business. Consultancy fee income is recognised in accordance with the terms of the contract when the relevant services have been rendered. Leasing project management fee income is recognised in accordance with the management service contracts and by reference to the agreed rate of management fee on a daily basis. Gains on disposal of equipment held for operating leasing business is recognised as income when control of the related equipment has transferred, being when the equipment is delivered to the buyer and there is no unfulfilled obligation that could affect the buyer's acceptance of the equipment.

2.3 Financial assets and financial liabilities

2.3.1 Investments and other financial assets

2.3.1.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income (OCI) or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

2.3.1.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Finance lease receivables are regarded as financial assets for the purpose of derecognition.

2.3.1.3 *Measurement*

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2.3.1.3.1 Debt instruments

Subsequent measurement of debt instruments, including finance lease receivables and advances for finance lease projects, depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Finance lease income from finance lease receivables and advances for finance lease projects and interest income from other financial assets are included in revenue and net investment gains/(losses) respectively. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income, gains or losses, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income, gains or losses. Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other income, gains or losses and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other income, gains or losses in the period when it arises.

2.3.1.3.2 Equity instruments

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

Changes in the fair value of financial assets at FVTPL are recognised in other income, gains or losses in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.3.1.4 Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments, carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2.3.1.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017, financial assets are classified into the following specified categories: FVTPL, "available-for-sale" (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

2.3.1.5.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.3.1.5.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the net investment gains/losses line item.

2.3.1.5.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and bank balances, placement to banks and other financial institutions, accounts receivable, finance lease receivables, interest receivable and other receivables) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

2.3.1.5.4 AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserves reclassified to profit or loss (see the accounting policy on impairment on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

2.3.1.5.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest and principal payments; or

- it is probable that the borrower will enter bankruptcy or financial re-organization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as finance lease receivables, accounts receivable, interest receivable and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the agreed payment term, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Collective impairment allowances cover credit losses inherent in portfolios of loans receivable and other accounts with similar economic and credit risk characteristics where objective evidence for individual impaired items cannot be identified. In assessing the collective impairment, management makes assumptions both to define the way the Group assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of finance lease receivables, accounts receivable, interest receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. When a finance lease receivable, an account receivable, interest receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of the investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

2.3.1.5.6 Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.3.2 Financial liabilities and equity instruments

2.3.2.1 Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.3.2.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.3.2.3 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.3.2.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities.

2.3.2.5 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

2.3.2.6 Other financial liabilities

Other financial liabilities including borrowings, due to banks and other financial institutions, financial assets sold under repurchase agreements, bonds payable, dividends payable, interest payable, long-term accounts payable and other payables are subsequently measured at amortised cost using the effective interest method.

2.3.2.7 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.4 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or

- hedges of a net investment in a foreign operation (net investment hedges).

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

2.4.1Cash flow hedge that quantity for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income, gains or losses.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

2.4.2 Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income, gains or losses.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

2.4.3 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income, gains or losses.

3 CHANGES IN ACCOUNTING POLICIES

(a) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2 above. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), IFRS 9 was adopted by the Group without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet on 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the initial adoption of IFRS 9 by the Group have not been included. The adjustments are explained in more detail below:

Balance sheet (extract)	**31 December 2017 Under IAS 39** *RMB'000*	**Reclassification** *RMB'000*	**Revaluation** *RMB'000*	**1 January 2018 Under IFRS 9** *RMB'000*
ASSETS				
Financial assets at fair value through profit or loss	1,857,927	13,000	–	1,870,927
Financial assets at fair value through other comprehensive income	–	266,573	–	266,573
Available-for-sale financial assets	279,573	(279,573)	–	–
Accounts receivable	6,610,039	–	(201,139)	6,408,900
Finance lease receivables	98,880,563	–	(1,079,839)	97,800,724
Deferred tax assets	642,535	–	314,207	956,742
Equity				
Retained profits	5,385,159	–	(966,771)	4,418,388

The total impact on the Group's retained profits as at 1 January 2018 is as follows:

	Notes	*RMB'000*
Closing retained profits as at 31 December 2017 – IAS 39		5,385,159
Increase in impairment allowance for financial assets	(i)	(1,280,978)
Increase in deferred tax assets relating to impairment allowances	(i)	314,207
Adjustment to retained profits from the adoption of IFRS 9 on 1 January 2018		(966,771)
Opening retained profits as at 1 January 2018 – IFRS 9		4,418,388

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Measurement category		
	Under IAS 39 31 December 2017	**Under IFRS 9 1 January 2018**	**Under IFRS 9 31 December 2018**
Financial assets			
Cash and bank balances	Amortised cost	Amortised cost	Amortised cost
FVTPL	FVTPL	FVTPL	FVTPL
Derivative financial assets	FVTPL	FVTPL	FVTPL
Equity securities	AFS financial assets	FVTPL	FVTPL
Listed bond investments	AFS financial assets	FVOCI	FVOCI
Listed certificate of deposit	AFS financial assets	FVOCI	FVOCI
Accounts receivable	Amortised cost	Amortised cost	Amortised cost
Finance lease receivables	Amortised cost	Amortised cost	Amortised cost
Other receivables	Amortised cost	Amortised cost	Amortised cost
Financial liabilities			
Derivative financial liabilities	FVTPL	FVTPL	FVTPL

Financial assets – 1 January 2018	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
	RMB'000	*RMB'000*	*RMB'000*
Closing balance as at 31 December 2017 – IAS 39	279,573	1,857,927	–
Reclassify from available-for-sale financial assets to financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income	(279,573)	13,000	266,573
Opening balance as at 1 January 2018 – IFRS 9	–	1,870,927	266,573

Listed bonds were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, listed bonds with a fair value of approximately RMB266,573,000 were reclassified from AFS financial assets to FVOCI on 1 January 2018.

(ii) ***Impairment of financial assets***

The Group has five types of financial assets which are subject to IFRS 9's new expected credit loss model:

- Cash and bank balances
- Placement to banks and other financial institutions
- Accounts receivable
- Finance lease receivables
- FVOCI

The Group was required to revise its impairment methodology under IFRS 9 for each class of these assets. While cash and bank balances, placement to banks and other financial institutions, and financial assets at fair value through other comprehensive income are also subject to the impairment requirements of IFRS 9, the identified impairment loss is immaterial.

The impairment allowance for financial assets, which are affected by adoption of IFRS 9, as at 31 December 2017 reconcile to the opening impairment allowance on 1 January 2018 as follows:

	31 December 2017 Under IAS 39	**Reclassification**	**Revaluation**	**1 January 2018 Under IFRS 9**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable	245,216	–	201,139	446,355
Finance lease receivables	2,804,083	–	1,079,839	3,883,922
	3,049,299	–	1,280,978	4,330,277

Finance lease receivables and accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a lessee to engage in a repayment plan with the Group.

(iii) Hedging accounting

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

(b) IFRS 15 Revenue from contracts with customers – Impact of adoption

IFRS 15 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 flow arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for financial years commencing on 1 January 2018. The Group has completed the assessment of the impact of IFRS 15, which has no material impact on the Group for the year ended 31 December 2018.

4 TOTAL REVENUE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance lease income[(1)]	**7,036,316**	5,784,289
Operating lease income	**6,584,804**	6,016,001
	13,621,120	11,800,290

(1) The Group recognised finance lease income of approximately RMB36,976,000 and RMB39,315,000 from non-performing finance lease receivables for the years ended of 2018 and 2017, respectively.

5 NET INVESTMENT GAINS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Realised gains from financial assets at fair value through other comprehensive income	**75,757**	–
Realised gains from financial assets at fair value through profit or loss	**8,961**	–
Realised gains from disposal of finance lease receivables	**8,839**	–
Realised gains from derivatives	**–**	6,296
Realised gains from available-for-sale financial assets	**–**	93,270
Unrealised fair value change of financial assets at fair value through profit or loss	**113,492**	63,651
Unrealised fair value change of derivatives	**4,613**	12,943
	211,662	176,160

6 OTHER INCOME, GAINS OR LOSSES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gains on disposal of equipment held for operating lease businesses, net	**651,418**	41,098
Government grants and incentives[(1)]	**469,732**	310,433
Interest income from deposits with financial institutions	**356,980**	104,383
Foreign exchange gains/(losses), net	**144,409**	(234,271)
Management and commission fee income	**25,349**	76,279
Consulting fee income	**12,742**	4,204
Compensation from aircraft lessees	**8,076**	–
Compensation from an aircraft supplier	**–**	31,436
Others	**39,822**	4,710
	1,708,528	338,272

(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 RMB453,748,805 and RMB302,548,000 in total in the years of 2018 and 2017, respectively. Such grants have been recognised as income when received.

Pursuant to relevant documents published by Shenzhen government in China, the Group received the grant of approximately RMB13,000,000 and RMB800,000, from Shenzhen Government in the years of 2018 and 2017, respectively for encouraging the development of the financial industry. 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 [2017] No. 6), 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 use right 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.

7 INTEREST EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest on liabilities that are wholly repayable within five years:		
Borrowings	**5,594,835**	3,891,484
Due to banks and other financial institutions	**120,463**	74,665
Financial assets sold under repurchase agreements	**54,173**	354,183
Bonds payable	**1,032,457**	523,514
Deposits from lessees	**632**	678
Others	**8,102**	–
Interest on liabilities that are not wholly repayable within five years:		
Borrowings	**211,012**	25,240
Bonds payable	**212,031**	292,434
Deposits from lessees	**1,538**	1,974
Less: Interest capitalised on qualifying assets[(a)]	**(371,996)**	(179,702)
	6,863,247	4,984,470

(a) Interest capitalised on qualifying assets in 2018, included RMB10,821,000 (2017: RMB42,011,000) on construction in progress and RMB361,175,000 (2017: RMB137,691,000) on prepayment.

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– PRC Enterprise Income Tax	**778,500**	610,244
– Income tax in other countries	**5,656**	10,119
Deferred income tax	**(41,940)**	36,905
Under provision in prior period	**25,021**	19,621
	767,237	676,889

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**3,274,221**	2,807,852
Tax at the statutory tax rate of 25%	**818,555**	701,963
Effect of different tax rates of group entities operating in jurisdictions other than PRC	**(115,634)**	(44,889)
Tax effect of costs and expenses not deductible for tax purpose	**33,063**	194
Unrecognised deferred tax from current loss	**6,232**	–
Under provision in prior year	**25,021**	19,621
Income tax expense for the period	**767,237**	676,889

9 EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to owners of the Company *(RMB'000)*	**2,506,984**	2,130,963
Number of shares:		
Weighted average number of shares in issue *(RMB'000)*	**12,642,380**	12,642,380
Basic earnings per share *(RMB Yuan)*	**0.20**	0.17

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2018 and 2017, respectively.

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary share in the years of 2018 and 2017, respectively.

10 ACCOUNTS RECEIVABLE

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Operating lease receivables(1)	**717,853**	451,042
Advances for finance lease projects(2)	**5,338,291**	6,384,326
Other accounts receivable	**12,083**	19,887
	6,068,227	6,855,255
Less: Allowances for impairment losses		
– Allowances for advances for finance lease projects	**(658,933)**	(245,216)
– Allowances for operating lease receivables	**(3,642)**	–
	5,405,652	6,610,039

Movements of allowances for impairment losses on accounts receivable during the years of 2018 and 2017 are as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
At the end of the previous year	**245,216**	215,927
Impact of adoption of IFRS 9 *(Note 3(a)(ii))*	**201,139**	–
At the beginning of the year	**446,355**	215,927
Allowance during the year	**216,092**	82,261
Write-offs	**–**	(52,972)
Foreign currency translation	**128**	–
At the end of the year	**662,575**	245,216

Aging analysis of accounts receivable is as below:

(1) The operating lease receivables of the Group were accrued on a straight-line basis over the term of the relevant leases and settled periodically based on the payment terms agreed in the lease contracts. There were no material overdue operating lease receivables as at 31 December 2018 and 2017, respectively.

(2) The advances for finance lease projects arise from situations where the Group has already made payments to the 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.

11 FINANCE LEASE RECEIVABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Minimum finance lease receivables		
Not later than one year	**38,129,019**	24,055,231
Later than one year and not later than five years	**81,655,726**	65,313,630
Later than five years	**39,467,870**	36,391,404
Gross amount of finance lease receivables	**159,252,615**	125,760,265
Less: Unearned finance income	**(29,435,484)**	(24,075,619)
Present value of minimum finance lease receivables(1)	**129,817,131**	101,684,646
Less: Allowances for impairment losses(2)	**(4,675,526)**	(2,804,083)
Carrying amount of finance lease receivables	**125,141,605**	98,880,563

The Group entered into finance lease arrangements for certain of its aircraft, ships, 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 RMB6,172,480,000 were pledged as collateral for the Group's bank borrowings (Note 13) as at 31 December 2018 (31 December 2017: RMB2,603,287,000).

The Group entered into repurchase agreements with certain counterparties to sell the Group's finance lease receivables with carrying amounts of approximately RMB1,111,562,000 as at 31 December 2018 (31 December 2017: RMB3,881,706,000).

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.

(1) The maturity analysis of present value of minimum finance lease receivables are as below

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Not later than one year	**30,761,443**	18,790,393
Later than one year and not later than five years	**65,553,877**	52,180,292
Later than five years	**33,501,811**	30,713,961
	129,817,131	101,684,646

(2) Movements of impairment allowance on finance lease receivables for the years ended 31 December 2018 and 2017 are as follows:

	For the year ended 31 December 2018 *RMB'000*	For the year ended 31 December 2017 *RMB'000*
At the end of the previous year	**2,804,083**	2,396,067
Impact of adoption of IFRS 9 *(Note 3(a)(ii))*	**1,079,839**	–
At the beginning of the year	**3,883,922**	2,396,067
Allowance during the year	**773,735**	769,262
Write-offs	**–**	(337,932)
Foreign currency translation	**17,869**	(23,314)
At the end of the year	**4,675,526**	2,804,083

12 PROPERTY AND EQUIPMENT

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Equipment held for operating lease businesses	**62,117,692**	48,691,900
Property and equipment held for administrative purposes	**920,893**	840,381
Total	**63,038,585**	49,532,281

Equipment held for operating lease businesses

	Aircraft *RMB'000*	Ships *RMB'000*	Special equipment *RMB'000*	Total *RMB'000*
Cost				
As at 1 January 2018	**57,554,683**	**1,269,429**	**354,583**	**59,178,695**
Additions	**16,013,871**	**3,105,226**	**407,692**	**19,526,789**
Disposals/written-off	**(5,421,774)**	**–**	**(90,548)**	**(5,512,322)**
Transferred to assets held-for sale	**(1,586,719)**	**–**	**–**	**(1,586,719)**
Transferred from assets held-for sale	**658,253**	**–**	**–**	**658,253**
Foreign currency translation	**2,843,404**	**22,374**	**–**	**2,865,778**
As at 31 December 2018	**70,061,718**	**4,397,029**	**671,727**	**75,130,474**
Accumulated depreciation				
As at 1 January 2018	**(10,023,996)**	**(95,639)**	**(126,137)**	**(10,245,772)**
Charge for the year	**(2,759,102)**	**(89,002)**	**(59,175)**	**(2,907,279)**
Eliminated on disposals/written-off	**925,434**	**–**	**33,189**	**958,623**
Transferred to assets held-for sale	**261,750**	**–**	**–**	**261,750**
Transferred from assets held-for sale	**(40,002)**	**–**	**–**	**(40,002)**
Foreign currency translation	**(550,346)**	**(2,799)**	**–**	**(553,145)**
As at 31 December 2018	**(12,186,262)**	**(187,440)**	**(152,123)**	**(12,525,825)**
Accumulated impairment				
As at 1 January 2018	**(241,023)**	**–**	**–**	**(241,023)**
Additions	**(209,308)**	**–**	**–**	**(209,308)**
Transferred from assets held-for sale	**(16,852)**	**–**	**–**	**(16,852)**
Foreign currency translation	**(19,774)**	**–**	**–**	**(19,774)**
As at 31 December 2018	**(486,957)**	**–**	**–**	**(486,957)**
Net carrying amount				
As at 1 January 2018	**47,289,664**	**1,173,790**	**228,446**	**48,691,900**
As at 31 December 2018	**57,388,499**	**4,209,589**	**519,604**	**62,117,692**

	Aircraft	Ships	Special equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
As at 1 January 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 31 December 2017	57,554,683	1,269,429	354,583	59,178,695
Accumulated depreciation				
As at 1 January 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 31 December 2017	(10,023,996)	(95,639)	(126,137)	(10,245,772)
Accumulated impairment				
As at 1 January 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 31 December 2017	(241,023)	–	–	(241,023)
Net carrying amount				
As at 1 January 2017	45,638,103	784,922	434,802	46,857,827
As at 31 December 2017	47,289,664	1,173,790	228,446	48,691,900

The aircraft and ships with net book value of approximately RMB29,162,159,000 of the Group were pledged as collateral for the Group's bank borrowings (Note 13) as at 31 December 2018 (31 December 2017: RMB25,080,572,000).

Property and equipment held for administrative purposes

	Buildings	Computer and electronic equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at 1 January 2018	40,295	17,331	7,396	18,049	17,769	796,391	897,231
Additions	644,717	1,090		65,194	–	262,634	973,635
Transfer from Investment properties	192,445	–	–	–	–	–	192,445
Transfer to investment properties and buildings	–	–	–	–	–	(1,059,025)	(1,059,025)
Disposals/written-off	–	(141)	(3,358)	(6,128)	–	–	(9,627)
Foreign currency translation	–	6	–	416	–	–	422
As at 31 December 2018	877,457	18,286	4,038	77,531	17,769	–	995,081
Accumulated depreciation							
As at 1 January 2018	(14,750)	(14,194)	(6,105)	(8,106)	(13,695)	–	(56,850)
Charge for the year	(13,110)	(1,790)	(217)	(6,727)	(2,882)	–	(24,726)
Transfer from Investment properties	(1,524)	–	–	–	–	–	(1,524)
Eliminated on disposals/written-off	–	137	3,190	5,807	–	–	9,134
Foreign currency translation	–	(6)	–	(216)	–	–	(222)
As at 31 December 2018	(29,384)	(15,853)	(3,132)	(9,242)	(16,577)	–	(74,188)
Net carrying amount							
As at 1 January 2018	25,545	3,137	1,291	9,943	4,074	796,391	840,381
As at 31 December 2018	848,073	2,433	906	68,289	1,192	–	920,893

	Buildings	Computer and electronic equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at 1 January 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 31 December 2017	40,295	17,331	7,396	18,049	17,769	796,391	897,231
Accumulated depreciation							
As at 1 January 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 31 December 2017	(14,750)	(14,194)	(6,105)	(8,106)	(13,695)	–	(56,850)
Net carrying amount							
As at 1 January 2017	27,323	5,252	341	9,578	5,799	437,934	486,227
As at 31 December 2017	25,545	3,137	1,291	9,943	4,074	796,391	840,381

As at 31 December 2018, carrying values of property and equipment of the Group for which registration was not completed amounted to approximately RMB824,288,000 (31 December 2017: RMB10,157,000). However, this registration process does not affect the rights of the Group to these assets.

Allowance for impairment loss on the Group's plant and equipment of RMB486,957,000 as at 31 December 2018 (31 December 2017: RMB241,023,000), 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 for 2018 is 5.25% (2017: 5.10%).

13 BORROWINGS

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Secured bank borrowings(1)	**29,331,068**	16,050,090
Unsecured bank borrowings	**127,855,830**	100,195,015
	157,186,898	116,245,105

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Carrying amount repayable:		
Within one year	**126,317,556**	97,496,301
More than one year, but not exceeding two years	**4,905,835**	3,634,895
More than two years, but not exceeding five years	**16,197,723**	9,679,316
More than five years	**9,765,784**	5,434,593
	157,186,898	116,245,105

(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:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Property and equipment	**29,162,159**	25,080,572
Prepayments	**–**	425,997
Finance lease receivables	**6,172,480**	2,603,287
Bank deposits	**3,682,759**	519,121
	39,017,398	28,628,977

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Fixed-rate borrowings:		
Within one year	**109,928,067**	78,974,840
More than one year, but not exceeding five years	**4,063,970**	2,694,504
More than five years	**2,687,831**	5,209,022
	116,679,868	86,878,366

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:

	31 December 2018	31 December 2017
Effective interest rate:		
Fixed-rate borrowing	**1.32%–6.00%**	1.32%–6.00%
Floating-rate borrowing	**"LIBOR+0.15% to LIBOR+3.30% SHIBOR+0.79% PBOC Rate*90.00%"**	"LIBOR+0.15% to LIBOR+3.30% SHIBOR+0.79% PBOC Rate*90.00%

14 BONDS PAYABLE

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Guaranteed unsecured bonds	**32,105,445**	22,344,343
Unguaranteed unsecured bonds	**6,490,901**	9,982,370
	38,596,346	32,326,713

Guaranteed unsecured bonds:

Name	Principal amount *USD'000*	Issue price	Value date	Maturity date	Coupon rate
Guaranteed unsecured bonds issued-due 2022[(1)]	1,000,000	99.22%	2012-12-4	2022-12-4	3.25%
Guaranteed unsecured bonds issued-due 2019[(2)]	250,000	99.47%	2014-12-2	2019-12-2	3.25%
Guaranteed unsecured bonds issued-due 2024[(2)]	400,000	99.09%	2014-12-2	2024-12-2	4.25%
Guaranteed unsecured bonds issued-due 2020[(6)]	400,000	99.68%	2017-8-1	2020-8-1	2.63%
Guaranteed unsecured bonds issued-due 2022[(6)]	600,000	99.51%	2017-8-1	2022-8-1	3.00%
Guaranteed unsecured bonds issued-due 2023[(7)]	400,000	99.28%	2017-10-24	2023-4-24	3.00%
Guaranteed unsecured bonds issued-due 2027[(7)]	400,000	99.27%	2017-10-24	2027-10-24	3.50%
Guaranteed unsecured bonds issued-due 2023[(8)]	100,000	99.28%	2018-3-9	2023-4-24	4.05%
Guaranteed unsecured bonds issued-due 2021[(9)]	500,000	99.49%	2018-7-18	2021-7-18	3MLibor+ 115BP
Guaranteed unsecured bonds issued-due 2021[(10)]	400,000	99.72%	2018-11-15	2021-11-15	4.39%
Guaranteed unsecured bonds issued-due 2019[(11)]	50,000	–	2018-11-30	2019-10-30	3.90%

Name	Principal amount *HK$'000*	Issue price	Value date	Maturity date	Coupon rate
Guaranteed unsecured bonds issued-due 2021[(12)]	601,000	–	2018-10-23	2021-10-23	3.50%
Guaranteed unsecured bonds issued-due 2021[(13)]	338,000	–	2018-11-16	2021-11-16	3.60%
Guaranteed unsecured bonds issued-due 2020[(14)]	240,000	–	2018-11-19	2020-11-19	3.50%
Guaranteed unsecured bonds issued-due 2021[(14)]	500,000	–	2018-11-19	2019-08-16	0.00%

Unguaranteed unsecured bonds:

Name	Principal amount *RMB'000*	Issue price	Value date	Maturity date	Coupon rate
Unguaranteed unsecured bonds issued-due 2019[(3)]	3,000,000	100.00%	2016-10-27	2019-10-27	3.00%
Unguaranteed unsecured bonds issued-due 2020[(4)]	2,000,000	100.00%	2017-8-24	2020-8-24	4.55%
Unguaranteed unsecured bonds issued-due 2020[(5)]	1,500,000	100.00%	2017-10-24	2020-10-24	4.65%

(1) As at 4 December 2012, an overseas subsidiary of the Group issued bonds with principal amount of USD1,000,000,000 in Hong Kong. The bonds were guaranteed by the Group's related party, the Hong Kong branch of China Development Bank, and the maturity dates for the bond is 4 December 2022.

(2) As at 2 December 2014, an overseas subsidiary of the Group issued bonds with principal amount of USD250,000,000 and USD400,000,000 in Hong Kong. The bonds 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 bonds are 2 December 2019 and 2 December 2024 respectively.

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

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

(5) As at 24 October 2017, the Group issued bonds with principal amount of RMB1,500,000,000 in PRC. The maturity date for the bonds is 24 October 2020.

(6) As at 1 August 2017, CDBL Funding 2, a Hong Kong subsidiary of the Group issued bonds with principal amount of USD400,000,000 and USD600,000,000 in Hong Kong. The bonds were provided redemption safeguard via keepwell and asset purchase deed by the Company and were guaranteed by another overseas subsidiary of the Group, Metro Excel Limited, and the maturity dates for the bonds are 1 August 2020 and 1 August 2022 respectively.

(7) As at 1 August 2017, CDBL Funding 1, an Ireland subsidiary of the Group issued bonds with principal amount of USD400,000,000 and USD400,000,000 in Hong Kong. The bonds 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 bonds are 23 April 2023 and 24 October 2027 respectively.

(8) As at 9 March 2018, CDBL Funding 1, an Ireland subsidiary of the Group issued bonds with principal amount of USD100,000,000 in Hong Kong. The bonds was 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 bonds is 24 April 2023.

(9) As at 18 July 2018, CDBL Funding 2, a Hong Kong subsidiary of the Group issued bonds with principal amount of USD500,000,000 in Hong Kong. The bonds was provided redemption safeguard via keepwell and asset purchase deed by the Company and was guaranteed by another overseas subsidiary of the Group, Metro Excel Limited, and the maturity dates for the bonds is 18 July 2021.

(10) As at 15 November 2018, CDBL Funding 1, an Ireland subsidiary of the Group issued bonds with principal amount of USD400,000,000 in Hong Kong. The bonds was 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 bonds is 15 November 2021.

(11) As at 30 November 2018, CDBL Funding 2, a Hong Kong subsidiary of the Group issued bonds with principal amount of USD50,000,000 privately raised company bonds. The bonds were guaranteed by another overseas subsidiary of the Group, Metro Excel Limited, and the maturity dates for the bonds is 30 October 2019.

(12) As at 23 October 2018, CDBL Funding 2, a Hong Kong subsidiary of the Group issued bonds with principal amount of HK$601,000,000 privately raised company bonds. The bonds was guaranteed by another overseas subsidiary of the Group, Metro Excel Limited, and the maturity dates for the bonds were 23 October 2021.

(13) As at 16 November 2018, CDBL Funding 2, a Hong Kong subsidiary of the Group issued bonds with principal amount of HK$338,000,000 privately raised company bonds. The bonds were guaranteed by another overseas subsidiary of the Group, Metro Excel Limited, and the maturity dates for the bonds was 16 November 2021.

(14) As at 19 November 2018, CDBL Funding 2, a Hong Kong subsidiary of the Group issued bonds with principal amount of HK$240,000,000 and HKD500,000,000 privately raised company bonds. The bonds were guaranteed by another overseas subsidiary of the Group, Metro Excel Limited, and the maturity dates for the bonds were 19 November 2021 and 16 August 2019.

15 SHARE CAPITAL

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**12,642,380**	12,642,380
Addition	**–**	–
At the end of the year	**12,642,380**	12,642,380

16 DIVIDENDS

The dividends paid in 2018 is RMB967,068,324 (RMB0.7649 per 10 ordinary shares; 2017: RMB702,526,866). A dividend in respect of the year ended 31 December 2018 of RMB0.8923 per 10 ordinary shares, amounting to a total dividend of RMB1,128,079,567 is to be proposed at the annual general meeting. These financial statements do not reflect this dividend payable.

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Interim dividend paid of RMB nil (2017: RMB nil) per 10 ordinary shares	**–**	–
Proposed final dividend of RMB0.8923 (2017: RMB0.7585) per 10 ordinary shares	**1,128,080**	958,925
	1,128,080	958,925

17 SEGMENT REPORTING

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

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

(a) Aircraft leasing: mainly engaged in the acquisition, leasing, management and disposal of commercial aircraft;

(b) Infrastructure leasing: mainly engaged in the leasing of transportation, urban and energy infrastructure;

(c) Ship, vehicle and construction machinery leasing: mainly engaged in the leasing of ships, 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 31 December 2018 and 2017.

The operating and reportable segment information provided to the CODM during the years ended 31 December 2018 and 2017 is as follows:

	Aircraft leasing *RMB'000*	**Infrastructure leasing** *RMB'000*	**Ship, vehicle and construction machinery leasing** *RMB'000*	**Other leasing business** *RMB'000*	**Consolidated total** *RMB'000*
For the year ended 31 December 2018					
Segment revenue and results					
Finance lease income	**202,265**	**4,579,249**	**1,621,681**	**633,121**	**7,036,316**
Operating lease income	**6,049,169**	**53,678**	**324,324**	**157,633**	**6,584,804**
Segment revenue	**6,251,434**	**4,632,927**	**1,946,005**	**790,754**	**13,621,120**
Segment other income, gains and losses	**1,333,765**	**377,452**	**152,182**	**56,791**	**1,920,190**
Segment revenue and other income	**7,585,199**	**5,010,379**	**2,098,187**	**847,545**	**15,541,310**
Segment expenses	**(5,515,842)**	**(4,128,540)**	**(1,730,185)**	**(892,522)**	**(12,267,089)**
Profit before impairment losses and income tax	**2,264,080**	**1,435,742**	**628,098**	**239,393**	**4,567,313**
Profit before income tax	**2,069,357**	**881,839**	**368,002**	**(44,977)**	**3,274,221**

	Aircraft leasing *RMB'000*	Infrastructure leasing *RMB'000*	Ship, vehicle and construction machinery leasing *RMB'000*	Other leasing business *RMB'000*	Consolidated total *RMB'000*
As at 31 December 2018					
Segment assets and liabilities					
Segment assets	**88,370,107**	**94,546,673**	**42,976,774**	**11,085,260**	**236,978,814**
Deferred tax assets					**1,088,172**
Group's total assets					**238,066,986**
Segment liabilities	**79,340,007**	**85,195,092**	**38,725,955**	**9,988,821**	**213,249,875**
Deferred tax liabilities					**614,081**
Group's total liabilities					**213,863,956**
For the year ended 31 December 2018					
Other segment information					
Depreciation of investment properties	**–**	**–**	**–**	**(41,164)**	**(41,164)**
Depreciation of properties and equipment	**(2,764,285)**	**(37,488)**	**(94,008)**	**(36,224)**	**(2,932,005)**
Amortisation	**(2,416)**	**(7,764)**	**(3,132)**	**(2,772)**	**(16,084)**
Impairment losses	**(194,723)**	**(553,903)**	**(260,096)**	**(284,370)**	**(1,293,092)**

	Aircraft leasing *RMB'000*	Infrastructure leasing *RMB'000*	Ship, vehicle and construction machinery leasing *RMB'000*	Other leasing business *RMB'000*	Consolidated total *RMB'000*
For the year ended 31 December 2017					
Segment revenue and results					
Finance lease income	224,326	3,848,650	1,023,921	687,392	5,784,289
Operating lease income	5,756,496	104,183	138,863	16,459	6,016,001
Segment revenue	5,980,822	3,952,833	1,162,784	703,851	11,800,290
Segment other income, gains and losses	392,284	210,916	(110,113)	21,345	514,432
Segment revenue and other income	6,373,106	4,163,749	1,052,671	725,196	12,314,722
Segment expenses	(4,771,028)	(3,192,781)	(719,303)	(823,758)	(9,506,870)
Profit before impairment losses and income tax	1,723,439	1,598,671	153,828	244,832	3,720,770
Profit before income tax	1,602,078	970,968	333,368	(98,562)	2,807,852
As at 31 December 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					642,535
Group's total assets					187,099,272
Segment liabilities	62,982,768	67,167,605	23,066,461	9,833,346	163,050,180
Deferred tax liabilities					540,123
Group's total liabilities					163,590,303

	Aircraft leasing *RMB'000*	Infrastructure leasing *RMB'000*	Ship, vehicle and construction machinery leasing *RMB'000*	Other leasing business *RMB'000*	Consolidated total *RMB'000*
For the year ended 31 December 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	(121,361)	(627,703)	179,540	(343,394)	(912,918)

The customer, Airline Company A contributes 8.58% of the Group's revenue for the year ended 31 December 2018 (2017: 9.93%).

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"	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 CBIRC on June 7, 2012 and being effective from January 1, 2013
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) and its predecessor, China Banking Regulatory Commission (中國銀行業監督管理委員會)
"China", "the PRC" or "the Country"	the People's Republic of China, excluding, for the purpose of this results announcement, Hong Kong, Macau and Taiwan
"China Development Bank"	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
"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 dated 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

"Prospectus"	the prospectus of the Company dated June 24, 2016
"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)
"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 returns 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 returns 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 27, 2019

As at the date of this announcement, the executive Directors of the Company are Mr. WANG Xuedong and Mr. HUANG Min; the non-executive Director of the Company is Mr. LI Yingbao; and the independent non-executive Directors of the Company are Mr. ZHENG Xueding, Mr. XU Jin and Mr. ZHANG Xianchu.