This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

*This announcement does not constitute or form a part of any offer of securities for sale in the United States. The securities referred herein (the "**Securities**") and the guarantee of the Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state of the United States or other jurisdiction and may not be offered, sold or delivered in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. No public offering of the Securities will be made in the United States.*

***This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever.** For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) and the Guarantor (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

***Notice to Hong Kong investors:** Each of the Issuer and the Guarantor confirms that the Notes (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only and the Programme (as defined below) has been, and the Notes to be listed on The Stock Exchange of Hong Kong Limited will be, listed on The Stock Exchange of Hong Kong Limited on that basis. This announcement is for distribution to Professional Investors only. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

PUBLICATION OF OFFERING CIRCULAR

CALC Bonds Limited

(the "**Issuer**")

(Incorporated in the British Virgin Islands with limited liability)

U.S.$3,000,000,000
Guaranteed Medium Term Note Programme
(the "Programme")

unconditionally and irrevocably guaranteed by

CALC

CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED
中國飛機租賃集團控股有限公司

(the "**Guarantor**")

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

(Stock code: 1848)

Arrangers and Dealers

China Everbright Bank Hong Kong Branch	**BNP PARIBAS**	**China CITIC Bank International**	**Crédit Agricole CIB**

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 6 February 2024 (the "**Offering Circular**") appended herein in relation to the Programme. The Offering Circular is published in English only. No Chinese version of the Offering Circular has been published. As disclosed in the Offering Circular, any notes to be issued under the Programme (the "**Notes**") will be intended for purchase by Professional Investors only and the Programme has been, and the Notes to be listed on the Hong Kong Stock Exchange will be, listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer and no such inducement is intended. No investment decision should be made based solely on the information contained in the Offering Circular.

CALC Bonds Limited
TANG Yu Ping
Sole Director

Hong Kong, 7 February 2024

As at the date of this announcement, the Sole Director of the Issuer is Mr. TANG Yu Ping.

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

APPENDIX
OFFERING CIRCULAR DATED 6 FEBRUARY 2024

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the "**Offering Circular**"). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Issuer or the Guarantor (each as defined in the attached Offering Circular) as a result of such access. In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities, investors must be outside the United States.

Confirmation of Your Representation: The attached Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to CALC Bonds Limited (the "**Issuer**"), China Aircraft Leasing Group Holdings Limited (the "**Guarantor**") and each of China Everbright Bank Co., Ltd., Hong Kong Branch, BNP Paribas, China CITIC Bank International Limited and Crédit Agricole Corporate and Investment Bank (together the "**Arrangers**" and "**Dealers**", each an "**Arranger**" and "**Dealer**") that (1) you and any person you represent are outside the United States and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The materials relating to the offering of the Notes to which the attached Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer or the Guarantor in such jurisdiction.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (each as defined in the attached Offering Circular) or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them accepts any liability or responsibility whatsoever in respect of any discrepancies between the Offering Circular distributed to you in electronic format and the hard copy version available to you upon request from any of the Issuer, the Guarantor, the Arrangers or the Dealers.

Restrictions: The attached Offering Circular is being furnished in connection with an offering in offshore transactions to persons outside the United States in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, OR IN CERTAIN CIRCUMSTANCES, TO U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE OFFERING IS MADE SOLELY OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE OF REGULATION S UNDER THE SECURITIES ACT.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached Offering Circular.

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR **Strictly Confidential**

CALC Bonds Limited

(Incorporated with limited liability in the British Virgin Islands)

unconditionally and irrevocably guaranteed by

CALC

CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED

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

U.S.$3,000,000,000
Guaranteed Medium Term Note Programme

Under the U.S.$3,000,000,000 Guaranteed Medium Term Note Programme described in this Offering Circular (the "**Programme**"), CALC Bonds Limited (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**") unconditionally and irrevocably guaranteed (the "**Guarantee**") by China Aircraft Leasing Group Holdings Limited (the "**Guarantor**" or "**CALC**"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$3,000,000,000 (or the equivalent in other currencies), subject to increase as further described in "*Summary of the Programme*".

The Notes may be issued in bearer form or in registered form. The aggregate nominal amount of the Notes outstanding will not at any time exceed U.S.$3,000,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuous basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

The Notes will be constituted by a trust deed to be dated 6 February 2024 (the "**Trust Deed**") made between the Issuer, the Guarantor and the Trustee. The Notes will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the terms and conditions of the Notes (the "**Terms and Conditions of the Notes**")) unsecured obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and the obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively.

The payment obligations of the Guarantor under the Guarantee constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Notes) unsecured obligations of the Guarantor and will at all times rank *pari passu* and without any preference among themselves.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for listing of the Programme under which Notes may be issued by way of debt issues to "**professional investors**" (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: Each of the Issuer and the Guarantor confirms that the Notes to be issued under the Programme are intended for purchase by Professional Investors only and the Programme and the Notes (to the extent that such Notes are to be listed on the Hong Kong Stock Exchange) will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, the Guarantor or the Group (as defined below) or the quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Unlisted Notes may be issued pursuant to the Programme. The relevant Pricing Supplement (as defined in "*Summary of the Programme*") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange (or any other stock exchange).

The Notes of each Series (as defined in "*Terms and Conditions of the Notes*") issued in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note in bearer form (each a "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Global Note**") (collectively, the "**Global Notes**"). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's (as defined in "*Terms and Conditions of the Notes*") entire holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a global certificate (each a "**Global Certificate**"). Global Notes and Global Certificates may be deposited on the relevant issue date with a common depositary on behalf of Euroclear Bank SA/NV. ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**") operated by the Hong Kong Monetary Authority. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes (as defined in "*Summary of Provisions Relating to the Notes while in Global Form*") or Global Certificates for Certificates are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state of the United States and may not be offered or sold or, in case of Bearer Notes, delivered, in the United States or, in certain circumstances, to or for the account or benefit of, U.S. persons (as such term is defined in Regulation S under the Securities Act ("Regulation S")) except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States. The Notes are being offered outside the United States in reliance on Regulation S under the Securities Act. Bearer Notes are subject to U.S. tax law requirements. See "*Subscription and Sale*".

Investing in the Notes involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. Prospective investors should have regard to the factors described under "*Risk Factors*".

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor, and the Group. Each of the Issuer, the Guarantor and the Group accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Programme is rated "Ba2" by Moody's Investors Services, Inc. ("**Moody's**") and "BB+" by Fitch Rating ("**Fitch**"). This rating is only correct as at the date of this Offering Circular. Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, qualification, suspension, reduction or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers

China Everbright Bank Hong Kong Branch	**BNP PARIBAS**	**China CITIC Bank International**	**Crédit Agricole CIB**

Offering Circular dated 6 February 2024

NOTICE TO INVESTORS

Each of the Issuer and the Guarantor, having made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular, confirms that: (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Guarantor and its subsidiaries (collectively, the "**Group**"), and to the Guarantee and the Notes which is material in the context of the issue and offering of the Notes (including all information required by applicable laws and the information which, according to the particular nature of the Issuer, the Guarantor, the Notes and the Guarantee, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Guarantor and the Group and the rights attaching to the Guarantee and the Notes); (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor and the Group are true and accurate in all material respects and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) all statistical, industry and market related data in this Offering Circular were accurately extracted from publicly available and reliable sources; (v) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Notes or the Guarantee the omission of which would, in the context of the issue and offering of the Notes and the Guarantee make any statement in this Offering Circular misleading; (vi) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular; and (vii) this Offering Circular does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Subject as provided herein, each of the Issuer and the Guarantor accepts full responsibility for the accuracy of all information contained in this Offering Circular.

Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer, the Guarantor or the Group. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the terms of the offering, including the merits and risks involved. Please see "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Each Tranche of Notes will be issued on the terms set out herein under the Terms and Conditions of the Notes as amended and/or supplemented by a Pricing Supplement. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein (see "*Information Incorporated by Reference and Financial Information*") and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, each of China Everbright Bank Co., Ltd., Hong Kong Branch, BNP Paribas, China CITIC Bank International Limited and Crédit Agricole Corporate and Investment Bank (together the "**Arrangers**" and "**Dealers**", each an "**Arranger**" and "**Dealer**"), the Trustee and the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them (each as defined in the "*Terms and Conditions of the Notes*") to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. No action is being taken to permit a public offering of any of the Notes or the distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action would be required for such purposes. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area ("**EEA**"), the United Kingdom, the PRC, Hong Kong, Singapore and Japan, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular and any Pricing Supplement, see "*Subscription and Sale*".

MiFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II product governance/Professional investors and ECPs only target market" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR product governance/Professional investors and ECPs only target market" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "PRIIPs Regulation – Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**").

Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "UK PRIIPs Regulation – Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures Act (Capital Market Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Notes or the Guarantee other than as contained in this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, any Arranger, any Dealer, the Trustee or any Agent or their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them. Neither the delivery of this Offering Circular or any Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Group or any of them since the date hereof, or if later, the date upon which this Offering Circular has been most recently amended or supplemented or create any implication that the information contained herein is correct as at any date subsequent to the date hereof or, as the case may be, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Arrangers, the Dealers, the Trustee and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) expressly do not undertake to review the financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recent documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer of, or an invitation by or on behalf of any of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to subscribe for or purchase any Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Guarantor and the Group.

This Offering Circular is highly confidential and has been prepared by the Issuer and the Guarantor solely for use in connection with the Programme and the proposed offering of the Notes under the Programme as described herein. Neither the Issuer nor the Guarantor has authorised its use for any other purpose. This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular, each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). None of the Arrangers, the Dealers, the Trustee and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) has independently verified any of the information contained in this Offering Circular and can give assurance that such information is accurate, truthful or complete.

To the fullest extent permitted by law, the Arrangers, the Dealers, the Trustee, the Agents and their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them do not accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arrangers, the Dealers, the Trustee and the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them or on its behalf in connection with the Issuer, the Guarantor or the Group or the issue and offering of the Notes. Each of the Arrangers, the Dealers, the Trustee, the Agents and their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Arrangers, the Dealers, the Trustee, the Agents and their respective affiliates, directors, officers, employees, representatives, advisers, agents and any person who controls any of them accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme.

This Offering Circular, the Pricing Supplement and any other information supplied in connection with the Programme or any Notes (i) are not intended to provide the basis of any credit or other evaluation and (ii) should not be considered as a recommendation by any of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular should purchase any Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

None of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS.

SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED, WITHIN THE UNITED STATES OR, IN CERTAIN CIRCUMSTANCES, TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S OR THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER IN CASE OF BEARER NOTES).

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) IN THE APPLICABLE PRICING SUPPLEMENT (THE "STABILISATION MANAGER(S)") (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISATION MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVERALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances. Each person receiving this Offering Circular acknowledges that such person has not relied on the Arrangers, the Dealers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision.

Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors: Prospective investors should be aware that certain intermediaries in the context of certain offerings of the Notes pursuant to the Programme, each such offering, a CMI Offering, including certain Dealers (as defined in this Offering Circular), may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" (together, the "**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Guarantor, a CMI or its group companies would be considered under the SFC Code as having an association (an "**Association**") with the Issuer, the Guarantor, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Guarantor or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are *bona fide*, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Guarantor, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

Industry and Market Data

Market data and certain industry forecasts and statistics used throughout this Offering Circular have been obtained from, among other sources, internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them makes any representation as to the correctness, accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC (as defined below). In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

Presentation of Financial Information

This Offering Circular contains audited consolidated financial information of the Guarantor as at and for the years ended 31 December 2020, 2021 and 2022, which has been extracted from the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2021 and 2022 (the "**Audited Consolidated Financial Statements**"), which are included elsewhere in this Offering Circular. The Audited Consolidated Financial Statements were prepared and presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and have been audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

This Offering Circular also contains unaudited but reviewed consolidated financial information of the Guarantor as at and for the six months ended 30 June 2022 and 2023, which has been extracted from the unaudited but reviewed interim condensed consolidated financial information of the Guarantor as at and for the six months ended 30 June 2023 (the "**Reviewed Consolidated Interim Financial Statements**"), which are included elsewhere in this Offering Circular. The Reviewed Consolidated Interim Financial Statements have been prepared in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKAS 34**") and reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("**HKSRE 2410**"). The Reviewed Consolidated Interim Financial Statements have not been audited by PricewaterhouseCoopers or any other independent auditors. Consequently, the Reviewed Consolidated Interim Financial Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. None of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers or agents or any person who controls any of them makes any representation or warranty, express or implied, regarding the accuracy, completeness or sufficiency of the Reviewed Consolidated Interim Financial Statements for an assessment of, and prospective investors must exercise caution when using such data to evaluate, the Guarantor's or the Group's financial condition and results of operations. In addition, the Reviewed Consolidated Interim Financial Statements should not be taken as an indication of the Guarantor's or the Group's expected financial condition or results of operations for the full financial year ended 31 December 2023.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Guarantor are referring to the consolidated data of the Group.

Exchange Rate Information

This Offering Circular contains a translation of certain Renminbi amounts and Hong Kong dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless specified in the annual or interim financial statements of the Guarantor or otherwise specified, where financial information in relation to the Issuer or the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB7.2513 per U.S.$1.00, the noon buying rate as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States (the "**Noon Buying Rate**") on 30 June 2023, and the translation of Hong Kong dollar amounts into U.S. dollars has been made at the rate of HK$7.8363 per U.S.$1.00, the Noon Buying Rate on 30 June 2023. No representation is made that the Renminbi amounts or the Hong Kong dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

Rounding

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down especially when rounding into another currency. Certain monetary amounts in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Warning

The contents of this Offering Circular have not been reviewed by any regulatory authority of any jurisdiction. You are advised to exercise caution in relation to the offering of the Notes. If you are in any doubt about any of the contents of this Offering Circular, you should obtain independent professional advice.

Certain Definitions and Conventions

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "**Group**", "**we**", "**us**" and "**our**" and words of similar import are to the Issuer, the Guarantor and its other subsidiaries and associated companies taken as a whole, all references to the "**PRC**" and "**China**" are to the People's Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan), all references to the "**PRC government**" or the "**State**" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them, all references to the "**United States**" and "**U.S.**" are to the United States of America, all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China; all references to "**Hong Kong dollars**" and "**HK$**" are to the lawful currency of Hong Kong, all references to "**Renminbi**" and "**RMB**" are to the lawful currency of the PRC, all references to "**U.S. dollars**", "**USD**", "**US$**" and "**U.S.$**" are to the lawful currency of the United States of America, references to "**sterling**" or "**£**" are to the lawful currency of the United Kingdom, references to "**EU**" are to the European Union, and references to "**euro**" or "**€**" are to the lawful currency of member states of the EU that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended from time to time, and all references to "**CAGR**" means the compound annual growth rate.

The English names of PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

INFORMATION INCORPORATED BY REFERENCE AND FINANCIAL INFORMATION

This Offering Circular should be read and construed in conjunction with:

(i) each relevant Pricing Supplement;

(ii) all amendments and supplements from time to time to this Offering Circular; and

(iii) any annual or interim financial statements (whether audited or unaudited) of the Guarantor that are circulated with this Offering Circular and are dated as at a date, or for a period ending, subsequent to those financial statements appearing elsewhere in this Offering Circular,

which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular.

Any statement contained in this Offering Circular or in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Offering Circular, except as modified or superseded.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available (upon written request) free of charge, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the specified office of the Trustee set out at the end of this Offering Circular.

FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "target", "believe", "can", "would", "could", "estimate", "expect", "aim", "intend", "may", "plan", "will", "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to the Issuer and/or the Guarantor and/or the Group discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer, the Guarantor or by any third party) involve known and unknown risks, including those disclosed under the caption "*Risk Factors*", uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer, the Guarantor or the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Circular. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause the actual results, performances and achievements of the Issuer, the Guarantor, the Group or any member of the Group to be materially different include, among others:

- future developments, trends and conditions in the industry and markets in which the Group operates;
- the ability of the Group to successfully implement its business plans and strategies;
- the continued availability of capital and financing;
- interest rates and foreign exchange rates, taxes and duties;
- ability of the Group to control its costs;
- general economic and business conditions and competitive environment in the PRC and elsewhere;
- ability of the Group to maintain its sales contracts with its major customers on terms commercially acceptable to the Group or at all;
- natural disasters, industrial action, terrorist attacks and other events beyond the Group's control; and
- other factors, including those discussed in "*Risk Factors*".

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this Offering Circular in connection with the Issuer and/or the Guarantor and/or the Group and their businesses. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

aircraft loan	bank borrowings obtained from banks and financial institutions for the payment of the aircraft purchase price;
aircraft purchase and leaseback . . .	a lease arrangement whereby one party (the lessor) purchases an aircraft from another (the lessee) and leases it back for long-term use;
cargo aircraft	aircraft operated by an airline or cargo airline for transporting cargo;
Chinese lessor	an aircraft leasing company which is incorporated in the PRC;
commercial aircraft.	passenger aircraft and cargo aircraft operated by an airline operator, excluding the aircraft operated by military, private, business jet and general aviation operators;
direct aircraft purchase and lease . .	a lease arrangement whereby one party (the lessor) purchases an aircraft and subsequently leases to a third-party (the lessee), pursuant to which the lessor may or may not have secured the leasing at the time of purchase of the asset;
finance lease	a lease arrangement classified under the HKFRS and our accounting policies, pursuant to which substantially all of the risks and rewards of ownership of the leased assets are transferred from the lessors to the lessees;
foreign lessor.	any aircraft leasing company which is not a Chinese lessor;
full-life condition.	the condition of an aircraft assuming that all major maintenance events have just been fully restored or overhauled to its zero-time condition, in which the airframe is fresh from its heavy check, the landing gear is fresh from an overhaul, the engines are fresh from a performance-restoration shop visit and all engine Life Limited Parts (LLPs) have zero cycles of utilisation since new;
LIBOR	London Interbank Offered Rate, the average interest rate estimated by banks in London that they would be charged if borrowing from other banks;
narrow-body aircraft.	single-aisle aircraft, such as Airbus A320 family aircraft (A3 19/320/321 series) and Boeing 737 NG series (B737-700/800/900 series);
operating lease	a lease arrangement classified under the HKFRS and our accounting policies, pursuant to which substantially all of the risk and rewards of the leased assets remain with the lessors;

passenger aircraft	aircraft operated by an airline with the primary intention of transporting passengers. It may also carry cargo in the lower deck or aircraft belly;
PDP	pre-delivery payment, a progress payment to be made by the purchaser to aircraft manufacturer at different milestones when the new aircraft ordered by the purchaser are being built;
PDP financing	bank borrowings obtained from banks and financial institutions for the payment of PDP;
regional jet	A commercial jet aircraft carrying fewer than 100 passengers such as COMAC ARJ21;
revenue passenger kilometre or RPK	an industry standard measure of paying passengers flown traffic where one RPK represents one kilometre travelled by a paying customer;
SPCs	special purpose companies established for the purpose of acting as the registered owners of our aircraft. The lessors in lease transactions, and the borrowers of the relevant aircraft loans for aircraft acquisitions; and
widebody aircraft	twin-aisle aircraft, such as Airbus A330 series and Boeing 777 series.

TABLE OF CONTENTS

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including any information incorporated by reference. Phrases used in this summary and not otherwise defined shall have the meanings given to them in the section entitled "Terms and Conditions of the Notes".

Issuer	CALC Bonds Limited.
Guarantor	China Aircraft Leasing Group Holdings Limited.
Description	Guaranteed Medium Term Note Programme.
Size	Up to U.S.$3,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer and the Guarantor may increase the Programme Limit (as defined in the Dealer Agreement) in accordance with the terms of the Dealer Agreement.
The Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons (as defined in "*Terms and Conditions of the Notes*"), as further described in Condition 3(a) of the Terms and Conditions of the Notes.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations in respect of the Notes and the Guarantee are discussed under "*Risk Factors*".
Arrangers and Dealers	China Everbright Bank Co., Ltd., Hong Kong Branch, BNP Paribas, China CITIC Bank International Limited and Crédit Agricole Corporate and Investment Bank. The Issuer and the Guarantor may from time to time terminate the appointment of any Dealer under the Programme or appoint Dealer(s) either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Dealers**" are to all persons appointed as a dealer in respect of one or more Tranches or the Programme.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restriction applicable at the date of this Offering Circular.

	Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*").
Trustee	China CITIC Bank International Limited.
Issuing and Paying Agent, Registrar, Transfer Agent and Calculation Agent	China CITIC Bank International Limited.
CMU Lodging and Paying Agent . . .	China CITIC Bank International Limited.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and/or the issue price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in Tranches on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in a pricing supplement to this Offering Circular (a "**Pricing Supplement**").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer form or in registered form as described in "*Terms and Conditions of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement.

	Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Clearstream, Euroclear and/or, as the case may be, the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Global Certificates. Global Certificates representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear, Clearstream, the CMU or any other clearing system.
Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Guarantor, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s).
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing the Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the Hong Kong Monetary Authority as operator of the CMU. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Guarantor, the Trustee, the Issuing and Paying Agent and the relevant Dealer(s). Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor, the Issuing and Paying Agent and the relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s).

Specified Denomination	Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central banks (or equivalent body) or any laws or regulations applicable to the relevant currency (see "– *Certain Restrictions*" above).
Fixed Rate Notes	Fixed interest will be payable in arrear on such date or dates as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s).
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) by reference to EURIBOR, HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; or (iii) on such other basis as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s). Interest periods will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes (as defined in "*Terms and Conditions of the Notes*") may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in "*Terms and Conditions of the Notes*") will be made in such currencies, and based on such rates of exchange, as the Issuer, the Guarantor and the relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.

Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes (as defined in "*Terms and Conditions of the Notes*") or of interest in respect of Index Linked Interest Notes (as defined in "*Terms and Conditions of the Notes*") will be calculated by reference to such index and/or formula or to changes in prices of securities or commodities or to such other factors as the Issuer, the Guarantor and the relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates .	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default (as defined in "*Terms and Conditions of the Notes*")) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s). The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "– *Certain Restrictions*" above.
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Redemption for Change of Control .	The Terms and Conditions of the Notes allow for the election in the Pricing Supplement for the early redemption of the Notes at the option of the holders thereof upon the occurrence of a Change of Control as further described in Condition 6(f) of the Terms and Conditions of the Notes.
Redemption for Taxation Reasons . .	The Notes will be redeemable at the Issuer's option prior to maturity for taxation reasons as further described in Condition 6(c) of the Terms and Conditions of the Notes.

Status of Notes	The Notes and the Receipts and the Coupons relating to them will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under such Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.
Status of the Guarantee.	The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Notes.
Events of Default.	The Terms and Conditions of the Notes will contain certain Events of Default as described in Condition 10 of the Terms and Conditions of the Notes.
Cross-Acceleration	The Terms and Conditions of the Notes will contain a cross-acceleration provision as described in Condition 10(c) of the Terms and Conditions of the Notes.
Withholding Tax	All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee, as the case may be, will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or the Guarantor, as the case may be, will, subject to certain customary exceptions, pay such additional amounts as will result in the receipt by the Noteholders, the Receiptholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required. See Condition 8 of the Terms and Conditions of the Notes.
Governing Law and Jurisdiction . . .	English law with the submission to the exclusive jurisdiction of Hong Kong courts.

Listing and Admission to Trading . .	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. Separate application may be made for the listing of the Notes on the Hong Kong Stock Exchange. However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system. Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA, the United Kingdom, Japan, Hong Kong, the PRC and Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*".
United States Selling Restriction . . .	Regulation S, Category 1 or 2 as specified in the applicable Pricing Supplement. TEFRA C, TEFRA D or TEFRA not applicable, as specified in the applicable Pricing Supplement "TEFRA not applicable" is only available for (i) Registered Notes or (ii) Bearer Notes with a term of 365 days or less (taking into account any unilateral rights to extend or rollover the term).
Ratings	The Programme is rated "Ba2" by Moody's and "BB+" by Fitch. Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, qualification, suspension, reduction or withdrawal at any time by the assigning rating agency.

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

Overview

We are an independent international aircraft leasing company as well as a one-stop aircraft solutions provider engaging in two major segments, aircraft leasing and aviation aftermarket services. Unlike traditional aircraft lessors, we are a one-stop aircraft full life-cycle solutions provider for global airlines and aircraft asset owners. The Group's conventional business includes provision of aircraft operating leasing, purchase and leaseback, portfolio trading and asset management. The Group also covers core value-added services such as fleet upgrades, aircraft maintenance, repair and overhaul ("**MRO**"), aircraft disassembly and component sales through our associate company Aircraft Recycling International Limited ("**ARI**") and airline operations services through our joint venture, PT TransNusa Aviation Mandiri ("**TAM**").

Established in 2006, we are the first operating aircraft lessor in China and has been a pioneer in pushing forward the development of aircraft leasing industry in China. In 2010, we became the first wholly foreign owned aircraft lessor registered in China. In 2014, we became the first Chinese lessor to place a bulk order for 100 A320s with Airbus and is currently China's largest lessor with direct orders with original equipment manufacturers. In 2015, we were the first operating lessor allowed to form a cross-border foreign currency fund pool. As we implement our full value chain strategy, we built up the first large-scale aircraft disassembly facility in Asia which commenced operation in 2018. We are the first Chinese enterprise with licenses spanning across aircraft leasing, MRO, disassembly and parts trading. We have been listed on the Hong Kong Stock Exchange since 11 July 2014 and we are the first listed aircraft lessor in Asia. We are currently a constituent stock of the MSCI China Small Cap Index. Furthermore, we were named as the "Aircraft Lessor of the Year" for four consecutive years from 2015 to 2018 by Global Transport Finance. We were named as the "Asia-Pacific Lessor of the Year" for two consecutive years in 2017 and 2018 and won the "Editor's Deal of the Year for Innovation" award in 2018 presented by Airline Economics. With a strong order book, we were listed as one of the top three global lessors from 2020 to 2022 by *Airfinance* Journal. We also won "Asia-Pacific Lease Deal of the Year" award in 2022 and "Sustainability Debt Deal of the Year" in 2023, both presented by Airline Economics. While we keep consolidating our leading position in China, we have also implemented our globalisation strategy since 2015 and have established a presence in Asia Pacific, the Middle East, Europe, North America, Latin America and Africa.

Throughout our business development history, we have established our business model for direct aircraft purchase and lease transactions, aircraft purchase and leaseback transactions with leading airline operators, and portfolio trading with third-party lessors and investors. Our business model allows us to provide different aircraft leasing transaction structures through our SPCs. Our aircraft leasing business is focused on generating long-term and stable cash inflows of lease income to match the cash outflows for the repayment instalments of associated aircraft loans.

We use SPCs to enter into aircraft lease agreements with airline operators. The lease terms of our long-term aircraft lease agreements are sufficiently long to cover the repayment terms of our aircraft loans (other than the balloon payment, which is covered by the residual value of the aircraft). This arrangement is designed to reduce our liquidity risk associated with short-term aircraft acquisition financing. Upon the expiration of the aircraft lease agreements, we require our airline lessees to return to us the leased aircraft in full-life condition or such other condition as stipulated in the relevant lease agreements. As at 30 June 2023, our lease agreements in respect of aircraft purchased from original equipment manufacturers were of an average original lease term of approximately 8 to 12 years.

Pursuant to the aircraft lease agreements, our airline lessees enjoy the exclusive right to use the leased aircraft during the term of the aircraft lease agreements. Our airline lessees are required to settle the lease payments on a monthly or quarterly basis, and are also responsible for most costs, expenses and insurance involved in the maintenance and operation of the aircraft during the lease term. We also require our airline lessees to maintain valid insurance against all liabilities involved in the operation of the leased aircraft in compliance with the applicable laws and regulations in the place where the aircraft operates.

Prior to December 2010, we used our SPCs established in the Cayman Islands and Ireland as the lessors for aircraft leased to airline operators in China. Since December 2010 and October 2012, we have started using our SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, respectively, as lessors to enter into aircraft leasing transactions with airline operators in China. In August 2011, we first gained recognition in the Chinese aircraft leasing market following the successful delivery of an aircraft to Shandong Airlines through our SPCs established in Tianjin Dongjiang Free Trade Port Zone. In March 2013, we successfully completed a novation of the lease of an aircraft to China Southern Airlines to our SPC established in Shanghai Pudong Airport Free Trade Zone. Leveraging the transaction structure involving our SPCs in China, we can assist our airline customers to reduce their overall leasing cost and withholding tax obligation and thereby enhance their competitiveness. Our transaction structure together with our value-adding services provide incentives to both of our existing and potential airline customers in China to use our aircraft leasing services.

We lease, deliver and manage aircraft to leading airlines in China and globally, such as Air China, China Eastern Airlines, China Southern Airlines, Chengdu Airlines, Sichuan Airlines, Shenzhen Airlines, Xiamen Airlines, Air Macau, China Airlines, Frontier Airlines, Hawaiian Airlines, Iberia, LATAM Airlines, Air India, Royal Jordanian, Virgin Australia, Pegasus Airlines, Spirit Airlines, DAT Airlines, etc. Our airline customers also include airline operators, such as China Eastern Airlines, to whom we provide value-adding services including trading and marketing of used aircraft.

We have been very selective in the type of aircraft assets to be included in our portfolio. We have a modern and narrow-body-dominant aircraft fleet. Our owned fleet size was 162 aircraft as at 30 June 2023, 90% of which are narrow-body aircraft by number of aircraft. The narrow-body aircraft types include Airbus A320 series aircraft and Boeing 737 NG aircraft, and the wide-body aircraft types include Airbus A330 series aircraft and Boeing 787 aircraft. The average age of our aircraft fleet was 8.3 years as at 30 June 2023. Other than the 162 aircraft owned by us, an additional 27 aircraft are managed by us as at 30 June 2023.

As at 30 June 2023, by number of aircraft, 73.5% of our owned fleet were on lease to Chinese airline customers (including Hong Kong, Macau and Taiwan), the majority of which are state-owned airlines with financial strength. Our self-owned fleet had an average remaining lease term of approximately 5.8 years as at 30 June 2023. We continued to pursue our long-standing strategy of investing in modern aircraft that are the most fuel-efficient and sought-after category as we prepare ourselves for recovery and growth in the future. As of 30 June 2023, we had 213 narrow-body aircraft and regional jet in our order book, to be delivered in stages by 2028, including 120 Airbus, 65 Boeing (the commitment to purchase 64 of which had been novated to a third party in late August 2023) and 28 COMAC aircraft.

Despite disturbances in the global economy, including conflicts between Russia and Ukraine, the COVID-19 pandemic, interest rate fluctuations and the collapse of financial institutions, the global civil aviation industry has maintained a strong recovery. There has been continuous improvement in operating and financial conditions for airlines from various countries as the COVID-19 pandemic related travel restrictions have been lifted. International passenger traffic in the Asia-Pacific Region recorded substantial growth. Driven by strong demand, aircraft became tight in supply and its market value and rental level rose steadily. While the outbreak of the Russian-Ukraine conflict has caused instability and resulting sanctions on Russia, we have withstood market challenges with our diversified and high-quality fleet assets portfolio and rigorous risk management. We fully utilized the operational advantages of the entire aircraft industry chain and actively grasped opportunities of market recovery through flexible and diverse solutions, diversified financing channels, professional asset management capabilities and tight industry partnerships to achieve stable performance.

We are an essential invested company of China Everbright Limited ("**CEL**") and we adhere to the mission and vision of "integrating industries and financing, and contributing to China's rising aviation strength", while deepening and optimising the model of "integrating industries and financing in aviation", and continuously strengthening our capacity in aircraft full life-cycle value chain. We strive to become the globally leading aircraft full-value-chain solution supplier.

As directed by the development philosophy of green aviation, the Group proactively provided airlines with aftermarket services and retirement solutions for green aviation. In July 2022, the Group signed its first B373-800SF freighter conversion order and agreement, marking the official beginning of its "passenger-to-freighter" (P2F) business. Recently, China Aviation Aftermarket Holdings Limited ("**CAAM**"), ARI's associate company, has completed its comprehensive solutions to five old aircraft acquired from Air China Limited and maximised the residual value of the assets through a series of sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. The Group is committed to sustainable development in aviation in the future.

Our Competitive Strengths

Our core competence lies in our distinctive and resilient business model, which gives us the competitive strengths to grasp the opportunities brought by the rebound in aviation demand as the COVID-19 pandemic subsided and to capitalise on the growth opportunities in the high-growth China aircraft leasing industry. Our key strengths include:

Positioning ourselves as a full life-cycle aircraft solutions provider

We have been continuously enhancing our aircraft full value chain operations and extending our service coverage to all major segments of the aircraft aftermarket. For the six months ended 30 June 2023, we have proactively pursued fleet management and lease management, upgrading our service capabilities in the aviation aftermarket. We have obtained the base maintenance license from CAAC for 3C-check of A320 series and B737NG series aircraft, improving our maintenance and overhaul capabilities further.

ARI operates a global life-cycle solutions platform to support our value chain ecosystem with our dual aircraft recycling bases in Harbin, PRC and in the United States, which is managed by its wholly-owned subsidiary, Universal Asset Management, Inc. ("**UAM**"), who specialised in aircraft disassembly, full recycling solutions, component sales, warehousing and third-party logistics headquartered in the United States. ARI and its subsidiaries have provided various aircraft inspection, consultancy and aircraft technical related services to the Group from time to time and have generated stable income for the Group. Together with ARI, we have reached a two-month short term lease arrangement with Norwegian Air Shuttle for three B738s in order to fill the delivery gap before importing to China. We have also leveraged on ARI's asset management expertise and industry resources to overcome challenges such as arranging off-site supervision of customs and acquiring FAA Export Certificate of Airworthiness during the COVID-19 pandemic facing travel ban. Through CAAM, ARI's associate company, we completed comprehensive solutions for five old aircrafts acquired from Air China Limited to assist the airline's fleet retirement plan, successfully maximizing the residual value of these assets through a series of complex sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. We have further strengthened customer loyalty and strengthened business opportunities with our strategic cooperation with UAM, where we identified LATAM's airframe retirement need during a new aircraft leasing discussion and UAM engaged with LATAM to purchase six A320 airframe for disassembly.

ARI, together with FL Technics and our group established an aircraft maintenance and engineering joint venture in Harbin, PRC in 2018, providing MRO services for aircraft with a focus on, among others, aircraft base maintenance, scheduled checks and overhaul, aircraft disassembly, engineering services, technical training and consultation. In March 2022, the aircraft recycling facility of ARI was approved to be included in the flight zone of Harbin Taiping International Airport, marking a new stage for domestic aircraft repair and maintenance business for us.

We have continued to develop ourselves as a full life-cycle aircraft solutions provider for the global aviation airlines and aircraft asset owners. Such business model has been effective as we have been able to leverage off the respective resources and synergies among our member companies and affiliated companies, enabling us to offer services, through ourselves and/or together with such companies, covering every stage of an aircraft life-cycle, including (a) aircraft ordering and procurement; (b) aircraft leasing, purchase and leaseback, and portfolio trading; and (c) aircraft disassembly and component sales, and MRO. Our business model also made us one of the rare few that could provide customers with one-stop fleet upgrade solutions as we not only have a large order book comprised of new-generation fuel-efficient aircraft that can help airline customers optimize their fleets and reduce carbon emissions, but also could provide professional old aircraft solutions and services to assist airlines' fleet retirement. This also puts us in a better position in the global trend of green aviation.

We also extended downstream along the aviation value chain into the end-user segment to further enhance our business synergies. In March 2020, we acquired a 72.82% interest in Aviation Synergy Ltd., which holds a 49% indirect equity interest in the Indonesian regional airline, TAM. In January 2021, we placed a firm order for 30 ARJ21 aircraft and, together with China Everbright Group ("**CEG**") and CEL, furthered our strategic cooperation with COMAC in the fields of aircraft asset management, MRO and aviation aftermarket services. In December 2022, we successfully delivered a COMAC ARJ21 aircraft to Indonesia carrier TransNusa, marking the first time for a China-made regional passenger jet to enter the overseas market. The aircraft was officially put into commercial operation in April 2023.

Narrow-body-dominant aircraft fleet leased to top class clients

As at 30 June 2023, 90% of our owned fleet, by number of aircraft, are narrow-body aircraft. The average age of our aircraft fleet was 8.3 years and we had a total order commitment of 213 narrow-body aircraft and regional jet to be delivered by 2028 (64 of which had been novated to a third party in late August 2023). Narrow-body aircraft is a highly liquid asset class and the most popular aircraft type mainly serve domestic routes and short-haul flights, which had led recovery in the aviation industry from the pandemic. With undergoing low-carbon transition of the aviation industry and rising fuel price, demand for our modern fleet have been increasing amongst the airlines globally for its fuel efficiency and low cost of maintenance as compared with the older models of aircraft.

The Group's aircraft fleet is mainly leased to top class clients. As at 30 June 2022, by number of aircraft, 73.5% of the Group's owned fleet were leased to Chinese airline customers (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with financial strength. As at 30 June 2023, the Group's overall customer base (including both owned and managed aircraft) covers 42 airlines in 20 countries and regions.

With the implementation of increasingly stringent environmental regulations on carbon emission level by aircraft, older models of aircraft are costlier to maintain, operate and modify to bring it in compliance with the environmental standards. In addition, there is an increasing demand for airlines in China to upgrade their fleets with new models because of fuel efficiency and ease of operations and maintenance. In light of all these factors and favourable governmental policies, our modern fleet gives us the strength of having a sustainable business model with constant cash flow of lease income.

No near-term marketing nor remarketing pressure

We have a strong track record of placing our aircraft, both new deliveries and returned aircraft, in advance. As of 30 June 2023, all aircraft scheduled to be delivered by March 2025 (excluding those which had been novated to third party in August 2023) have been mandated for lease. The one lease expiring in 2023 has been extended and those leases expiring in 2024 were at final stages of either second lease mandate, lease extension or retirement solutions. Hence our near-term marketing or remarket pressure is minimal.

Ready access to diverse and flexible funding sources across both PRC onshore and offshore platforms

Given the challenging business environment, managing liquidity is vital to the aviation industry for its recovery. We will continue to advance our onshore and offshore platforms to flexibly tap opportunities to access quality funding sources, including actively exploring green financing opportunities, and the diversity of funding channels have enabled us to readily access various banks, financial institutions and investors with multiple financing products.

Bank loans remain the main source of funding for our fleet and banks have given adequate credit lines to support our business development. With the long-term lease agreements with our airline customers, we are able to secure aircraft loans from commercial banks for aircraft acquisitions, thereby allowing us to manage our liquidity risk by matching the cash inflows and outflows through the receipt of lease income and the payment of regular loan repayments, respectively. As we have established our SPCs in China, we also have the flexibility to secure acquisition financing in China, which is an advantage we have over foreign lessors outside China. For the six months ended 30 June 2023, total new facilities and renewed facilities exceeded HK$14.5 billion, including aircraft project loans, PDP financing, working capital facilities, RMB bonds etc.

In view of the relatively stable interest rate environment and abundant liquidity supply in the PRC bond market, the Group successfully issued the first tranche of low-carbon transition corporate bonds in the PRC market with an amount of RMB1.5 billion in June 2023. It was oversubscribed by 1.83 times, fully demonstrating the wide recognition of the Group's operating strength by bond investors from the PRC and their strong support for the Group's investment in low-carbon transition fields in pursuit of sustainable development. In November 2023, the Group successfully issued the second tranche of the corporate bonds with an amount of RMB500 million and coupon rate of 3.58%, a new record low among past issuance with the same term in PRC market.

In June 2023, Fitch affirmed our long-term issuer default rating of "BB+" with a stable outlook, while Moody's affirmed our corporate family rating (CFR) of Ba1 with stable outlook in July 2023. In addition, in May 2023, CALC (Tianjin) received an AAA issuer rating from Dagong Global Credit Rating Co., Ltd, and an upgrade to AAA rating from China Cheng Xin International Credit Rating Co., Ltd, both with a stable outlook.

We have also received strong support from the associate companies under CEG, providing us with standby credits and committed working capital facilities in addition to liquidity provided by commercial banks.

As at 30 June 2023, the Group had cash and cash balances of HK$6,202.7 million and undrawn borrowing facilities of HK$3,990.3 million, and the Group's total balance of cash and bank balances with undrawn borrowing facilities was HK$10,193.0 million. In view of the foregoing measures, despite the backdrop of a challenging environment, the Group has gathered rich ammunition to tap opportunities from the imminent recovery of its key aviation markets in China and the region.

Strong support received from China Everbright Group

We have received strong support from CEG, which is provided through CEL, our largest shareholder as well as the associate companies under CEG. CALC is the key investee company of CEL and the flagship unit of CEG in the aircraft leasing segment. In January 2021, we signed a tripartite project investment cooperation memorandum with CEL and COMAC to cooperate in the areas of overseas operation of aircraft made in China, aircraft asset management and aviation aftermarket. This is part of CEG's wider strategic framework with COMAC as they explore cooperation in aviation field. China Everbright Bank is also currently one of the CALC's key relationship banks and provides us with access to diversified range of short-term and long-term financing funding channels.

Being one of the forerunners in the high-growth China aircraft leasing industry with a distinctive business model and a proven successful operating track record.

China's domestic and international air travel has demonstrated strong resilience and recovery during and after the COVID-19 pandemic. Prior to the COVID-19 pandemic, China's aircraft leasing industry has been growing rapidly as a result of the continuous expansion of the airline industry, favourable government policies, and the fact that aircraft leasing affords airline companies relatively low initial capital investment and fleet planning flexibility. As the COVID-19 pandemic gradually came under control, the domestic market in China has rebounded significantly with passenger traffic returned to pre-crisis level. With our established business model, we are well-positioned to capitalise on the growing aircraft leasing opportunities from the airlines in China.

Our business model, which is a combination of an offshore platform for aircraft acquisition and financing and an onshore platform for different leasing structures, together with our asset management capabilities, distinguishes us from other domestic and foreign lessors in China in the following aspects:

Aircraft acquisition

We distinguish ourselves from our competitors in China aircraft leasing industry by our ability to source new and used aircraft from the overseas aircraft manufacturers and the international secondary aircraft market. Our aircraft acquisition capability allows us to engage in direct purchase of aircraft for leasing purposes and as such, we can manage our overall aircraft portfolio in terms of aircraft model, aircraft age, and residual value. As of June 2023, we had total order commitments of 213 aircraft to be delivered by 2028, 64 of which had been novated to a third party in late August 2023.

We have established SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, and they are our wholly-owned subsidiaries in China.

Under the current tax laws in China, airlines in China are required to withhold tax up to 10.0% on lease payments paid to international leasing companies outside China. Since December 2010, following the establishment of CALC (Tianjin) as the first wholly-foreign owned aircraft leasing company in Tianjin Dongjiang Free Trade Port Zone, we offer our airline customers an onshore leasing platform in China which can assist our airline customers to reduce their overall leasing cost and thereby, enhance their competition.

We are therefore able to offer competitive lease terms and deliver aircraft to our airline customers within a relatively short period of time, thereby reducing the time and the uncertainties involved in the aircraft procurement process for our airline customers.

Flexible lease structures

Our onshore leasing platform in China could attract potential airline customers to enter into business with us, as compared with the leasing of aircraft from other foreign lessors. We lease our aircraft to airline operators in China under aircraft lease agreements, pursuant to which the airline operators only require the approval from the NDRC before entering into the aircraft lease agreements with us.

Asset management capabilities

We have also been able to provide one-stop-shop solutions to our Chinese customers, which usually encounter difficulties in managing and disposing of their aged fleet. For example, CAAM, ARI's associate company, has recently acquired five old aircraft from Air China and completed comprehensive solutions to maximise their residual value through a series of sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. Such asset management capabilities have enabled us to enhance our relationships with Chinese airline customers; and stand out from our competitors in the Chinese leasing market.

Stable and attractive growth through our order book with Airbus, with whom we have strong relationship

We have a high-quality and growing airline customer base for aircraft leasing services. Since 2014, we have expanded our business into overseas markets in Asia, Europe and Americas. As at 30 June 2023, we had a fleet of 162 owned and 27 managed aircraft. Our clientele extended to 42 airlines in 20 jurisdictions and regions throughout the world, including Air China, China Eastern Airlines, China Southern Airlines, Chengdu Airlines, Sichuan Airlines, Shenzhen Airlines, Xiamen Airlines, Air Macau, China Airlines, Frontier Airlines, Hawaiian Airlines, Iberia, LATAM Airlines, Air India, Royal Jordanian, Virgin Australia, Pegasus Airlines, Spirit Airlines, DAT Airlines, etc. We have long-standing business relationship with our airline customers, some going back of 16 years and hence part of our existing airline customers are repeating customers which may be retained because of our favourable lease terms and our value-adding services. We have delivered a total of 28 aircraft, among which 18 were new aircraft from order book placements and 10 aircraft were through purchase and lease back arrangements for the year ended 31 December 2022. As at 30 June 2023, we have secured, by way of letters of intent, the lease of 26 aircraft to overseas airline customers.

Our fleet is expanding to cope with the increasing demand from our existing and potential airline customers for aircraft leasing services. As of June 2023, we had total order commitments of 213 aircraft to be delivered by 2028, 64 of which had been novated to a third party in late August 2023. These lease commitments will provide us with constant cash inflows of lease income in the future and that our strong aircraft delivery pipeline enables us to provide our airline customers with quick delivery schedule under leasing arrangements.

Operational and financial flexibility due to our independent status

We are an independent international aircraft leasing company focusing as well as a one-stop aircraft solutions provider on the aircraft leasing market. Our independent status from major commercial banks, aircraft manufacturers, and airline operators gives us the flexibility in selecting the aircraft that matches our growth strategies and structuring lease agreements tailoring for the specific business needs of our airline customers.

Aircraft lessors in China may be divided into four categories, namely independent aircraft lessors and aircraft lessors affiliated with commercial banks, aircraft manufacturers and airline operators, respectively. Compared to aircraft lessors affiliated with commercial banks, we enjoy the flexibility in selecting different acquisition financing solutions on the best commercial terms offered by different banks and financial institutions within and outside China. We are also not subject to the restrictions on leverage and equity applicable to banking industry in China. Compared to aircraft lessors affiliated with aircraft manufacturers, we have the flexibility in choosing different aircraft models from different aircraft manufacturers and sourcing aircraft from the secondary aircraft market. Compared to aircraft lessors affiliated with airline operators, we can provide services to all airlines with no customer base limitations. Hence, as an independent aircraft lessor, we have access to a wider customer base and have greater flexibility in structuring leasing and financing transactions.

Stable and experienced management team with a proven track record

We are led by experienced professionals with extensive experience in aircraft asset management and aircraft leasing industries in China. Our Mr. Zhang Mingao, Chairman and Executive Director, was appointed on 14 October 2022 and is also the chairman of Everbright Jiabao Co., Ltd. and the non-executive and non-independent chairman of Ying Li International Real Estate Limited. Mr. Zhang was an executive director of CEL and the president of the CEL Group (as defined below). He is responsible for formulating the Group's overall strategic planning and directions. Our Mr. Poon Ho Man, Mike, Executive Director and Chief Executive Officer, is an entrepreneur and a pioneer of aviation sector in China. He founded the company in 2006. Our Ms. Liu Wanting, Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer, has more than 15 years of experience in the aircraft leasing industries in China. Our Mr. Li Guohui, Chief Financial Officer and Chief Strategy Officer, has over 30 years of experience working as a senior executive in blue chip and large-scale companies and arranged over U.S.$10 billion of corporate financing facilities. Our executive directors and senior management team are experienced in structuring lease transactions, risk management, aircraft acquisition financing, selection and delivery of aircraft, technical review, monitoring and compliance, and aircraft trading and marketing within and outside China. See "*Management*".

Our business operations are managed collaboratively by our risk management team, financing team, sale and marketing team and technical supports team. Mr. Jon Howey is the Head of Aviation Risk and is responsible for the risk management of our Group. Our sales and marketing team, with the collaborative efforts by Mr. Luis Ayala, our Chief Development Officer, Mr. Donald Liu, our Deputy Chief Commercial Officer, Greater China, Mr. Matt Corley, our Regional Head of America, Mr. Christopher Dennis-Meyer, our Regional Head of Sales & Marketing – EMEA and Mr. Qing Fang, our Head of Sales and Marketing – Greater China, provides access to potential aircraft acquisition and marketing opportunities. Our sales and marketing team also focuses on maintaining close contact with the airlines in China and globally and developing transaction structures in line with their business needs and the latest market and regulatory environment. Our technical supports team led by Mr. Richard Wall, our Chief Technical Officer, possesses extensive experience in technical aspect of aircraft operations. They regularly monitor the usage condition of our leased aircraft and provide technical supports and marketing service of used aircraft to our airline customers as part of our value-adding services. In respect of aircraft acquisition, our technical supports team also conducts technical reviews on the aircraft condition and the maintenance records for the used aircraft and to ensure that the specifications and modifications are met for the new aircraft.

Throughout our business development history, our senior management demonstrates proven capability to successfully implement different leasing transaction structures for new and used aircraft and for major airlines under different market conditions.

Our Growth Strategies

The COVID-19 pandemic has posed challenges of unprecedented magnitudes and breadths to the global aviation industry. However, as the COVID-19 pandemic subsided, global air passenger demand rose significantly and the volume of flights has rebounded robustly.

Airlines incline to reduce their capital expenditure through leasing more aircraft from global operating lessors like us so as to maintain liquidity and flexibility since the outbreak of the COVID-19 pandemic. Lessors' market share continues to rise and has surpassed 50% manifesting the growing power of lessors in the aviation industry.

On the supply side, the COVID-19 pandemic has greatly reduced the delivery and production of new aircraft. Conflicts between Russia and Ukraine as well as recent engines issue continued to hinder global supply chain. With limited production capacity, airlines will rely more on lessors to meet the needs of fleet expansion and renewal in response to the robust recovery of global air travel, further boosting the penetration rate of leasing.

The rapid growth of air travel amid ongoing supply chain issues, coupled with high inflation and interest rates, had been and is expected to continue pushing up lease rates. It is generally expected that the aircraft shortage would likely persist for a couple of years, contributing to high market value and lease rates. Moreover, global wave of carbon neutrality as well as fuel price hike urges airlines to speed up upgrading their fleets to new generation fuel-efficient aircraft.

Taking into account our outlook of this sector, we intend to pursue the following recovery and growth strategies:

Continue our development as a full life-cycle aircraft solutions provider

We will continue our development as a full life-cycle aircraft solutions provider for the global aviation industry and to exploit further synergies in the aviation and aircraft leasing ecosystem.

Together with ARI, we have reached a two-month short term lease arrangement for three B738s with Norwegian Air Shuttle in order to fill the delivery gap for importing to China. We have also leveraged on ARI's asset management expertise and industry resources to overcome challenges such as arranging off-site supervision of customs and acquiring FAA Export Certificate of Airworthiness during the COVID-19 pandemic facing travel ban. Through CAAM, ARI's associate company, we completed comprehensive solutions for five old aircrafts acquired from Air China Limited to assist the airline's fleet retirement plan, successfully maximizing the residual value of these assets through a series of complex sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. As the business of ARI continues to develop and take shape, ARI shall seek strategic investors to further support its growth and explore, among others, the possibility of listing on a stock exchange in the future, thereby enabling ARI to raise more capital for growth. We have also entered into a co-investment memorandum of understanding with a reputable PRC state-owned enterprise to develop the aviation aftermarket business.

Throughout the COVID-19 pandemic, our team proactively identified opportunities and actually turned crises into opportunities. We continued to enhance the Group's strengths in aircraft operating leasing around the world. The utilization rate of our owned fleet (except for the two aircraft related to Russian airlines that were written off from the book) remained 100%, benefitting from a relatively high proportion of 90% of narrow-body aircraft among the peer listed lessors. We not only provide aircraft leasing services customized to client requirements, but also unleash edges in its full value chain foothold to integrate professionally solutions for old and retiring aircraft and complete purchase-and-lease back transactions and disposals of retiring aircraft for major airlines, thereby helping them to mitigate residual risk. Such one-stop fleet upgrade services well positioned us to grasp opportunities emerging from airlines' accelerated fleet renewal and optimization demand in response to the trend of green aviation.

Expanding our narrow-body dominant fleet of aircraft

We continue to apply prudent principles in optimizing our fleet portfolio. As at 30 June 2023, we had 213 narrow-body aircraft and regional jet in our order book, to be delivered in stages by 2028 (64 of which had been novated to a third party in late August 2023). In making decisions on aircraft acquisition, we consider various factors such as the aircraft type and model, aircraft age, and the appetites of the airlines. We plan to focus on narrow-body aircraft which are suitable for domestic routes and short-haul regional flights. The Group continues to pursue its long-standing strategy of investing in new generation and fuel-efficient aircraft which are proven to have long useful lives, more likely to be in compliance with the stringent environmental protection standards and less costly to maintain and operate. The Group has been, and will continue to be, selective in the type of aircraft assets to be included in its portfolio. As of 30 June 2023, by number of aircraft, 90% of the Group's owned fleet, by number of aircraft, were narrow-body aircraft, a highly liquid asset class and the most popular aircraft type mainly serving domestic routes and short-haul flights, which led recovery in the aviation industry from the pandemic.

Global expansion with top-tier clientele

Starting from 2015, CALC had started to add international lessees to its client list. In recent years, the Group continued to strengthen its leading position in China market while actively expanding its global footprint with top-tier clients to enhance diversity in the geographical distribution of its customer base. The Group further strengthened its globalization development by expanding its footprint to the African and Oceania market in the first half of 2023. As at 30 June 2023, by number of aircraft, 73.5% of CALC's owned fleet were leased to Chinese airlines customers (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with financial strength; 26.5% of CALC's owned fleet were leased to CALC's non-Chinese clients, which were mainly flag-carriers or backed by strong shareholders. Going forward, global diversification will remain one of the focuses of CALC. In fact, over 60% of the aircraft scheduled for delivery during the second half of 2023 and 2024 have been leased to CALC's overseas clients.

Enhance Portfolio Trading and Asset Management Capabilities

In June 2018, we collaborated with four leading state-owned enterprises as mezzanine investors to roll out our global aircraft investment vehicle, CAG Bermuda 1 Limited ("**CAG**"). With the establishment of CAG, we have made great strides in building up our asset management capabilities. Perfecting our portfolio trading and asset management capabilities is instrumental in our long term strategy of increasing our presence in the aviation industry chain as a lessor playing heavier roles, with broader business opportunities. This is particularly important given the earth-breaking changes in the industry ecosystem in response to the pandemic. Active portfolio trades and asset management ensures our fleet portfolio to be optimized with discipline, capital efficiency at high levels and low gearing and strengthens of our core businesses.

Following the full operation of CAG, we rolled out ARG Cayman 1 Limited ("**ARG**") in December 2019 together with ARI and other investors, another aircraft investment vehicle focusing on mid-age and older aircraft portfolios primarily in the PRC domestic market and trading of used parts and components disassembly. During 2020, we injected four aircraft into ARG while its associate Aircraft Recycling International Limited served as the servicer to advance its asset management strengths.

During 2020, we injected two aircraft to a joint venture we established with HNCA Aviation & Equipment Leasing Co., Ltd. Furthermore, we joined forces with Moutai Financial Leasing Co., Ltd. in a strategic cooperative partnership for the investment in lease-attached aircraft portfolio in May 2020 and two aircraft had been injected therein by June 2023. We also completed the disposal of nine aircraft in 2021 and four aircraft in 2022, mainly to third-party lessors, so as to seek win-win cooperation where we optimize our fleet and asset portfolio while the latter expands its business presence.

Through the establishment of various aviation industry fund platforms and joint ventures, we have fostered industrial cooperation ecosystems, accreting value and realizing returns for financiers, investors and other aircraft asset owners in our capacity as an aircraft asset manager.

Diversifying our financing source and capital optimization to improve our credit ratings

We will continue to use aircraft loans and PDP financing mainly to support our aircraft acquisitions. Through the use of project financings, we match our regular loan repayments for the aircraft loans with our lease income, thereby generating constant cash inflows of lease income and reducing our liquidity risk. We use a combination of debt and equity financing of different terms and structures to further reduce our finance cost as and when appropriate.

Since 2018, we have been actively tapping into both the onshore and offshore capital markets by issuing equity and debt instruments, such as our issuance of RMB1 billion one-year unsecured debentures at a coupon rate of 3.65% completed in March 2020, RMB300 million one-year unsecured debentures at a coupon rate of 4% completed in June 2020, US$70 million five-year unsecured bonds at a coupon of 5.90% which US$35 million were issued in November 2020 and another US$35 million were issued in January 2021 and US$200 million perpetual bond at a coupon of 6.4% over LIBOR in December 2020. In 2021, we issued three-year US$100 million unsecured guaranteed notes at a coupon rate of 4.85%. In 2022, we issued the first low-carbon transition bond in China's aviation industry with principal amount of RMB1 billion at a coupon of 3.56%, as well as RMB1.2 billion corporate bonds. In 2023, we issued three-year RMB1.5 billion corporate bonds at a coupon rate of 3.85% and another RMB500 million corporate bonds with a coupon rate at a record-low level of 3.58%.

We will continue to expand and optimize our onshore and offshore financing channels, including actively exploring green financing opportunities from time to time; and we are determined to improve our international credit rating to investment-grade by various measures, so as to further enhance our financing capabilities with reduced costs.

Cooperation with COMAC

In January 2021, the Group procured ARJ21 series aircraft with 30 firm orders and 30 intended orders from Commercial Aircraft Service Corporation of China Ltd. ("**COMAC**"), and signed a tripartite project investment cooperation memorandum with CEL and COMAC in respect of deep and pragmatic cooperation in the areas of overseas operation of aircraft made in China, aircraft asset management and aviation aftermarket, etc.

We successfully delivered a COMAC ARJ21 aircraft to Indonesia carrier TransNusa in December 2022, marking the first time for a China-made regional passenger jet to enter the overseas market. It was officially put into commercial operation in April 2023 and successfully completed its debut flight, and later flew its first international flight in July 2023. Our second ARJ21 was delivered to TransNusa in June 2023, steadily pacing up our effort to promote commercial operation of China-made aircraft in overseas market.

When Chinese aircraft becomes popular in the global aviation market, we will enjoy the upside by being the first mover in leasing and exporting Chinese aircraft to overseas.

Recent Developments

Novation of aircraft

On 14 August 2023, we (through CALC Aircraft Assets Limited (the "**Novator**"), our wholly-owned subsidiary) entered into the novation agreement (the "**Novation Agreement**") with DAE AVIATION GROUP LTD (the "**Novatee**") pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "**Novation Arrangement**"). To facilitate and as part of the Novation Arrangement, China Aircraft Leasing Company Limited, another subsidiary of ours, entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. The Novation Arrangement was completed by the end of August 2023.

Disposal of aircraft

In September 2023, we completed the sale of two Airbus A320-200 aircraft to funds managed by Avenue Capital Group, with details announced on 17 January 2023. On 15 September 2023, we, through our wholly-owned special purpose vehicle (the "**Seller**"), entered into an aircraft sale and purchase agreement with a wholly-owned subsidiary of ABC Financial Leasing (農銀金融租賃有限公司) (the "**Purchaser**"), an independent third party, pursuant to which the Seller agreed to sell and the Purchaser agreed to buy one Airbus A320-214 aircraft. The sale transaction was subsequently completed in November 2023. On 13 December 2023, we, through our wholly-owned special purpose vehicle, entered into an aircraft sale and purchase agreement with a wholly-owned subsidiary of Taiping & Sinopec Financial Leasing Co. Ltd, an independent third party, in relation to the sale of one Airbus A321 NEO aircraft. The sale transaction was completed in December 2023.

Such sale transactions will increase the Group's net income from aircraft trading, satisfy the market's demand for aircraft and maintain the good relationship between the Group and its clients.

Tender offer for purchase of notes

On 20 September 2023, we completed our cash tender offer by acceptance and redemption of U.S.$50,720,000 in aggregate principal amount validly tendered for the U.S.$2,000,000,000 5.50 per cent. guaranteed bonds due 2024 issued by CALC Bond 3 Limited and U.S.$400,000 in aggregate principal amount validly tendered for the U.S.$100,000,000 4.85 per cent. guaranteed notes due 2024 issued by the Issuer. The tender offer was made as part of a proactive approach to manage our interest payments and debt structure.

Extension of ARI's shareholders' loan and guarantee

On 27 October 2023, ARI and its shareholders entered into the Fourth Supplemental Agreement, pursuant to which ARI and its shareholders agreed to extend the term of the shareholders' loan and guarantee to 31 December 2026. On the same date, ARI also entered into the exchangeable bond subscription agreement ("**EB Subscription Agreement**") with ZF Oriental 38 Limited ("**ZF Oriental**"), our wholly-owned subsidiary, in respect of ZF Oriental's subscription of the HK$850,000,000 exchangeable bonds due 2026 which are exchangeable into the fully-paid ordinary share(s) in the capital of China Aviation Aftermarket Holdings Limited (中飛航空後市場控股有限公司) (the "**Proposed Subscription**"), an indirect wholly-owned subsidiary of ARI. As part of the shareholders' loan provided by Aircraft Recycling International Holdings (an ARI shareholder) and assigned to ZF Oriental will be applied to settle the subscription money of the exchangeable bonds pursuant to the EB Subscription Agreement, our board proposed to reduce the annual cap for the shareholders' loan and guarantee agreement (as amended and supplemented by the Fourth Supplemental Agreement) to HK$650 million for each of the years ended 31 December 2024, 2025 and 2026 respectively (the "**New Annual Caps**"). The Fourth Supplemental Agreement, the New Annual Caps, the EB Subscription Agreement and the Proposed Subscription have been approved at the extraordinary general meeting held on 15 December 2023.

Insurance settlement in respect of one aircraft stranded in Russia

On 14 December 2023, we received a payment of approximately US$23.57 million under an insurance settlement with Insurance Company NSK, a Russian insurance company, in respect of one aircraft leased to Russian carrier Aeroflot which had been written-off from our book earlier, and have released claims against relevant parties accordingly.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary audited consolidated financial information as at and for the years ended 31 December 2020, 2021 and 2022 set forth below is derived from the Audited Consolidated Financial Statements, which are included elsewhere in this Offering Circular, were prepared and presented in accordance with HKFRS and have been audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

The summary unaudited but reviewed consolidated financial information of the Guarantor as at and for the six months ended 30 June 2022 and 2023 set forth below has been extracted from the Reviewed Consolidated Interim Financial Statements, which are included elsewhere in this Offering Circular. The Reviewed Consolidated Interim Financial Statements have been prepared in compliance with HKAS 34 and reviewed by PricewaterhouseCoopers in accordance with HKSRE 2410. The Reviewed Consolidated Interim Financial Statements have not been audited by PricewaterhouseCoopers or any other independent auditors. Consequently, the Reviewed Consolidated Interim Financial Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. None of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers or agents or any person who controls any of them makes any representation or warranty, express or implied, regarding the accuracy, completeness or sufficiency of the Reviewed Consolidated Interim Financial Statements for an assessment of, and prospective investors must exercise caution when using such data to evaluate, the Guarantor's or the Group's financial condition and results of operations. In addition, the Reviewed Consolidated Interim Financial Statements should not be taken as an indication of the Guarantor's or the Group's expected financial condition or results of operations for the full financial year ended 31 December 2023.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Guarantor, including the notes thereto, included elsewhere in this Offering Circular.

Historical results of the Group are not necessarily indicative of results that may be achieved for any future period.

Summary Consolidated Statement of Income Information

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
		(Audited)		*(Unaudited)*	
			(HK$'000)		
Total revenue					
Lease income					
Finance lease income	541,243	540,634	574,683	284,403	296,555
Operating lease income	1,945,545	1,959,809	2,967,565	1,369,364	1,759,898
	2,486,788	2,500,443	3,542,248	1,653,767	2,056,453
Other operating income					
Net income from aircraft transactions and aircraft components trading	514,275	301,741	207,072	66,492	44,695
Other income	484,719	475,882	421,682	170,532	225,109
	3,485,782	3,278,066	4,171,002	1,890,791	2,326,257
Expenses					
Interest expenses	(1,328,782)	(1,211,254)	(1,610,507)	(757,857)	(1,075,871)
Depreciation and others	(859,349)	(820,663)	(1,356,612)	(590,692)	(748,034)
Expected credit losses	(80,630)	(144,213)	(83,355)	(51,834)	(51,782)
Other operating expenses	(268,299)	(282,018)	(345,335)	(140,600)	(147,825)
	(2,537,060)	(2,458,148)	(3,395,809)	(1,540,983)	(2,023,512)
Operating profit	948,722	819,918	775,193	349,808	302,745
Net write-off of two aircraft remained in Russia	–	–	(439,029)	(439,029)	–
Share of results from associates and joint ventures	(208,971)	(1,290)	2,682	1,800	(1,267)
Other (losses)/gains, net	(306,750)	13,578	184,619	118,363	159,257
Profit before income tax	433,001	832,206	523,465	30,942	460,735
Income tax expenses	(165,058)	(204,936)	(307,781)	(101,381)	(153,833)
Profit for the year/period	267,943	627,270	215,684	(70,439)	306,902
Profit/(Loss) attributable to:					
Shareholders of the Company	334,143	525,780	73,598	(130,160)	201,171
Holders of perpetual capital securities and other non-controlling interests	(66,200)	101,490	142,086	59,721	105,731
	267,943	627,270	215,684	(70,439)	306,902
Earnings/(Losses) per share for profit/(loss) attributable to shareholders of the Company (expressed in HK$ per share)					
– Basic earnings/(losses) per share	0.482	0.722	0.099	(0.175)	0.270
– Diluted earnings/(losses) per share	0.482	0.722	0.099	(0.175)	0.270

Summary Consolidated Balance Sheet Information

	As at 31 December			As at 30 June
	2020	2021	2022	2023
		(Audited)		*(Unaudited)*
			(HK$'000)	
ASSETS				
Property, plant and equipment and right-of-use assets	18,450,641	23,243,760	27,354,373	31,341,659
Investments in and loans to associates and joint ventures	1,134,904	1,273,350	1,354,410	1,113,427
Finance lease receivables – net	7,263,697	7,714,408	8,172,086	8,474,952
Financial assets at fair value through profit or loss	797,888	750,841	769,462	866,025
Derivative financial assets	17,720	114,937	221,399	116,411
Prepayments and other assets	13,418,840	11,232,542	11,362,415	13,376,592
Assets classified as held for sale	–	675,569	1,425,199	1,691,878
Aircraft components trading assets	19,486	10,136	5,245	1,965
Restricted cash	411,786	237,187	1,114,958	784,709
Cash and cash equivalents	4,877,557	4,776,389	3,552,533	5,417,966
Total assets	46,392,519	50,029,119	55,332,080	63,185,584
EQUITY				
Equity attributable to shareholders of the Company				
Share capital	72,000	74,762	74,436	74,436
Reserves	1,585,478	1,987,850	2,314,613	2,293,296
Retained earnings	2,235,560	2,507,621	2,276,247	2,365,765
Equity attributable to shareholders of the Company	3,893,038	4,570,233	4,665,296	4,733,497
Perpetual capital securities and other non-controlling interests	1,522,731	1,447,022	1,590,921	1,530,503
Total equity	5,415,769	6,017,255	6,256,217	6,264,000
LIABILITIES				
Deferred income tax liabilities	788,716	898,240	1,057,059	1,111,540
Borrowings	26,763,014	32,477,860	38,001,150	43,916,287
Medium-term notes	1,338,308	979,816	1,696,509	1,618,998
Bonds and debentures	9,054,779	7,022,708	5,406,490	6,917,832
Derivative financial liabilities	355,566	143,226	52,543	175,791
Income tax payables	24,897	40,274	45,850	66,468
Interest payables	276,113	210,268	297,689	282,763
Other liabilities and accruals	2,375,357	2,239,472	2,518,573	2,831,905
Total liabilities	40,976,750	44,011,864	49,075,863	56,921,584
Total equity and liabilities	46,392,519	50,029,119	55,332,080	63,185,584

Non-GAAP Financial Measures

	As at and for the year ended 31 December		
	2020	2021	2022
	(HK$'000, except for ratios and percentages)		
EBITDA[1]	2,621,132	2,864,123	3,490,584
Interest coverage[2]	197.3%	236.5%	216.7%
Gearing ratio[3]	80.1%	80.9%	81.5%

Notes:

(1) EBITDA for any period consists of earnings before interest expenses, depreciation and income tax expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, depreciation or interest expenses. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. EBITDA has been included because the Group believe it is a useful supplement to cash flow data as a measure of its performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

(2) Interest coverage is calculated by dividing EBITDA by interest expenses.

(3) Gearing ratio is calculated by dividing total debt by total assets. Total debt consists of borrowings, medium-term notes, bonds and debentures.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Factors which we believe may be material for the purpose of assessing the market risks associated with the Notes are also described below. We believe that the factors described below represent the principal risks inherent in investing in the Notes, but our inability to fulfil our respective obligations under the Notes and the Guarantee may occur for other reasons and we do not represent that the statements below regarding the risks of investment in the Notes are exhaustive. Additional considerations and uncertainties not presently known to us or which they currently deem immaterial may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring. The market price of the Notes could decline due to any of these risks, and investors may lose part or all of their investment.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.

Risks relating to our Business and the Aircraft Leasing Industry

Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global economy brought by other general macroeconomic conditions may have a material adverse effect on our business, financial condition, results of operations and prospects.

The continued success and profitability of our business depend, in part, on global economic growth and demand for its services. The demand for the various services offered by us is subject to different market cycles specific to such services, which in turn are affected by changes or developments in global economic and financial conditions that are beyond our control.

COVID-19 has affected and may continue to affect the global economic outlook and enterprise operations. Although the World Health Organization has declared in May 2023 that COVID-19 is no longer a global health emergency, the global economy is still experiencing a struggling and imbalanced recovery. Furthermore, the steep rise in global inflation engendered by the rise in commodity prices, and by previous monetary and fiscal policy loosening in response to the COVID-19 pandemic, has prompted global central banks to raise their policy rates sharply in recent months, with the potential for further increases to come. Headline inflation is in the process of abating as energy prices moderate, but underlying prices pressures are likely to remain in place. The continuing tensions between the PRC and the United States, including ongoing trade disputes, have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Such geopolitical risks may have a material adverse impact on macroeconomic factors which affect the Group's business, financial condition, results of operations and prospects.

In addition, central banks of some countries, including the Federal Reserve Board of Governors of the United States, have also accelerated their shifts in monetary policies and increased interest rates. There can be no assurance that monetary and fiscal policy measures adopted by central banks or national governments will have the intended effects or that a global economic downturn will not occur or market volatilities will not persist.

Deliveries of new aircraft by both Airbus and Boeing have also been affected by industrial constraints and supply chain limitations and there can be no assurance that they can successfully maintain timely deliveries of our aircraft orders to us. Any delay or other obstacle that they encounter in aircraft production or in regulatory certification may in turn delay delivery of such aircraft to us. Any delays in receiving aircraft deliveries would adversely affect our ability to timely generate revenue from such aircraft.

Other external factors, including but not limited to:

- global, regional or country specific political instability, social unrest and civil war, including but not limited to the recent military conflicts between Russia and Ukraine, Israel and Palestine;

- volatility in interest rates;

- economic, trade and political policies, including trade friction involving major economies such as the United States, the EU and China;

- sudden increases in inflation or deflation;

- oil or other commodity market volatility, which may affect demand for fuel-efficient aircraft and equipment; and

- any other sudden downturn or sudden change in the global, regional or local economic, political, social, legal, environment or government policies (such as Brexit, the Sino-US trade war and any local political turmoil or civil disobedience movements), laws, rules or regulations, the imposition of trade tariffs, sanctions, boycotts, trade and labour disputes and work stoppages, particularly in the aircraft industry,

which are events beyond our control, and the recurrence of adverse macroeconomic conditions are expected to have a material adverse effect on our business, financial condition, results of operations and prospects.

Trade restrictions and trade friction could materially affect the airline and aircraft manufacturing industries, which in turn could adversely affect our business and ability to procure aircraft in a timely and cost-effective manner.

We are subject to risks relating to changes in trade policies, tariff regulations, embargoes or other trade restrictions adverse to the airline and aircraft manufacturing industries generally. Any trade restrictions, trade friction or travel bans could materially and adversely affect the businesses of our airline customers and their demand for aircraft from us, as well as our ability to procure aircraft in a timely and cost-effective manner. In particular, in recent years, the U.S. administration has indicated and demonstrated its intent to alter its approach to international trade policy through, among other things, imposing tariffs on a wide range of products and other goods from, China, members of the EU, Russia, countries in the Middle East and Africa and other countries. These measures have led to other countries, including those targeted by the U.S. tariffs, to enact their own tariffs against imported goods from the U.S. in retaliation. Trade friction may continue to escalate in the future and may result in substantial additional or increased tariffs on certain types of goods, such as aircraft and aircraft components, making it significantly more difficult and expensive to import such goods into certain jurisdictions. As a result of these tariffs, aircraft manufacturers may experience delays or increased costs in producing and delivering aircraft, which they may pass on to us or which we may have to pay directly, and we in turn may need to pass on any such delays or increased costs on to our customers, which we may not be able to do on commercially acceptable terms or at all. In addition, trade friction and changes in trade policies may adversely impact airline demand for leased aircraft which may adversely impact our ability to place aircraft on lease in the affected countries, or adversely impact the cost of and the returns we receive from such lease placements. We cannot predict future trade policies or tariffs, or any retaliatory measures in response, which may be enacted, or any changes in demand which may be connected to the foregoing, and any such developments which negatively impact the airline and aircraft manufacturing industry or airline demand may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

Extraneous events, such as terrorist attacks, major air travel accidents or the outbreak of contagious diseases, could reduce the demand for air travel, which could cause our airline customers not being able to meet the lease payment obligation.

The primary effects experienced by airline industry include increased operating costs, increased concerns about future terrorist attacks, decreased air traffic, airport shutdowns, and flight cancellation and delays. Terrorist attacks, or the fear of such attacks, or other world events or major air travel accidents could result in decreased air traffic and could also increase the cost of airline operators, which could adversely affect our business and financial condition.

Any outbreak of communicable diseases including without limitation the global COVID-19 pandemic may adversely affect passenger demand for air travel. Additional outbreaks of SARS, bird flu, swine flu, H7N9 virus or other pandemic diseases, or the fear of such severe acute respiratory syndrome, or events, could provoke unpredictable responses, including government-imposed travel restrictions and border closures, which could also negatively affect passenger demand for air travel. These consequences could adversely affect our airline customers' liability to satisfy their lease payment obligations, which could adversely affect our operating results and financial condition.

Our liabilities and our business are exposed to foreign exchange rate risks.

We have operations in the PRC and Hong Kong, and certain portion of cash and cash equivalents, financial assets including financial lease receivables, prepayments and other assets, financial liabilities including bank borrowings, medium-term notes, bonds and debentures and other liabilities and accruals are denominated in currencies other than the functional currency of our Group entities. For instance, aircraft leasing income and certain borrowings used to finance the leases are denominated in USD, while some borrowings are denominated in RMB. Currency exchange risks may arise when finance lease receivables, operating lease receivables and certain borrowings are denominated in different currencies, and where there are fluctuations in the exchange rates of such currencies against other foreign currencies. Although we have recorded currency exchange gains of HK$323.5 million for the year ended 31 December 2022, if the exchange rates continue to fluctuate and we cannot procure any specific foreign exchange control arrangements to mitigate such risks, our results of operations and financial performance may be adversely affected.

We face the risk of decrease in aircraft value, impairment of our non-financial assets and marked-to-market financial assets.

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Factors that may contribute to impairment of aircraft include, but are not limited to, unfavourable airline industry trends affecting the residual values of certain aircraft types, high fuel prices and development of more fuel-efficient aircraft shortening the useful lives of certain aircraft, and new technological developments. The Group obtains fair values of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in a similar condition and industry trends. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft based on the key assumptions mainly including lease rents of current leases; subsequent release rates based on current marketing information and residual values, and discounted at a rate commensurate with the associated risk to calculate the present value. Whilst there is no write-down of the value of our aircraft assets (save for the provision made on two aircraft leased to airlines in Russia), we face the risk of write-down in the value of our aircraft assets in the future, which may in turn adversely impact our business and financial performance. Certain financial assets of the Group are required to be marked-to-market. In the event that the mark-to-market value is less than the carrying amount, our financial performance may be adversely affected.

Our substantial indebtedness exposes us to liquidity and re-financing risks.

We rely on cash generated from our business operations, aircraft loans, PDP financing, debt and equity financing and other aircraft financing and trading channels to finance the aircraft acquisitions and business operation. We expect that we will continue to do so in the future. See "*Description of the Group – Our Growth Strategies – Diversifying our financing source and capital optimization*".

Our total borrowings (including borrowings, medium-term notes, bonds and debentures) were HK$37,156.1 million, HK$40,480.4 million, HK$45,104.1 million and HK$52,453.1 million as at 31 December 2020, 2021 and 2022, and 30 June 2023, respectively, representing 80.1%, 80.9%, 81.5% and 83.0% of our total assets as at 31 December 2020, 2021 and 2022, and 30 June 2023, respectively.

Due to the capital-intensive nature of our business, the need to refinance maturing debt and our strategy of expanding our aircraft portfolio, we expect that we will continue to incur significant indebtedness in the future and maintain high levels of indebtedness, which:

- may cause a substantial portion of our cash flows from operations to be dedicated to interest and principal payments and therefore is not available to fund our operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- may impair our ability to obtain additional financing in the future;
- may limit our flexibility in planning for, or reacting to, changes in our business and industry;
- may make us more vulnerable to downturns in our business, our industry or the economy in general;
- may restrict us from pursuing strategic business opportunities; and
- may increase our exposure to interest rate fluctuations.

As at 31 December 2020, 2021 and 2022 and as at 30 June 2023, our current liabilities exceeded our current assets by HK$8,938.7 million, HK$9,228.2 million, HK$12,676.7 million and HK$16,188.8 million, respectively.

As at 30 June 2023, the current liabilities mainly comprised borrowings of HK$19,380.9 million (HK$6.3 billion from aircraft acquisition financing ("**aircraft loans**"), HK$8.9 billion of PDP financing and other bank borrowings of HK$4.2 billion were the major components) and bonds and debentures of HK$2,642.5 million. The repayment of aircraft loans will be partially funded by the collection of operating lease receivables that is expected to be received from airlines within 12 months from 30 June 2023 (but has not been included under current assets). Repayment of PDP financing and other financings are expected to be fully funded by existing loan facilities and/or new aircraft loans when aircraft are delivered, as well as proceeds from the Novation Arrangement (as defined below). The bonds, debentures and medium-term notes are targeted to be repaid by our internal resources and/or additional funding to be raised by the Group. The Group will consider raising funds through PDP financing, aircraft loans, bond issuance, other debt and capital financing, and disposal of aircraft under the asset-light strategy.

We cannot assure you that we will always be able to continue to obtain the required financing in the future or that we would be able to arrange for re-financing of our indebtedness when they become due, repay our indebtedness or raise the necessary funding to finance our business growth and our capital commitments.

Furthermore, we cannot assure you that we will be able to comply with all the requirements or covenants under our financing agreements or other material contracts entered into as part of our ordinary course of business or that we will be able to obtain any waiver if we fail to comply with them.

We have not received, during the three years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, any notice of breach of any covenant or undertaking resulting in early termination or modification of any contracts or agreements which are material to our business.

If we violate any of the undertakings or covenants, it could result in increase in the interest rates, accelerated repayment of loans and interest, termination or delay in the relevant arrangements or legal proceedings against us. Any of these incidents could have a material adverse effect on our business, operating results, and financial condition. Furthermore, our liquidity depends on the amount of cash generated from our operations and our access to further financial resources, which could also be in turn affected by our future operating performance, prevailing economic conditions, and other factors outside our control.

We may not be able to collect our outstanding loans from our debtors.

As at 30 June 2023, the Group's carrying amount of outstanding loan to ARI amounted to HK$907.8 million. On 27 October 2023, ARI and its shareholders entered into the fourth supplemental shareholders' loan and guarantee agreement (the "**Fourth Supplemental Agreement**"), pursuant to which the term of the shareholders' loan and guarantee was extended to 31 December 2026 and the annual cap was reduced from HK$1.5 billion to HK$650 million. In addition, we have entered into an exchangeable bond subscription agreement with ARI in respect of the subscription of HK$850 million exchangeable bonds to be issued by ARI. In the event that ARI continues to incur losses, there is no guarantee that the outstanding loan amounts to us can be repaid in a timely manner and our results of operations and financial performance may be adversely affected.

We require a significant amount of financing to support our aircraft purchase commitment.

Each aircraft acquisition under an aircraft purchase and leaseback transaction or a direct aircraft purchase and lease transaction will require us to arrange for a new aircraft loan(s). We also need to arrange for PDP financing for aircraft purchased by us. We further arrange other financing including from capital markets and export credit agencies to fund our aircraft acquisitions. As at 30 June 2023, the amount of outstanding aircraft purchase commitments was HK$78.8 billion, which was expected to be financed by (a) PDP financing, (b) aircraft loans, (c) issuance of debt instruments, (d) the asset-light strategy including disposal of aircraft and/or novation of aircraft purchase agreement; and (e) internally generated financial resources and additional financing. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our bank and other borrowings for aircraft acquisition amounted to HK$10,542.0 million, HK$15,514.8 million, HK$19,083.3 million and HK$22,937.3 million, respectively. As at 31 December 2020, 2021 and 2022 and 30 June 2023, the balances of our PDP financing were HK$8,456.6 million, HK$6,303.4 million, HK$7,180.3 million and HK$9,991.4 million, respectively. PDP scheduled to be paid within 12 months from 30 June 2023 amounted to HK$7,591.2 million excluding the PDP of those aircraft which the delivery schedules are not yet confirmed. We will satisfy these capital commitments through our internal resources, available banking facilities or additional financing. Aircraft acquisition borrowing is usually confirmed before delivery of the relevant aircraft and based on industry practice and prior experience. Besides, we sometimes finance the new aircraft with internal resources or short-term financing and we might have to obtain refinancing for these aircraft through new aircraft project loans. For the existing long-term aircraft borrowings, the expected cash inflows from lease receivables generally are sufficient for the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft. In order to meet our aircraft purchase commitment and maintain an adequate level of unrestricted cash, we need to ensure that a sufficient level of financing is available on time and that there will be no significant off-lease time for the aircraft agreed to be purchased by us. Our ability to obtain financing is dependent on a number of factors outside our control, which include:

- the general market conditions;
- the market's perception of the quality of our assets;
- the market's perception of the relevant industry risk; and
- the interest rate fluctuations.

Negative sentiment in the capital and credit markets in which we source our financing could lead to commercial banks and other financial institutions being less willing to provide aircraft acquisition financing or that the cost of such financing would not be commercially acceptable to us. In any of these events, we may face a liquidity gap and we may need to use other means, such as selling our aircraft assets at an inappropriate time, to support our funding needs.

If we are unable to obtain sufficient financing from banks or other financing sources on commercially acceptable terms, our business, operating results, and financial condition could be materially and adversely affected.

Any increase in interest rates would increase our borrowing costs which could adversely affect our business and financial performance.

For the years ended 31 December 2020, 2021 and 2022, a substantial portion of our bank borrowings, including aircraft loans, PDP financing and other bank borrowings, was subject to floating interest rates with reference to one month, three-month or six-month U.S.$ LIBOR. In March 2021, the UK Financial Conduct Authority ("**FCA**") announced the date on which LIBOR will be discontinued. The one-week and two-month U.S.$ LIBOR settings had discontinued after 31 December 2021 and the remaining U.S.$ LIBOR settings had discontinued after 30 June 2023. During the six-month period ended 30 June 2023, the transition of all legacy contracts of interest rate swaps and the majority of legacy contracts of bank borrowings linked to U.S.$ LIBORs was undertaken successfully. The transition of remaining bank borrowing contracts linked to U.S.$ LIBORs were completed before the end of third quarter in 2023. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our bank borrowings that were subject to floating interest rate represented 88.2%, 74.3%, 78.4% and 79.4%, respectively, of the balance of our total bank borrowings. We expect that most of our bank borrowings will continue to be subject to floating interest rates in the future.

Interest rate fluctuations have a significant influence on our financial performance. Any changes in interest rates will impact our borrowing costs as a sizeable portion of our debt is on a floating rate basis. We may be susceptible to interest rate volatility if we are unable to maintain a balance between fixed and floating rate debts and match the fixed lease rent and lease maturities with financing debts on similar basis or secure appropriate hedges for the same. While the exposure to interest rate volatility may be hedged through the use of interest rate swaps and interest rate caps, the magnitude of the final exposure depends on the effectiveness of the hedge. As at 30 June 2023, we had 19 interest rate swap contracts to manage our unmatched interest rate exposure as they have the economic effect of converting bank borrowings from floating interest rates into fixed interest rates in the range between 0.4% and 3.0%.

For the unhedged exposure, we closely monitor the interest rate trend and will consider hedging the exposure where necessary and appropriate.

Our business model depends on the continuing leasing of aircraft.

Our business model depends on the continuing leasing of aircraft for constant cash inflows of lease income which will be used for the repayments of the aircraft loans incurred for aircraft acquisitions. Our ability to lease aircraft is, however, subject to a number of factors outside our control, including the rate of recovery from the economic downturn brought by the COVID-19 pandemic, the economic change in China and globally, the level of air traffic demand in China and globally, the demand and supply of aircraft and aircraft leasing services in China and globally, and the market value of the aircraft we own or plan to purchase. If we are not able to lease our aircraft at the appropriate time and on favourable terms, our business, operating results, and financial condition could be materially and adversely affected by the consequences such as the unexpected long off-lease time of our aircraft, insufficient cash flows generated from the aircraft lease agreements, and possible breach of covenants and undertakings in our financing arrangements and aircraft purchase agreements. Our business, operating results, and financial condition could also be adversely and materially affected by general market conditions of the airline industry in China and globally.

Our operating history may not be indicative of our future performance.

China's aircraft leasing industry has a short history, and our business only commenced in 2006 with the first aircraft purchase and leaseback transaction completed in September 2007. We completed our first direct aircraft purchase and lease transaction in September 2010 with the aircraft purchased from the secondary aircraft markets in Europe. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our lease income was HK$2,486.8 million, HK$2,500.4 million, HK$3,542.2 million, HK$1,653.8 million and HK$2,056.5 million, respectively. Our lease income from finance leases and operating leases increased by 41.7% for the year 2022 and by 24.3% for the six months ended 30 June 2023 compared to the same period last year. Our operating profit has decreased from HK$948.7 million for the year ended 31 December 2020, to HK$775.2 million for the year ended 31 December 2022, and from HK$349.8 million for the six months ended 30 June 2022 to HK$302.7 million for the six months ended 30 June 2023. The decrease was mainly due to the increase in interest rates and decrease in gains from disposal of aircraft.

Our revenues and net profit are generated primarily from four sources, namely finance lease income, operating lease income, government grants and net gains from disposal of aircraft. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, we recognised HK$514.3 million, HK$301.7 million, HK$207.1 million, HK$66.5 million and HK$44.7 million, respectively, as net income from aircraft transactions and aircraft components trading. The success of completing further disposal of aircraft to third parties is subject to a number of factors outside our control. Our interest expenses are expected to increase because of the expansion of our fleet. Our currency exchange gains/losses can arise from unhedged exposure on RMB due to the significant volatility in foreign exchange rates, and our results of operations and financial performance may be adversely affected. All of these factors could have an adverse impact on our results for the year ended 31 December 2023.

We may not be able to secure lease commitment for aircraft to be purchased and delivered to us under the aircraft purchase agreement.

As at 30 June 2023, we have committed to purchase 213 aircraft which are to be delivered to us in stages by the end of 2028. The commitment to purchase 64 of such aircraft had been novated to a third party in late August 2023.

If we are not able to secure timely lease commitment in respect of the aircraft to be purchased and delivered to us, we may need to implement our contingency plans which include requesting for the deferred delivery of these aircraft even though we would need to continue to pay the PDPs for these aircraft. The relevant aircraft manufacturer may not agree with such deferred delivery, and we may be required to take the delivery of the aircraft and lease the aircraft on less favourable terms or that we may need to transfer the relevant aircraft delivery slot to other aircraft purchasers. In any of these events, our business, financial condition, and operating results could be adversely affected. We may also face claims from the relevant aircraft manufacturer for failure to take aircraft delivery and our reputation in the aircraft leasing industry would also be affected.

In addition, the continuous payment of the PDPs, without confirmed lease commitment from the airline operators, may result in significant pressure on our financing needs, as there would be no inflows of cash to support the payment. As we have used PDP financing to support the payment of PDPs, we may or may not be able to obtain such financing on favourable terms or at all if the lease arrangement in respect of the aircraft has yet to be finalised. In such event, for the payment of the PDPs, we would then need to look for other source of financing, which would further accelerate our liquidity needs and our financial exposure.

Our profitability depends on our ability to purchase market-accepted aircraft at reasonable prices.

The profitability of our business depends on our ability to purchase market-accepted aircraft at reasonable prices. Purchase of aircraft at high prices may not be profitable to us as we may not be able to generate sufficient cash inflows through lease income to settle the aircraft acquisition financing. In addition, the selection of appropriate aircraft is also important to us under our business model. At the time of making the purchase commitment, we have yet to secure the corresponding lease commitment from the airline operators. This arrangement exposes us to the risk that we may not be able to lease the aircraft within the planned period of time of delivery of the aircraft on commercial terms acceptable to us.

Moreover, our aircraft acquisition strategy exposes us to various risks that could materially and adversely affect our business, operating results, and financial condition, including the risks that we could:

- impair our liquidity by using a significant portion of our available cash or borrowing capacity to finance our aircraft acquisitions;

- significantly increase our interest expense and financial leverage as we incur additional aircraft acquisition financing; and

- incur or assume unanticipated liabilities, losses or costs associated with the aircraft that we acquire.

In any of these events, our operating results and financial condition could be materially and adversely affected.

We rely on a few airline customers for our aircraft leasing business.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we had 35, 39, 38 and 42 airline customers, respectively, for our aircraft leasing business. As at 30 June 2023, lease income of HK$987.0 million was generated from the three largest airline customers, representing approximately 48% of the total lease income. The airline industry is cyclical, sensitive to economic performance, and highly competitive. Our airline customers are affected by the COVID-19 pandemic, fuel prices, political or economic instability, terrorist activities, changes in national policy, competitive pressures, labour actions, insurance costs, economic recession, health concerns, and other political or economic events adversely affecting the global or regional markets. All of these factors indirectly affect the aircraft leasing industry. Our airline customers' ability to react to and cope with the competitive environment in which they operate would affect our business and financial condition. The loss of any one of our existing airline customers or their inability to make lease payments on schedule due to financial difficulties, bankruptcy or otherwise could adversely affect our cash flow and profitability. This could also result in a possible breach by us of the undertakings and covenants contained in any of our financing agreements, resulting in an adverse impact on our business, operating results, and financial condition.

We are exposed to various risks related to the commercial airline industry.

We are exposed indirectly to the same set of risk factors as our airline lessees. The ability of each lessee to perform its obligations under a lease will depend primarily on the lessee's financial condition and cash flow, which are affected by factors beyond our control, including economic conditions, recession, deflation or financial system distress, demand for passenger air travel and air cargo services, industry competition, competition from substitute services, fluctuations in fuel prices, interest rates and foreign exchange rates, labour costs and union issues, maintenance, insurance, security or other costs, the impact of airline bankruptcies, aircraft accidents or the effect of geopolitical or other events such as wars, social unrest, pandemics, natural disasters and acts of terrorism. The airline industry generally and each of our lessees is also affected by government regulation of airline operations, competition and mergers and acquisitions, environmental regulation, airport and other infrastructural constraints, the availability of new or used aircraft for lease or purchase, fluctuations in jet fuel costs due to environmental events such as those related to greenhouse gas emissions and the goal of reaching net-zero carbon emissions by 2050, changes in technology and the availability and cost of debt and equity capital and other forms of financing to airlines. Our business and financial performance are dependent on the performance of our lessees and their ability to manage these risks effectively. To the extent that the airline industry or our airline lessees experience negative effects from these or any other risk factors, we may experience:

- a reduced demand for our aircraft and hence lower lease rates or aircraft sale values;

- a higher incidence of lease defaults resulting in lost revenue from a delay or interruption in payments or termination of leases and higher legal and technical costs associated with the repossession of the aircraft and its records;

- a need to defer and/or restructure lease payments for delinquent airlines or airlines in financial difficulty which may result in lower lease revenue or the need to make provisions for rental amounts in arrears; and

- an inability to place available aircraft on lease on acceptable terms, which could result in us incurring financing costs while not collecting revenue from the relevant aircraft and incurring storage, insurance, maintenance and modification costs resulting from the grounding of such aircraft and their preparation for release.

The occurrence of one or more of these events could result in a material adverse effect on our business, financial condition and results of operations and our ability to service the Notes.

Our concentrated exposure to a single industry makes us particularly susceptible to the downturns of that industry.

We are established with the principal objective of owning and investing in a portfolio of commercial jet aircraft which are placed on medium to long-term leases to airlines. By concentrating our operations and investments in the commercial aircraft leasing industry, we are susceptible to downturns in the commercial airline industry, which may result in our income from our aircraft leases being adversely affected. Concentrating our operations and investments in a single industry places us at greater risk from events or circumstances adversely affecting that industry. As a result, our business, financial condition and results of operations and ability to service the Notes could be adversely affected.

We are exposed to significant regional economic and political conditions due to the concentrated location of our lessees in certain geographical regions, which could adversely affect our financial performance.

Through our lessees, we are exposed to local economic and political conditions that can influence the financial performance of such lessees located in a particular region. The effect of these conditions on payments to us will be more or less pronounced depending on the concentration of lessees in any region experiencing adverse conditions. The airline industry is highly sensitive to general economic conditions. A recession or other worsening of economic conditions in a particular region may have a material adverse effect on the creditworthiness of lessees located in that region or with significant operations to, from or within that region and therefore on their resultant ability to meet their financial and other obligations under their leases. Furthermore, a disruption in the financial markets, a terrorist attack, natural disaster, pandemic, conflict or social unrest, higher or volatile fuel prices or a weak local currency may increase the adverse impact on our lessees.

We derive our lease income mainly from lessees based in both the China region and overseas. Recovery of the aviation industry and the general economy as a whole is likely to be gradual and uneven, with timing uncertain. The trade friction involving major economies such as the United States, the EU and China, the slowdown of global or local economic growth, freight and passenger traffic growth rates within the Asia Pacific region and between the Asia Pacific region and other regions could adversely impact aircraft demand, or oversupply of aircraft in the region could adversely impact lease rates and our ability to lease and release our aircraft.

The operation of aircraft is subject to environmental laws and regulations, and other environmental concerns which may in turn adversely affect our business.

Concerns regarding global warming and the environment generally have resulted in many countries and supra-national organizations enacting legislation to impose stricter limits on emissions of carbon dioxide, carbon monoxide and nitrogen oxide from aircraft and their engines. Examples of such limits include the Emissions Trading System ("**EU ETS**") or the UK Emissions Trading System ("**UK-ETS**"), requiring aircraft operators to purchase and surrender a number of emission certificates equal to carbon dioxide equivalent emissions caused by flights every year, and resolution for the Carbon Offsetting and Reduction Scheme for International Aviation ("**CORSIA**") as agreed by the International Civil Aviation Organization ("**ICAO**") General Assembly.

The inclusion of aviation within the EU ETS, the UK-ETS or any other supra-national global market-based mechanisms or other regulations concerning aircraft or aviation emissions and the costs related to airlines' compliance with environmental regulation in other jurisdictions will likely continue to result in higher ticket prices, resultant lower demand, and lower airline profitability, which may have an adverse impact on the financial condition of airlines and their ability to make lease payments, and/or reduce the sales proceeds received by us upon disposition of any aircraft. While the airline is primarily responsible for these charges, in the event of the insolvency of the airline, a lien affecting a leased aircraft could require the lessor to settle unpaid charges in order to recover possession of the leased aircraft following an airline default. Regarding the EU ETS, the lessor may also be the directly responsible party for the requirements of the EU ETS as an owner of the aircraft, in cases the operator may not be identifiable.

The risks associated with the participation in the various emissions trading schemes can be expected to further increase over the short- and medium term. For example, the EU has already announced plans to introduce stricter rules for the EU ETS, including for the aviation sector, including elevating the target of emissions reductions. These changes will likely lead to a further increase of costs for emissions certificates over the short- to medium term, prices for which have already multiplied in a disproportionate manner since the end of the year 2020.

Such initiatives may also impact the global market for certain aircraft. Compliance with current or future regulations, taxes, duties or levies could cause our airline customers to incur higher costs and lead to higher ticket prices, which could mean lower demand for travel, lower aircraft residual values and adverse impacts on the financial condition of our airline customers and/or could render certain aircraft types less popular which could in turn adversely impact our ability to lease our owned aircraft at all or at favourable rates.

In addition, the airline industry has come under increased scrutiny by the press, the public and investors regarding the environmental impact of air travel. If such scrutiny results in reduced air travel, it may negatively affect demand for our aircraft and lessees' ability to make lease payments and reduce the value we receive for our aircraft upon any disposition. Further, increased focus on the environmental impact of air travel has led to the emergence of numerous sustainability initiatives, including the development of sustainable aviation fuel, and electric and hydrogen powered aircraft. While these sustainability initiatives are in the early stages of development, if alternative aircraft technology develops to the point of commercial viability and becomes widely accepted, we may not be able to adjust our orderbook in a timely manner and could be required to incur increased costs and significant capital investments to transition to such technology.

Any or all of these factors could materially and adversely affect our business, financial condition and results of operations and our ability to meet our financial obligations as well as the value of the Notes.

If our airline customers encounter financial difficulties and we decide to restructure our aircraft lease agreements or repossess our aircraft, it would likely result in less favourable terms.

If an airline customer fails to make payments in full or in part under a lease or has advised us that it will fail to make payments in full or in part under a lease in the future, we may elect or be required to restructure the lease, which could result in less favourable terms, or repossess the aircraft and terminate the lease without receiving all or any of the past due amounts. If we are not able to release a repossessed aircraft promptly at favourable rates, our business, operating results, and financial condition could be adversely affected.

Provision for impairment loss on finance lease receivables and operating lease receivables may not be adequate, and we may need to increase our provisions for impaired receivables.

The new HKFRS 9 introduces a new impairment model which requires the recognition of impairment provision based on expected credit losses rather than incurred actual credit losses as required by the previous standards. The amount of provision for impairment loss is determined on the basis of the HKFRS, and our accounting policies and our accounting judgements and estimates with reference to a number of factors, such as the creditworthiness of our airline customers, economic conditions and trends, write-off experience, delinquencies and the value of underlying collateral and guarantees. Applying this approach and in view of the economic conditions, the operation of airlines, the collection history of the receivables due from our airline customers and the impact of the COVID-19 pandemic, we made provisions for impairment loss of HK$11.8 million as at 31 December 2022 (2021: HK$10.1 million and 2020: HK$7.1 million) for our finance lease receivables and HK$187.5 million as at 31 December 2022 (2021: HK$174.3 million and 2020: HK$75.8 million) for our operating lease receivables. The expected credit losses allowance made as at 30 June 2023 represents around 0.1% of our finance lease receivables and 47.1% of our operating lease receivables as at 30 June 2023. As our provision under the HKFRS, and our accounting policies requires significant judgement and estimation, it may not be adequate to cover credit loss realised in our future business operations. The provision, if made, may be inadequate if adverse changes occur in the PRC economy or other economies in which we operate or if other events adversely affect specific customers or markets, resulting in lease restructuring with or bankruptcy of our airline customers. Under such circumstances, we may need to make additional provision, on our finance lease or operating lease receivables, which could materially and adversely affect our operating results, and financial condition.

The market value of our aircraft and the market rates for aircraft leases could fluctuate from time to time.

The aircraft market value and the market rates for aircraft leases experience significant fluctuations due to a number of factors outside our control, including, but without limitation to, increases in the interest rates and the fuel prices and decrease in the air traffic demand. Our long-term aircraft leases place on us the risk of realisation of the residual value of our aircraft at the time of re-marketing. We may also encounter aircraft market value risk if we need to implement our contingency plan by transferring the aircraft delivery slot of an aircraft committed to be purchased and delivered to us to any third party. In addition to the factors relevant to or affecting the airline industry generally, many other factors may affect the market value of the aircraft that we acquire and the market rates for leases, including, but without limitation to:

- the condition of the aircraft maintained by our lessees;
- the maintenance, operating history and documentary records of the aircraft;
- the age of the aircraft;
- the number of airlines using that type of aircraft and its compatibility in terms of specifications and configurations;
- the regulatory authority under which the aircraft is operated;
- the regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or released;
- the market value of comparable aircraft; and
- the cost and the availability of spare parts.

A high concentration of a particular model of aircraft may expose us to the risks on any change in the market demand or any problems or grounding orders specific to that aircraft model.

As at 30 June 2023, 122 out of the 162 aircraft we own were Airbus A320 family aircraft, 13 were Airbus A330 family aircraft and 24 were Boeing B737 family aircraft, one was Boeing B787 family aircraft and two were COMAC ARJ21 series aircraft. If we continue to have a high concentration of a particular type or model of aircraft, our business and operating results could be adversely affected if the market demand for that type or model of aircraft declines or if it is re-designed or replaced by its manufacturer because of new technology or other design or technological issues. In addition, if the aircraft models or models as part of our fleet encounter serious technological or other problems, resulting in grounding decisions by the aviation authorities, the market value and the lease rates of such aircraft may decline significantly. We may need to make provision for impairment on the market value of the aircraft. Our existing airline customers may also want to seek early termination of the existing aircraft lease agreements. We may not be able to release or re-market the aircraft on favourable terms, or at all. Furthermore, if there is any design or quality defects in our fleet, there may be delays or disruptions to our usual business operations. In any of these events, our operating results and financial condition could be materially and adversely affected.

As of 30 June 2023, the Group has also committed to purchase aircraft from Airbus, Boeing and COMAC and these aircraft are scheduled for delivery in stages up to 2028. In the event that our existing purchase orders for all or some of the aircraft are cancelled or delayed, or our airline customers reject the delivery of such aircraft due to the grounding decision by the aviation authorities, this may cause us to incur additional costs and uncertainties, resulting in potential loss or delayed revenues, lower revenue growth rates. As such, we cannot assure that we will be able to source replacement aircraft in time and/or continue to meet our aircraft delivery schedule, and this could adversely affect our business reputation and operating results. If there is any missed or delayed delivery of aircraft, we may not be able to meet our lease commitments with our airline customers and they may elect to terminate their lease arrangements with us. Any such termination could adversely affect our operating results and financial condition.

Our aircraft may not at all times be adequately insured either as a result of airline customers' failure to maintain sufficient insurance during the lease term or insurers' unwillingness to cover certain risks.

Although we do not control the operation of our leased aircraft under our leases, we could be exposed to the risk of loss of the value of the aircraft and the risk of liability for damages associated with the operation of the aircraft, including in connection with an aircraft accident. We require our lessees to obtain specified levels of insurance and indemnify us for, and insure against, amongst other contingencies, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable.

There can be no assurance that the lessee's insurance, and any contingent insurance obtained by us, will be adequate or sufficient to cover all types of claims that may be asserted against us or adequate to cover the value of the relevant aircraft against loss or damage. Inadequate insurance coverage or default by airline customers in fulfilling their indemnification or insurance obligations could reduce the proceeds that would be received by us in the event that we are sued and are required to make payments to claimants, which could have a material adverse effect on our operating results and financial condition.

We may not be able to compete effectively in the aircraft leasing industry in China or globally.

The aircraft leasing industry in China and globally is increasingly competitive. Some of our competitors in China and globally are significantly larger than us in terms of operational size, have a longer operating history, and have greater resources or lower cost of capital. Competition for a leasing transaction is based primarily upon the lease rates, delivery time, lease terms, management expertise, aircraft condition, specifications and configuration, and the availability of the types of aircraft necessary to meet the needs of the airline operators. In addition, some competing aircraft leasing companies in China and globally may have a lower overall cost of capital and may provide other value-adding services to potential airline customers that we may not be able to provide.

In addition to the competition for a leasing transaction, we may also encounter competition in aircraft acquisition from airlines, aircraft brokers, other aircraft leasing companies, and other investors interested in the airline industry in China and globally. The increasing competition may affect the price of the aircraft and the delivery schedule, particularly in light of the fact that the aircraft manufacturing industry in China and globally is dominated by two to three international aircraft manufacturers. In any of this event, our profitability could be adversely affected and our aircraft delivery schedule may need to be extended which could affect our business reputation and operating results.

We may not be able to execute our growth strategies and expansion plans and our growth prospects may be limited.

Our growth strategies are based on our existing plans in light of prevailing market conditions and possible industry developments, and are subject to inherent risks and uncertainties at different development stages. The formation of our growth strategies is based on assumptions of future events which include, but without limitation to, no material changes in existing political, legal, fiscal, foreign trade or economic conditions in China, no material change in technology and in our business relationships between our airline customers and financing source. These assumptions may not be correct, which could affect the commercial viability of our growth strategies. In such event, we may need to adjust our strategies in response to the changing market conditions.

As of 30 June 2023, 213 aircraft were committed to be purchased by us, 64 of which the commitment to purchase had been novated to a third party in late August 2023. We cannot assure you that we will be able to successfully lease out the aircraft in the future. In addition, failure to effectively manage our business growth may lead to increased costs, reduced competitiveness and decreased profitability for us. This could adversely affect our operating results and financial condition.

Our strategy of positioning ourselves as a full life-cycle aircraft solutions provider may not be successfully implemented by ARI due to it being a new business in China.

As part of our business expansion plans, we intend to tap into the emerging opportunities in the aircraft recycling market, aircraft component disassembly and used parts trading, in addition to our existing aircraft leasing business. We believe that the demand for aircraft recycling, aircraft component disassembly and used parts trading services in China will increase rapidly as a result of the economic growth in China and the increase in the numbers of aircraft in China. Towards this end, we have been continuing to develop this business, see "*Description of the Group – Our Growth Strategies – Continue our development as a full life-cycle aircraft solutions provider and long-term strategy of ARI*".

Pursuing the above business expansion plans involves inherent business risks, such as making incorrect estimation on the level of demand for aircraft recycling, aircraft component disassembly and used parts trading services in China and globally. Our expertise and experience in the existing aircraft leasing business may not be relevant to the prospective business involving aircraft recycling, aircraft component disassembly and used parts trading. In addition, the existing global market participants of the aircraft recycling market may have competitive advantages over us, and our limited experience in the aircraft recycling, aircraft component disassembly and used parts trading business may result in our aircraft recycling, aircraft component disassembly and used parts trading business being less attractive to our target customers and hence, less revenue generated to us. Furthermore, our aircraft recycling, aircraft component disassembly and used parts trading business in PRC is subjected to local rules, policies, and regulations.

We cannot assure you that any of the above plans will be successfully implemented. The successful implementation of these plans will involve additional cost and uncertainties, and we also need to divert our management resources from our ordinary course of business. If for any reason any of these plans cannot be implemented or that it does not achieve the planned outcome, our business or financial condition could be adversely affected.

There are a limited number of aircraft manufacturers and the failure of any manufacturer to meet its delivery obligations to us could adversely affect our business and operating results.

The aircraft leasing and sales industry is cyclical and experiences periods of oversupply and undersupply. The supply of passenger aircraft is presently dominated by two to three airframe manufacturers, namely Airbus, Boeing and COMAC, a limited number of engine manufacturers, and a larger number of suppliers of avionics, interiors, spares and other equipment fitted to the aircraft. The manufacturers' ability to remain financially viable and produce aircraft and related components that meet airlines' requirements would have an impact on us.

Should the airline manufacturers fail to respond appropriately to changes in the market environment or fail to fulfil any contractual obligations they might have to us, we may experience:

- an adverse impact on demand for leased aircraft, market lease rates and aircraft values resulting from oversupply or undersupply of aircraft due to changes in production rates of the manufacturers;

- missed or delayed delivery of aircraft and a potential inability to meet our contractual obligations owed to any of our then lessees, resulting in potential lost or delayed revenues, lower revenue growth rates and strained lessee relationships; and/or

- an inability to acquire aircraft and/or components which could affect the demand, market lease rates, residual values for certain aircraft and/or our ability to lease those aircraft.

If there are delays in delivering aircraft for which we have made future lease commitments, our airline customers may elect to terminate their lease arrangements with us. Any such termination could strain our relations with those airline customers in the future and adversely affect our operating results and financial condition.

New aircraft models could reduce the demand for our aircraft.

As aircraft manufacturers continue to introduce technological innovations and new models of aircraft with improved fuel efficiency, some of the aircraft in our fleet could become less desirable to potential airline customers. Such technological innovations may accelerate the rate of obsolescence of our fleet of aircraft. In addition, new aircraft manufacturers, such as Commercial Aircraft Corporation of China, Limited (中國商用飛機有限責任公司) ("**COMAC**") in China, may in the future produce aircraft that compete with current offerings from Airbus and Boeing.

The imposition of increasingly stringent noise or emissions restrictions may make some of our aircraft less desirable and less valuable in the secondary aircraft market. Any of these risks could adversely affect our ability to lease or sell our aircraft on favourable terms, if at all, which could have a material adverse effect on our business, financial condition, and operating results. The introduction of new aircraft models could also materially and adversely affect the market value of our fleet.

The loss of key personnel could adversely affect our reputation and relationships with lessees, manufacturers, buyers and financiers of aircraft, which are a critical element to the success of our performance.

Our business operations and performance depend, in part, upon the continued service and performance of certain key staff members. These key personnel may leave us in the future to join other employers, including our competitors, or retire. The loss of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

Our failure to obtain, renew, or retain certain required licences and approvals or failure to comply with applicable laws and regulations could adversely affect our business and operating results.

China Asset Leasing Company Limited (中飛租融資租賃有限公司) ("**CALC (Tianjin)**"), China Aircraft Leasing Company Limited (Shanghai) (中永順融資租賃(上海)有限公司) and its subsidiaries in China, which are SPCs, are subject to a number of regulations under the PRC laws. For instance, the business scope set forth in the business licences of the SPCs in China is required to include leasing business in order to conduct leasing business in China. Besides, our SPCs in China have to obtain the tax registration certificate, the foreign exchange certificate and the organisation code certificate. If for whatever reason we are not able to obtain or renew any of these licences or certificates, our operating results could be adversely affected.

In addition, our airline customers are subject to extensive regulations under the laws of the jurisdictions in which they are registered and in which they operate. As a result, certain aspects of our aircraft lease agreements will require licences, consents or approvals, including consents from governmental or regulatory authorities for certain payments under our leases and for the import, export or deregistration of the aircraft. Subsequent changes in the applicable law or administrative practices may increase the risk that such requirements and governmental consent, once given, could be withdrawn. Any of these events could adversely affect our ability to release or sell aircraft, which would materially and adversely affect our business and operating results.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.

Fraud or other misconduct by employees (such as unauthorised business transactions and breaches of our internal policies and procedures) or third-parties (such as breach of law) may be difficult to detect and prevent and could subject us to financial loss, sanctions imposed by governmental authorities and seriously harm our reputation. Our risk management systems, information technology systems, and internal control procedures are designed to monitor our operations and overall compliance. However, we may not be able to identify non-compliance matters in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions we take to prevent and detect such activities may not be effective. Hence, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This could have a material adverse effect on our business reputation, operating results, and financial condition.

Changes in tax regimes globally may impact the Group's effective rate of tax in future periods.

The Group's effective tax rate in any period is impacted by the source and the amount of earnings among its different tax jurisdictions, including the PRC, Ireland and Hong Kong, etc. A change in the division of its earnings among its tax jurisdictions could have a material impact on the Group's effective tax rate and its financial results. In addition, the Guarantor or its subsidiaries may be subject to additional income or other taxes in these and other jurisdictions by reason of the management and control of its subsidiaries, its activities and operations, where its aircraft operate, where the lessees of its aircraft (or others in possession of its aircraft) are located or changes in tax laws, regulations or accounting principles. The imposition of such taxes on the Group could have a material adverse effect on its financial condition and results of operations.

The Organisation for Economic Cooperation and Development ("**OECD**") has undertaken the Base Erosion and Profit Shifting ("**BEPS**") project with the aim of addressing perceived flaws in international tax rules by recommending that OECD member states change domestic tax laws and introducing additional or amended provisions in double taxation treaties. It is the responsibility of OECD members to consider how the BEPS recommendations should be reflected in their national legislation. Several areas of tax law on which BEPS focuses are potentially relevant to our ability to efficiently realize and/or repatriate income and capital gains from the jurisdictions in which they arise. Depending on the extent to and manner in which relevant jurisdictions implement changes in those areas of tax law, our ability to do those things may be adversely impacted.

In response to the BEPS recommendations, certain jurisdictions have taken steps to change their tax legislation, tax treaties, and guidelines on tax interpretation including the application of tax treaty benefits to payments made to foreign companies. OECD also continues to develop further BEPS recommendations which are being released on an ongoing basis, including the proposed global minimum corporate tax rules which are intended to subject specified income of large multinational enterprises to a minimum corporate tax rate of at least 15%. As such, there are likely to be further significant changes in the tax legislation of the various OECD as well as non-OECD jurisdictions during the period of implementation of BEPS, and it is not clear precisely how such changes may ultimately impact us. It is possible that the implementation of BEPS in specific jurisdictions may have negative implications for us, including the proposed minimum corporate tax rules, the proposed transfer pricing rules, changes to the permanent establishment definition in tax treaties which in turn may expose us to foreign taxes on lease rental payments from airline customers, and the potential for a reduction in the tax deductibility of debt interest.

We may not be able to meet our targets for ESG or corporate social responsibility.

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

We attached high importance to our ESG efforts and made proactive exploration and innovation. CALC (Tianjin) under the Group has successfully issued the first low-carbon transition bond among the domestic aviation industry and aircraft operational leasing industry, which were oversubscribed, as a step to practice the philosophy of green finance and contribute to the construction of domestic civil aviation development system of green, recycled and low-carbon nature. For the year ended 31 December 2022, we were awarded with various honours, which symbolised the continuous market recognitions to its ESG practices.

However, there can be no assurance that we will always be able to meet our ESG or Corporate Social Responsibility ("**CSR**") goals. External factors, such as market and macro-economic movements may have an impact on our ability to maintain compliance with our ESG policies or to achieve our ESG or CSR goals. Our failure to meet our ESG or CSR goals may adversely affect our reputation, business, financial condition and results of operations and, in particular, could create legal and reputational risks.

Risks relating to conducting business in the PRC

Economic, political and social conditions in the PRC and government policies could affect our business and prospects.

The majority of our assets are located in the PRC, and the majority of our operating income is derived from our operations in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, government involvement, level of economic development, growth rate, foreign exchange controls and resources allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasising the utilisation of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. These economic reform measures may be adjusted or modified, or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not benefit from some of these measures.

The PRC government has the power to implement macroeconomic measures affecting the PRC economy. For example, to mitigate the negative impact of the global financial crisis and economic downturn in 2008, the PRC government implemented a series of macroeconomic measures and a moderately loose monetary policy between September 2008 to the end of 2009, which included announcing an RMB4.0 trillion economic stimulus package and reducing benchmark interest rates. In 2010 and 2011, the PRC government introduced a number of monetary tightening measures to cool down the overheated real estate markets and increasing inflation in the PRC. Since 2012, the People's Bank of China (中國人民銀行) (the "**PBOC**") announced several decreases in benchmark interest rates for general lending and the deposit reserve ratio for commercial banks in the PRC. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Any further increases in the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including us, by commercial banks in the PRC, which may limit our flexibility and ability to use bank loans or other forms of financing to finance our aircraft acquisitions and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, our business, financial condition and results of operations may be materially and adversely affected.

The PRC government may also change its existing measures and policies, such as government grants to support the development of aircraft leasing industry currently received by the Group for its business in Tianjin and Shanghai. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, our other operating income from government grants are HK$251.5 million, HK$215.5 million, HK$212.0 million, HK$94.9 million and HK$100.1 million, respectively. In the event that the PRC government no longer provides such grants due to any changes in its existing measures and policies, our operating income will be adversely affected.

The PRC legal system is evolving and may have uncertainties that could limit the legal protection available to or against us.

We are generally subject to laws and regulations of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to market participants in the PRC. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always clear and enforcement of these laws, regulations and rules may involve uncertainties, and may not be as consistent or predictable as in other more developed jurisdictions. These uncertainties may impede the ability to enforce the contracts we have entered into with our investors, creditors, customers, suppliers and business partners. We cannot predict the effect of future developments in the PRC legal system or the integration of such developments under the legal systems of the jurisdictions including Hong Kong, the jurisdiction of the governing law of the Notes, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws, or the overturn of local government's decisions by itself, provincial or national governments. These uncertainties may limit legal protections available to or against us. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on our business, prospects, financial condition and results of operations.

It may be difficult to effect service of process upon, or to enforce against, the Issuer, the Guarantor or their respective directors or members of the Issuer's or the Guarantor's senior management who reside in the PRC in connection with judgments obtained in non PRC courts.

Most of our assets and our members are located in the PRC. In addition, most of the assets of the Issuer's and the Guarantor's directors and the members of the Issuer's and the Guarantor's senior management may be located within the PRC. Therefore, it may not be possible for investors to effect service of process upon or to enforce against, the Issuer, the Guarantor or their respective directors or members of the Issuer's or the Guarantor's senior management inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition of judgment made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Choice of Court Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a "choice of court" agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final court judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a "choice of court" agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A "choice of court" agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Choice of Court Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for resolving the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute do not enter into a "choice of court" agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against the Issuer or the Issuer's directors or members of its senior management in the PRC and/or to seek recognition and enforcement for foreign judgments in the PRC. On 18 January 2019, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**2019 Arrangement**"), which seeks to establish a bilateral legal mechanism with greater clarity and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between the courts of Hong Kong and the PRC. The 2019 Arrangement took effect on 29 January 2024, and applies to judgments made by the courts of Hong Kong and the PRC. Upon commencement of the 2019 Arrangement, the Choice of Court Arrangement shall be terminated, except for "choice of court" agreements in writing made between parties before the commencement of the 2019 Agreement, in which case the Choice of Court Arrangement shall continue to apply. However, the recognition and enforcement of judgments rendered by a Hong Kong court in the PRC are subject to the provisions, limits, procedures and other terms and requirements of the 2019 Arrangement. There can be no assurance that investors can successfully effect service of process against the Issuer or the Issuer's directors or members of its senior management in the PRC and/or to seek recognition and enforcement for judgments rendered by a Hong Kong court in the PRC.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other European countries or Japan. Hence, the recognition and enforcement in the PRC of judgment of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The enforcement of the New Labour Contract Law and other labour-related regulations in the PRC may adversely affect our business and results of operations.

On 28 December 2012, the PRC government enacted a new labour law, namely, the New Labour Contract Law of the PRC (the "**New Labour Contract Law**"), which became effective on 1 July 2013. The New Labour Contract Law establishes additional restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labour union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the New Labour Contract Law, an employer is obligated to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after two consecutive fixed term labour contracts. The employer must also pay compensation to employees if the employer terminates an unlimited term labour contract. Unless an employee refuses to extend the labour contract with the employee under the same terms or better terms than those in the original contract. Further, under the Regulations on Paid Annual Leave for Employees which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day. As a result of these protective labour measures or any additional future measures, our labour costs may increase. There can be no assurance that any disputes, work stoppages or strikes will not arise in the future.

Higher labour costs and inflation in the PRC may adversely affect our profitability.

Labour costs in the PRC have risen in recent years as a result of the enactment of new labour laws and social development. Rising labour costs and inflation may increase our operating costs and partially erode the cost advantage of our PRC-based operations and therefore negatively impact our profitability.

Risks relating to the Notes and the Guarantee

The Issuer is a special purpose financing entity with no operation of its own. Its ability to make payments under the Notes will depend on timely on-lent loans from the Guarantor or other group companies.

The Issuer is a wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not been engaged, since its incorporation, in any material activities other than the establishment of the Programme and activities in connection with the issue of Notes under the Programme. As at the date of this Offering Circular, the Issuer has limited assets and no business operations other than the establishment of the Programme and activities in connection with the issue of Notes under the Programme. The Issuer's ability to make payments under the Notes is directly dependent on timely remittance of funds from the Guarantor and/or other members of our Group.

The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies.

As a holding company, the Guarantor will depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations under the Guarantee. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. There can be no assurance that the Guarantor's subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. In particular, the Guarantor does not maintain complete control over its jointly controlled entities or associates in which it might hold a minority interest. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments under the Guarantee. These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Guarantee.

The Notes and the Guarantee are unsecured obligations.

The Notes and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Notes and the Guarantee may be adversely affected if:

- the Issuer or the Guarantor (as the case may be) enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Notes or the Guarantee.

The Issuer and/or the Guarantor may be substituted without the consent of Noteholders.

The Trustee may agree (but shall not be obliged to), subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, the Receiptholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary (as defined in the Trust Deed) of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or the Guarantor, or of any previous substituted company in place of the Issuer or the Guarantor, or of any previous substituted company as the principal debtor under Trust Deed and the Notes. Please refer to Condition 11(c) (Substitution) of the Terms and Conditions of the Notes.

Any such substitution could have a material adverse impact on the rights of the Noteholders, the value of the Notes issued by the Issuer and/or the performance under the Guarantee.

The ratings of the Notes may be downgraded or withdrawn.

The Programme is rated "Ba2" by Moody's and "BB+" by Fitch. Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, qualification, suspension, reduction or withdrawal at any time by the assigning rating agency. The rating can be lowered or withdrawn at any time. There can be no assurance that any such rating will remain for any given period of time or that any such rating will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances in the future so warrant. Neither the Issuer nor the Guarantor is obliged to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes and the Issuer's or the Guarantor's ability to access the debt capital markets.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. Tranches of Notes issued under the Programme may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee and the credit risks in determining the likelihood that payments will be made when due under the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, qualification, suspension, reduction or withdrawal by the rating agency at any time. There can be no assurance that any rating will remain in effect for any given period or that any rating will not be revised, qualified, suspended, reduced or withdrawn entirely by the relevant rating agencies in the future if, in their judgement, the circumstances so warrant. Neither the Issuer nor the Guarantor has any obligation to inform holders of the Notes if a rating is revised, qualified, suspended, reduced or withdrawn. The significance of each rating should be analysed independently from any other rating. A revision, qualification, suspension, reduction or withdrawal of a rating at any time may adversely affect the market price of the Notes.

The Notes and the Guarantee will be structurally subordinated to the existing and future indebtedness and other liabilities of the Guarantor's existing and future subsidiaries (other than the Issuer) and other downward affiliates in which the Guarantor owns equity interests, and effectively subordinated to the Issuer's and the Guarantor's (as the case may be) secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes and the Guarantee will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Guarantor's existing and future subsidiaries (other than the Issuer) and other downward affiliates in which the Guarantor owns equity interests, whether or not secured. The Notes will not be guaranteed by any subsidiary or affiliate of the Guarantor, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries or affiliates unless these assets are transferred by dividends or distributions or otherwise to the Guarantor. The ability of such subsidiaries and affiliates to pay dividends or distributions or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under applicable law. Each of the Guarantor's subsidiaries (other than the Issuer) and affiliates is a separate legal entity that has no obligation to pay any amounts due under the Notes or the Guarantee or make any funds available therefor, whether by dividends, loans or other payments. The right of the Issuer and the Guarantor to receive assets of any of the Guarantor's subsidiaries (other than the Issuer) and affiliates, respectively, upon that subsidiary's or affiliate's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's or affiliate's creditors (except to the extent that the Issuer or the Guarantor is a creditor of that subsidiary or affiliate). Consequently, the Notes and the Guarantee will be structurally subordinated to all liabilities, including trade payables and lease obligations, of any of the Guarantor's existing and future subsidiaries (other than the Issuer) and other downward affiliates in respect of which the Guarantor owns equity interests.

The Notes and the Guarantee are the Issuer's or the Guarantor's (as the case may be) unsecured obligations and will (i) rank equally in right of payment with all the Issuer's or the Guarantor's (as the case may be) other present and future unsubordinated and unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's or the Guarantor's (as the case may be) present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's or the Guarantor's (as the case may be) present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes or the Guarantee (as the case may be) only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders rateably with all of the Issuer's or the Guarantor's (as the case may be) other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to this Offering Circular or any Pricing Supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, and appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments, (2) the Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase of any Note. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Notes are redeemable in the event of certain withholding taxes being applicable.

There can be no assurance as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the date of issue of the first Tranche of Notes for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the Cayman Islands, the PRC or Hong Kong or any political subdivision or authority therein or thereof having power to tax. Although, pursuant to the Terms and Conditions of the Notes, the Issuer is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time subject to certain specified exceptions in the event that it (or the Guarantor, if the Guarantee was called) has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC in excess of the Applicable Rate (as defined in the Terms and Conditions of the Notes) or the British Virgin Islands, the Cayman Islands or Hong Kong or any political subdivision or authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands, the PRC or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes.

A change in English law which governs the Notes may adversely affect Noteholders.

The Terms and Conditions of the Notes are governed by English law in effect as at the date of issue of the relevant Notes. There can be no assurance as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Issuer or the Guarantor may not be able to redeem the Notes.

The Issuer or the Guarantor may not be able to redeem the Notes upon the due date for redemption thereof.

If specified in the relevant Pricing Supplement, the Issuer may, at its option, and at maturity or at any time or following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) or, if applicable, a Noteholder's exercise of a Put Option (as defined in the Terms and Conditions of the Notes) will, be required to redeem all of the Notes. If such an event were to occur, the Issuer or the Guarantor (as the case may be) may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's and the Guarantor's failure to repay, repurchase or redeem tendered Notes could constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's, the Guarantor's or the Group's other indebtedness.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes (in the case of Bearer Notes) or Global Certificates (in the case of Registered Notes). Such Global Notes and Global Certificates may be deposited with a common depositary for Euroclear and Clearstream or lodged with the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or in the case of the CMU, to the persons for whose account(s) interests in such Global Note or Global Certificate as set out in the records of the CMU.

A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right under the respective Global Notes or Global Certificates to take enforcement action against the Issuer and/or the Guarantor in the event of a default under the relevant Notes but will have to rely upon their rights under the Trust Deed.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the Specified Denomination may be illiquid and difficult to trade.

In relation to any issue of Notes which have a denomination consisting of a Specified Denomination (as specified in the Pricing Supplement) plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the Specified Denomination that are not integral multiples of the Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the Specified Denomination will not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the Specified Denomination may be illiquid and difficult to trade.

Gains on the transfer of the Notes and interest payable by the Issuer to overseas Noteholders may be subject to income tax and value-added tax under PRC tax laws.

Under the Enterprise Income Tax ("**EIT**") Law and its implementation rules, any gains realised on the transfer of the Notes by Noteholders who are deemed under the new EIT law as non-resident enterprises may be subject to PRC EIT if such gains are regarded as incomes derived from sources within the PRC. Under the new EIT law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Notes by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10% EIT rate and 20% individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income.

A tax for withholding may be payable under the United States Foreign Account Tax Compliance Act if an investor or custodian of the Notes is unable to receive payments free of withholding.

Whilst the Notes are in global form and held within the Clearing Systems, in all likely circumstances, it is not expected that the United States Foreign Account Tax Compliance Act ("**FATCA**"), as currently implemented, will affect the amount of any payment received by the Clearing Systems on the Notes (see "*Taxation – FATCA Withholding*"). However, FATCA may affect payments (including payments of principal, interest and any premium on Notes and sales proceeds from Notes) made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to, among others any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The obligations of the Issuer and the Guarantor under the Notes or the Guarantee, as the case may be, are discharged once the Issuer or the Guarantor has made payments to, or to the order of, the common depositary for the Clearing Systems (as registered holder of the Notes) and the Issuer and Guarantor have therefore no responsibility for any amount thereafter transmitted through the Clearing Systems and custodians or intermediaries. Further, while foreign financial institutions in a jurisdiction which has entered into a "Model 1" inter-governmental agreement with the United States (an "**IGA**") may generally not be expected to be required to withhold under current FATCA rules or an IGA (or any law implementing an IGA) from payments they make, there can be no assurances that FATCA withholding would not affect the payments received by an investor in respect of the Notes. In the event that Notes were to become issued in definitive form, additional FATCA considerations may apply. Furthermore, it is possible that the United States may subsequently introduce additional rules relating to FATCA that affect withholding, including with respect to "foreign passthru payments". Prospective investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them and their investment in, and acquisition and sale of, Notes.

The Trustee may request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including without limitation taking enforcement steps pursuant to Condition 12 of the Terms and Conditions of the Notes, the Trustee may, at its sole discretion, request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of the Noteholders. The Trustee shall not be obliged to take any such actions if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take any actions, notwithstanding the provision of an indemnity and/or security and/or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions of the Notes and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws or regulations, it will be for the holders of the Notes to take such actions directly.

Modifications and waivers may be made in respect of the Terms and Conditions of the Notes and the Trust Deed by the Trustee or less than all of the holders of the Notes, and decisions may be made on behalf of all holders of the Notes that may be adverse to the interests of the individual holders of the Notes.

The Terms and Conditions of the Notes contain provisions for convening meetings of the Noteholders to consider matters affecting their interests. These provisions permit defined majorities to bind all Noteholders including those Noteholders who did not attend and vote at the relevant meeting and those Noteholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of the individual holders of the Notes.

The Terms and Conditions of the Notes also provide that the Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to any modification of any of the Terms and Conditions of the Notes or any of the provisions of the Trust Deed or the Agency Agreement (as defined in "*Terms and Conditions of the Notes*") that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and any other modification (except as mentioned in the Trust Deed) of any of the Terms and Conditions of the Notes or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

In addition, the Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to any waiver or authorisation of any breach or proposed breach of any of the Terms and Conditions of the Notes or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the holders of the Notes would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There can also be no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Terms and Conditions of the Notes and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Choice of Court Arrangement, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Choice of Court Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts in respect of a dispute governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Notes will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited.

The Issuer and/or the Guarantor may be required to comply with PRC filing and registration requirements with respect to the Notes in the future.

The National Development and Reform Commission of the People's Republic of China (中華人民共和國國家發展和改革委員會) (the "**NDRC**") issued the Administrative Measures for the Review and Registration of Medium- and Long-term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法) (國家發展和改革委員會令第56號) on 5 January 2023 and which came into effect on 10 February 2023 (the "**NDRC Administrative Measures**"). According to the NDRC Administrative Measures, domestic enterprises and their overseas controlled entities shall procure the registration of any foreign debt securities with a term not less than one year issued with the NDRC prior to the issue of the securities, and report the particulars of the relevant issues within the timeframe prescribed by the NDRC after the completion of the relevant issue, and to comply with the continuing obligations under the NDRC Administrative Measures. To the extent there is any requirement to register or make any filing with respect to any Notes, the Issuer and/or the Guarantor have undertaken in the Trust Deed to duly and punctually comply with or procure that there is compliance with all filing, registration, reporting and similar requirements required in accordance with applicable law and regulations from time to time, including any PRC regulatory requirement, relating to such Notes.

Risks relating to the structure of a particular issue of Notes under the Programme

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors, such as those carrying Issuer optional redemption features.

The market price of Notes carrying optional redemption features may be more limited than that of Notes without these features.

Notes issued under the Programme may sometimes have Issuer optional redemption features. An optional redemption feature is likely to limit the market value of the Notes. In a decreasing interest rate environment, the Issuer may exercise its right to redeem such Notes earlier than the final maturity date at the stated optional redemption price. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Prospective investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of Partly Paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include such features.

Inverse Floating Rate Notes are typically more volatile than conventional floating rate debt.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be or used as "benchmarks", have been the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Benchmarks Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by the UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. The potential elimination of any benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark; or (iii) lead to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark. Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on the Notes which reference such benchmark rate will be determined by the fallback provisions applicable to such Notes. In certain circumstances, the ultimate fallback of interest for a particular Interest Accrual Period (as defined in "*Terms and Conditions of the Notes*") may result in the rate of interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page (as defined in "*Terms and Conditions of the Notes*"). In addition, due to the uncertainty concerning the availability of successor rates and alternative rates and the involvement of an Independent Adviser (as defined in "*Terms and Conditions of the Notes*"), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by EU Benchmarks Regulation, UK Benchmarks Regulation or any other international or national reforms, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed Rate Notes and Floating Rate Notes (as defined in the "*Terms and Conditions of the Notes*") may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

Risks relating to Renminbi-Denominated Notes

Notes denominated in Renminbi ("**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of Renminbi Notes.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investments, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

Although the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the PBOC in 2018, there can be no assurance that the PRC government will continue to gradually liberalise its control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer and/or the Guarantor to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes.

Holders of beneficial interests in Renminbi Notes may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Singapore, Hong Kong and Taiwan.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Issuer's or the Guarantor's ability to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions imposed by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements on the clearing of Renminbi business (the "**Settlement Arrangements**") with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong, London, Frankfurt and Singapore, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC, although the PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, where the participating banks cannot source sufficient Renminbi through the above channels, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There can be no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer and/or the Guarantor is required to source Renminbi outside the PRC to service the Renminbi Notes, there can be no assurance that the Issuer and/or the Guarantor will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC, by international political and economic conditions and by many other factors. All payments of interest and principal will be made with respect to Renminbi Notes in Renminbi. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the Renminbi Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of Renminbi against such currency could cause a decrease in the effective yield of the Renminbi Notes below their stated coupon rates and could result in a loss when the return on the Renminbi Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in Renminbi Notes.

Investment in Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely (i) when Renminbi Notes are represented by Global Notes or Global Certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer and the Guarantor (as the case may be) cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

Remittance of proceeds into or outside of the PRC in Renminbi.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There can be no assurance that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer or the Guarantor subsequently is not able to repatriate funds outside the PRC in Renminbi, the Issuer or the Guarantor will need to source Renminbi outside the PRC to finance their respective obligations under the Renminbi Notes, and their ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Risks relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). In particular, one or more initial investors in the Notes may purchase a significant portion of the aggregate principal amount of the Notes pursuant to an offering. The existence of any such significant Noteholder(s) may reduce the liquidity of Notes in the secondary trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer, the Guarantor and the Group. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange, there can be no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there can be no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

The liquidity and price of the Notes may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There can be no assurance that these developments will not occur in the future.

Developments in the international financial markets and world economic conditions may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic, political, social and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis in 2009, the international financial markets have experienced significant volatility. In particular, the COVID-19 pandemic caused stock markets worldwide to lose significant value since February 2020. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

Exchange rate risks and exchange controls may result in a Noteholder receiving less interest or principal than expected.

The Issuer or the Guarantor (as the case may be) will pay principal, premium (if any) and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a Noteholder may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the Guarantor's consolidated capitalisation and indebtedness as at 30 June 2023.

This table should be read in conjunction with the Reviewed Consolidated Interim Financial Statements and related notes thereto included elsewhere in this Offering Circular.

	As at 30 June 2023	
	(HK\$ millions) (Unaudited but reviewed)	*(U.S.\$ millions)[1] (Unaudited)*
Interest-bearing debts – current portion		
Borrowings	19,380.9	2,473.3
Medium-term notes	–	–
Bonds and debentures	2,642.5	337.2
	22,023.4	2,810.5
Interest-bearing debts – non-current portion		
Borrowings	24,535.4	3,131.2
Medium-term notes	1,619.0	206.6
Bonds and debentures	4,275.3	545.6
	30,429.7	3,883.4
Total equity	6,264.0	779.4
Total capitalisation[2]	58,717.1	7,493.3

Notes:

(1) Translation of Hong Kong dollar amount to U.S. dollar amount were made at a rate of HK\$7.8359 to U.S.\$1.00, as adopted by the Guarantor in its interim consolidated balance sheet as at 30 June 2023.

(2) Total capitalisation comprises current and non-current bank and other borrowings and total equity.

(3) There may be a slightly discrepancy between the sum of individual items and the total as shown in the tables owing to rounding.

There has been no material adverse change to the capitalisation or indebtedness of the Guarantor since 30 June 2023.

USE OF PROCEEDS

Subject to compliance with applicable laws, regulations and rules, the net proceeds from the issue of each Tranche of Notes will be used by us or the Group for aircraft acquisitions, business expansion in aircraft and related business, refinancing existing borrowings, and general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

Certain information and statistics set out in the section below is for information purposes only and is based on, or derived or extracted from, among other sources, government publications, market data providers, communications with various PRC government agencies or other independent third party sources unless otherwise indicated. Such information is subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any market study and statistical survey. None of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them or any other party involved in the offering has independently verified such information. The information may not be consistent with other information compiled within or outside the PRC. Accordingly, such information should not be unduly relied upon.

The global aviation industry has proven resilient with robust recovery momentum

The development of the global aviation industry is driven by the market demand for air transportation, which is largely dependent on global economic growth. Over the past 10 years (2010 to 2020), global real gross domestic product grew at an average annual rate of approximately 3.1% according to the International Monetary Fund while global RPK grew at an annual rate of approximately 6.4% between 2010 and 2019. In fact, 2019 presented the super-cycle of growth in aviation, with a record tenth consecutive year of global airline profitability and the fifth highest level of profits recorded. The factors which have led to this increase include emerging economies, increased tourism and continued liberalization of air travel. The COVID-19 pandemic posted unprecedented disruptions to the industry. The International Air Transport Association ("**IATA**") reported that collective airline profit and loss fell from a profit USD 26.4 billion to a loss of USD126.4 billion in 2020, with global RPK shrunken by 66%.

Nevertheless, air travel is returning to pre-pandemic rates as the aviation industry has proven resilient over the past decades. There has been a robust rebound in aviation demand as travel restrictions were lifted and the COVID-19 pandemic subsided. In 2022, air passenger traffic gained momentum globally and recovered substantially to 68.5% RPK in 2022. In October 2023, global RPK rose 31.2% year-on-year and global traffic is now at 98.2% of pre-COVID levels. Domestic traffic RPK for October 2023 rose 33.7% year-on-year, primarily driven by the triple-digit percentage growth recorded in China, and was 4.8% above the October 2019 results while that for international traffic climbed 29.7% compared to the corresponding period in the previous year, reaching 94.4% of October 2019 levels.

In December 2023, IATA also announced strengthened profitability projections for airlines in 2023, which will then largely stabilize in 2024. Revenues for 2023 are now expected to reach U.S.$896 billion (U.S.$93 billion higher than expected) while the industry's net profits were expected to reach U.S.$23.3 billion in 2023, more than doubled its June forecast of U.S.$9.8 billion. Industry revenues are expected to reach an historic high of U.S.$964 billion while net profits expected to reach U.S.$25.7 billion in 2024.

The Chinese aviation market has bounced back significantly after the COVID-19 pandemic

As China eased its COVID-19 pandemic control and reopened its border in the beginning of 2023, air traffic in China has continued its strong rebound ever since. Civil Aviation Administration of China ("**CAAC**") data showed robust demand in summer season started from July had driven continuous growth in aviation sector with passenger volume reached historical record high in the third quarter of 2023. In October 2023, China's domestic RPK has grown more than doubled by 252.6% year-on-year and is now 6.7% above the level in October 2019.

Despite near-term challenges, both Airbus and Boeing predicted that the world's largest traffic flow in the years from 2019 to 2042 will be in domestic PRC market, with CAGR of 5%. Airbus predicted that 9,260 new passenger aircraft would be delivered to the PRC market in the next 20 years, accounting for 23% of global new deliveries of passenger aircraft between 2023 and 2042, marking China the single largest country for new deliveries. Airbus has also agreed to build a second assembly line at its factory in China, and will also double its production capacity of the A320 at its factory in Tianjin. This demonstrates the significance of the Chinese market.

Supply-demand dynamic manifests single-aisle shortage with rising market values and lease rates

The overall recovery of the aviation industry has been led by the market for single-aisle aircraft. Data from Cirium showed that single-aisle fleet (measured in ASMs) have fully recovered to above 2019 levels while widebody recovery was at 85% of 2019 levels as of June 2023. Airbus predicts in the "Global Market Forecast 2023" that the world will need 32,630 new single-aisle aircraft in the next 20 years, accounting for 80% of global new aircraft demand, similar to Boeing's forecasts in "Commercial Market Outlook 2023-2042".

However, on the supply side, both Airbus and Boeing failed to meet their 2022 delivery target set in the beginning of the year and again Boeing cut its 737 annual delivery target in 2023 due to ongoing supply chain snags, which was further worsened by recent engines issues. The rising demand amid ongoing supply chain issues, coupled with high inflation and interest rates, has driven up market value and lease rates, especially for single-aisle aircraft in the past two years. It is generally expected that the narrow-body aircraft shortage would likely persist for a couple of years, contributing to higher market values and lease rates.

Substantial fleet retirement and replacement are expected under global wave of carbon neutrality

The global trend of green aviation has urged airlines to upgrade their fleet to the latest, most efficient and lowest-emission aircraft. Moreover, rising fuel prices and continued inflation further encourage airlines to speed up the upgrading of their fleets to new generation fuel-efficient aircraft.

Airbus and Boeing both predicted global fleet size would almost double in the next 20 years and half of the new deliveries would replace retired fleet. At present, only 25% of global in-service fleet were new generation aircraft. Airbus and Boeing predicted around 17,000 to 21,000 aircraft to be retired and replaced by new aircraft in the next 20 years.

Aircraft lessors' role to be more dominant post-pandemic

As opposed to direct ownership, aircraft leasing requires less capital investment and provides more fleet planning flexibility. Instead of owning a commercial aircraft for more than 20 years, an airline can lease an aircraft for 4 to 15 years depending on its business and operational needs. Operating leases allow airlines to maintain the operation of aircraft while lowering their operating costs at the same time. They also enable airlines to arrange their fleet and manage their balance sheets with greater flexibility and to avoid the residual value risk of the aircraft.

Leasing penetration rate has steadily climbed up from low single digits to around 46% before the on-set of the COVID-19 pandemic. There has been increased purchase and leaseback activities since 2020 for both new and used aircraft, driving leasing penetration past 50% in the passenger single-aisle and twin-aisle markets. With airlines striving to protect cash and generate liquidity, leasing proved to be increasingly popular during this special period. Meanwhile, airlines, emergent low-cost carriers in particular, are now more prone to turn to aircraft lessors for aircraft asset management as they reiterate their focus towards passenger service in the midst of a fiercely competitive landscape.

The aircraft leasing market in China has also grown significantly. Previously, the market was dominated by foreign leasing companies, however, the market share of Chinese aircraft leasing companies has increased substantially since the then China Banking Regulatory Commission relaxed its regulations on aircraft leasing in January 2007. In addition, under the current tax regime, Chinese airlines are exempt from paying withholding tax when leasing aircraft from Chinese leasing companies, which sharpens the competitiveness of the Chinese aircraft leasing companies on their home turf. Nowadays, demand from Chinese airlines are becoming more complex as their fleet start to age, increasing demand not only for sources of capital, but also for professional aircraft asset management. Therefore, they are more inclined to work with professional aircraft asset managers to develop more comprehensive lease structures and provide one-stop services to realize integrated fleet management to accomplish better cost efficiency.

DESCRIPTION OF THE ISSUER

FORMATION

The Issuer is a BVI business company incorporated with limited liability on 26 October 2017 in the British Virgin Islands under the Business Companies Act, 2004 (as amended) of the British Virgin Islands (BVI Company Number 1958966). It is a direct wholly-owned subsidiary of the Guarantor. The Issuer has no material assets and will conduct no business except in connection with the establishment of the Programme and the issuance of the Notes. The Issuer's registered office is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

BUSINESS ACTIVITY

The Issuer was established pursuant to the objects and powers set out in its memorandum of association. The Issuer does not sell any products or provide any services and has undertaken no business activities since the date of its incorporation, other than those incidental to its incorporation; and in connection with the Programme and the issue of Notes and the Coupons and any other activities in connection therewith or incidental thereto (such activities shall, for the avoidance of doubt, include (i) the establishment and maintenance of the Programme, (ii) the offering, sale or issuance of the Notes and the Coupons under the Programme, and (ii) the on-lending of the proceeds of the issue of the Notes and/or the Coupons to the Guarantor or any other Subsidiaries of the Guarantor).

FINANCIAL STATEMENTS

Under British Virgin Islands law, effective from 1 January 2023, the Issuer is required to file a financial annual return with its registered agent in the British Virgin Islands within nine months after the end of each year to which the financial annual return relates.

DIRECTORS

The sole director of the Issuer is Tang Yu Ping, and Lau Wai Sing is appointed as alternative director to Tang Yu Ping. The director of the Issuer does not hold any shares or options to acquire shares of the Issuer. The Issuer does not have any employees and has no subsidiaries.

SHARE CAPITAL

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares each with no par value of a single class and one share has been issued to and held by the Guarantor. The register of members of the Issuer is maintained at its registered office in British Virgin Islands at the offices of its registered agent. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. As at the date of this Offering Circular, other than its outstanding bonds in an aggregate amount of US$91,400,000, the Issuer does not have any debt outstanding.

DESCRIPTION OF THE GROUP

OVERVIEW

We are an independent international aircraft leasing company as well as a one-stop aircraft solutions provider engaging in two major segments, aircraft leasing and aviation aftermarket services. Unlike traditional aircraft lessors, we are a one-stop aircraft full life-cycle solutions provider for global airlines and aircraft asset owners. The Group's conventional business includes provision of aircraft operating leasing, purchase and leaseback, portfolio trading and asset management. The Group also covers core value-added services such as fleet upgrades, aircraft maintenance, repair and overhaul ("**MRO**"), aircraft disassembly and component sales through our associate company Aircraft Recycling International Limited ("**ARI**") and airline operations services through our joint venture, PT TransNusa Aviation Mandiri ("**TAM**").

Established in 2006, we are the first operating aircraft lessor in China and has been a pioneer in pushing forward the development of aircraft leasing industry in China. In 2010, we became the first wholly foreign owned aircraft lessor registered in China. In 2014, we became the first Chinese lessor to place a bulk order for 100 A320s with Airbus and is currently China's largest lessor with direct orders with original equipment manufacturers. In 2015, we were the first operating lessor allowed to form a cross-border foreign currency fund pool. As we implement our full value chain strategy, we built up the first large-scale aircraft disassembly facility in Asia which commenced operation in 2018. We are the first Chinese enterprise with licenses spanning across aircraft leasing, MRO, disassembly and parts trading. We have been listed on the Hong Kong Stock Exchange since 11 July 2014 and we are the first listed aircraft lessor in Asia. We are currently a constituent stock of the MSCI China Small Cap Index. Furthermore, we were named as the "Aircraft Lessor of the Year" for four consecutive years from 2015 to 2018 by Global Transport Finance. We were named as the "Asia-Pacific Lessor of the Year" for two consecutive years in 2017 and 2018 and won the "Editor's Deal of the Year for Innovation" award in 2018 presented by Airline Economics. With a strong order book, we were listed as one of the top three global lessors from 2020 to 2022 by *Airfinance* Journal. We also won "Asia-Pacific Lease Deal of the Year" award in 2022 and "Sustainability Debt Deal of the Year" in 2023, both presented by Airline Economics. While we keep consolidating our leading position in China, we have also implemented our globalisation strategy since 2015 and have established a presence in Asia Pacific, the Middle East, Europe, North America, Latin America and Africa.

Throughout our business development history, we have established our business model for direct aircraft purchase and lease transactions, aircraft purchase and leaseback transactions with leading airline operators, and portfolio trading with third-party lessors and investors. Our business model allows us to provide different aircraft leasing transaction structures through our SPCs. Our aircraft leasing business is focused on generating long-term and stable cash inflows of lease income to match the cash outflows for the repayment instalments of associated aircraft loans.

We use SPCs to enter into aircraft lease agreements with airline operators. The lease terms of our long-term aircraft lease agreements are sufficiently long to cover the repayment terms of our aircraft loans (other than the balloon payment, which is covered by the residual value of the aircraft). This arrangement is designed to reduce our liquidity risk associated with short-term aircraft acquisition financing. Upon the expiration of the aircraft lease agreements, we require our airline lessees to return to us the leased aircraft in full-life condition or such other condition as stipulated in the relevant lease agreements. As at 30 June 2023, our lease agreements in respect of aircraft purchased from original equipment manufacturers were of an average original lease term of approximately 8 to 12 years.

Pursuant to the aircraft lease agreements, our airline lessees enjoy the exclusive right to use the leased aircraft during the term of the aircraft lease agreements. Our airline lessees are required to settle the lease payments on a monthly or quarterly basis, and are also responsible for most costs, expenses and insurance involved in the maintenance and operation of the aircraft during the lease term. We also require our airline lessees to maintain valid insurance against all liabilities involved in the operation of the leased aircraft in compliance with the applicable laws and regulations in the place where the aircraft operates.

Prior to December 2010, we used our SPCs established in the Cayman Islands and Ireland as the lessors for aircraft leased to airline operators in China. Since December 2010 and October 2012, we have started using our SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, respectively, as lessors to enter into aircraft leasing transactions with airline operators in China. In August 2011, we first gained recognition in the Chinese aircraft leasing market following the successful delivery of an aircraft to Shandong Airlines through our SPCs established in Tianjin Dongjiang Free Trade Port Zone. In March 2013, we successfully completed a novation of the lease of an aircraft to China Southern Airlines to our SPC established in Shanghai Pudong Airport Free Trade Zone. Leveraging the transaction structure involving our SPCs in China, we can assist our airline customers to reduce their overall leasing cost and withholding tax obligation and thereby enhance their competitiveness. Our transaction structure together with our value-adding services provide incentives to both of our existing and potential airline customers in China to use our aircraft leasing services.

We lease, deliver and manage aircraft to leading airlines in China and globally, such as Air China, China Eastern Airlines, China Southern Airlines, Chengdu Airlines, Sichuan Airlines, Shenzhen Airlines, Xiamen Airlines, Air Macau, China Airlines, Frontier Airlines, Hawaiian Airlines, Iberia, LATAM Airlines, Air India, Royal Jordanian, Virgin Australia, Pegasus Airlines, Spirit Airlines, DAT Airlines, etc. Our airline customers also include airline operators, such as China Eastern Airlines, to whom we provide value-adding services including trading and marketing of used aircraft.

We have been very selective in the type of aircraft assets to be included in our portfolio. We have a modern and narrow-body-dominant aircraft fleet. Our owned fleet size was 162 aircraft as at 30 June 2023, 90% of which are narrow-body aircraft by number of aircraft. The narrow-body aircraft types include Airbus A320 series aircraft and Boeing 737 NG aircraft, and the wide-body aircraft types include Airbus A330 series aircraft and Boeing 787 aircraft. The average age of our aircraft fleet was 8.3 years as at 30 June 2023. Other than the 162 aircraft owned by us, an additional 27 aircraft are managed by us as at 30 June 2023.

As at 30 June 2023, by number of aircraft, 73.5% of our owned fleet were on lease to Chinese airline customers (including Hong Kong, Macau and Taiwan), the majority of which are state-owned airlines with financial strength. Our self-owned fleet had an average remaining lease term of approximately 5.8 years as at 30 June 2023. We continued to pursue our long-standing strategy of investing in modern aircraft that are the most fuel-efficient and sought-after category as we prepare ourselves for recovery and growth in the future. As of 30 June 2023, we had 213 narrow-body aircraft and regional jet in our order book, to be delivered in stages by 2028, including 120 Airbus, 65 Boeing (the commitment to purchase 64 of which had been novated to a third party in late August 2023) and 28 COMAC aircraft.

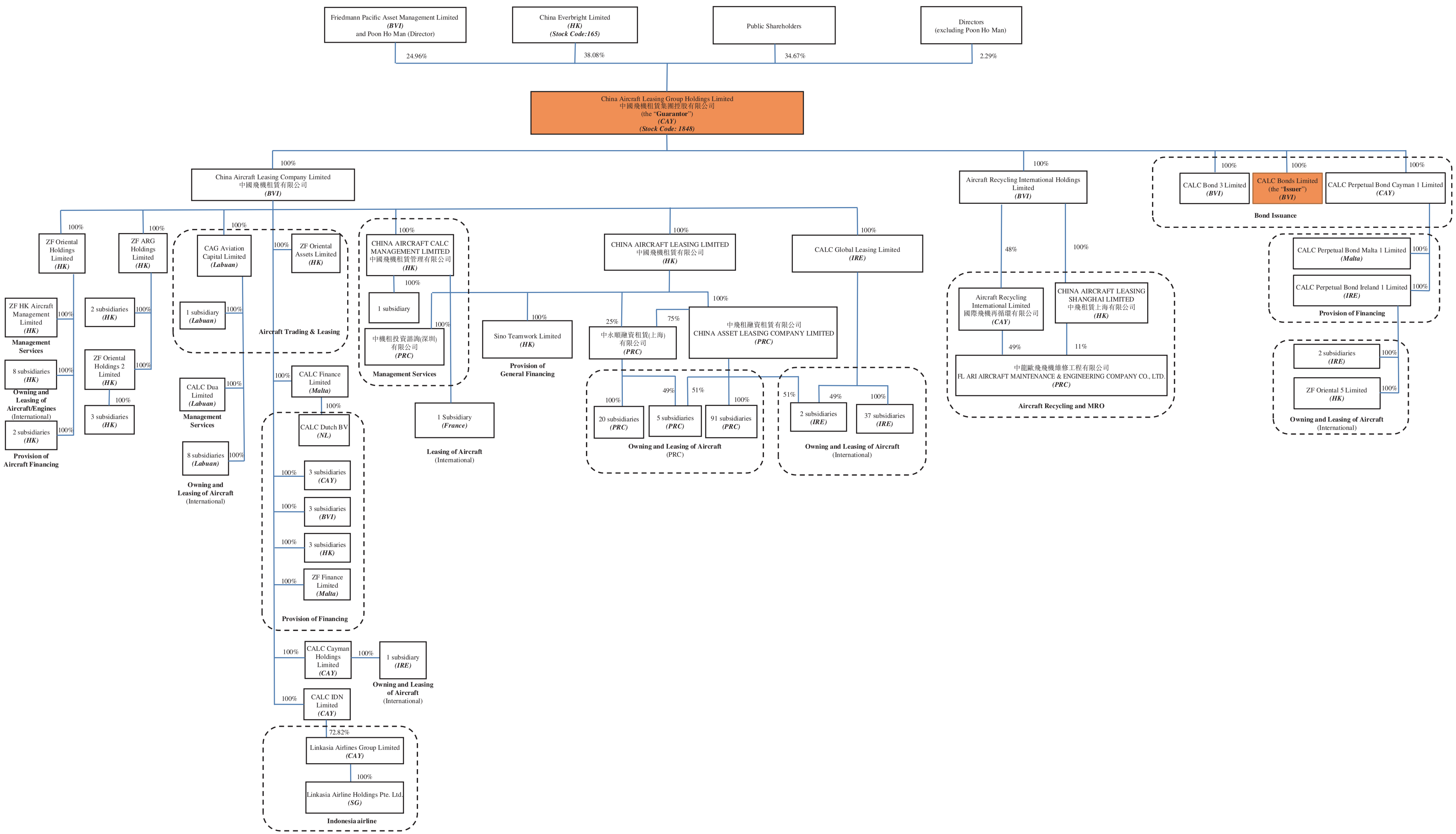
Despite disturbances in the global economy, including conflicts between Russia and Ukraine, the COVID-19 pandemic, interest rate fluctuations and the collapse of financial institutions, the global civil aviation industry has maintained a strong recovery. There has been continuous improvement in operating and financial conditions for airlines from various countries as the COVID-19 pandemic related travel restrictions have been lifted. International passenger traffic in the Asia-Pacific Region recorded substantial growth. Driven by strong demand, aircraft became tight in supply and its market value and rental level rose steadily. While the outbreak of the Russian-Ukraine conflict has caused instability and resulting sanctions on Russia, we have withstood market challenges with our diversified and high-quality fleet assets portfolio and rigorous risk management. We fully utilized the operational advantages of the entire aircraft industry chain and actively grasped opportunities of market recovery through flexible and diverse solutions, diversified financing channels, professional asset management capabilities and tight industry partnerships to achieve stable performance.

We are an essential invested company of China Everbright Limited ("**CEL**") and we adhere to the mission and vision of "integrating industries and financing, and contributing to China's rising aviation strength", while deepening and optimising the model of "integrating industries and financing in aviation", and continuously strengthening our capacity in aircraft full life-cycle value chain. We strive to become the globally leading aircraft full-value-chain solution supplier.

As directed by the development philosophy of green aviation, the Group proactively provided airlines with aftermarket services and retirement solutions for green aviation. In July 2022, the Group signed its first B373-800SF freighter conversion order and agreement, marking the official beginning of its "passenger-to-freighter" (P2F) business. Recently, China Aviation Aftermarket Holdings Limited ("**CAAM**"), ARI's associate company, has completed its comprehensive solutions to five old aircraft acquired from Air China Limited and maximised the residual value of the assets through a series of sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. The Group is committed to sustainable development in aviation in the future.

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate and shareholding structure as at 30 June 2023.



KEY CORPORATE MILESTONES

The following table sets forth our business development since our date of commencement of our business:

Month/Year	Development milestones
March 2006	Establishment of China Aircraft Leasing Company Limited, a company incorporated in the British Virgin Islands with limited liability.
December 2010	CALC (Tianjin) was established as a wholly-foreign owned aircraft leasing company in Tianjin Dongjiang Free Trade Zone, the PRC.
May 2011	China Everbright Aerospace Holdings Limited ("**CE Aerospace**") purchased 14,400,000 shares of China Aircraft Leasing Holdings Limited ("**CALH**") from Friedmann Pacific Asset Management Limited ("**FPAM**"), representing 48.0% of the then shares in issue of CALH, for a total purchase price of U.S.$17,292,000. CE Aerospace has become one of our controlling shareholders with participation in our major management and investment decisions.
July 2014	Listing on the Hong Kong Stock Exchange.
May 2016	First international issuance of unsecured US$300.0 million three year bonds.
December 2017	Establishment of a U.S.$3 billion first senior unsecured medium-term note programme.
October 2019	Set up a joint venture with HNCA Aviation & Equipment Leasing for investment in aircraft portfolio (October). FL ARI Aircraft Maintenance & Engineering Company Ltd ("**FL ARI**") obtained accreditations for aircraft disassembly from CAAC, making it China's first accredited aircraft disassembler under the CAAC's CCAR 145 Civil Aircraft Maintenance Organization Certificate Regulations.
March 2020	FL ARI obtained EASA Part 145 Maintenance Organization certification for line maintenance in China.
August 2020	Received the highest AAA credit rating from Dagong Global Credit Rating Co., Ltd.
June 2021	Received first-time Ba1 corporate family rating from Moody's with a stable outlook. Received first-time Long-Term Issuer Default Rating ("**IDR**") of 'BB+' and a Short-Term IDR of 'B' from Fitch with a stable long-term outlook.

Month/Year	Development milestones
March 2022	ARI's aircraft recycling facility in Harbin approved to be included in the flight zone of Harbin Taiping International Airport.
	FL ARI obtained CAAC Part 145 Maintenance Organization Certification for Base Maintenance.
April 2022	CALC (Tianjin) issued RMB1.5 billion medium term notes at 4.5% coupon.
July 2022	Placed the first B737-800SF freighter conversion order.
October 2022	CALC (Tianjin) issued RMB1 billion debut low-carbon transition bond in China's aviation market at 3.56% coupon.
	Signed Aircraft Leasing Ireland's Sustainability Charter.
December 2022.	Delivered COMAC ARJ21 aircraft to TransNusa of Indonesia, the first China-made regional passenger jet to an overseas market.
April 2023	TransNusa's first ARJ21 officially launched commercial flight in Indonesia.
May 2023.	CALC (Tianjin) receives AAA ratings from major Chinese credit rating agencies.
June 2023.	CALC (Tianjin) issued RMB1.5 billion low-carbon transition corporate bond at 3.85% coupon.
	Set foot in Oceania with the first Boeing 737 Max 8 aircraft delivery.
July 2023	FL ARI obtained base maintenance license from CAAC for the A320 3C-check.
	TransNusa's first ARJ21 operated its first international flight.
August 2023	Made the Novation Arrangement with DAE Aviation Group Ltd.
November 2023	CALC (Tianjin) issued RMB0.5 billion low-carbon transition corporate bond at 3.58% coupon.
December 2023.	FL ARI obtained base maintenance license from CAAC for the B737NG 3C-check.
	Signed and drawn a US$360 million five-year unsecured revolving syndicated loan facility for aircraft PDP, which is also the first sustainability-linked loan facility of the Guarantor.

OUR COMPETITIVE STRENGTHS

Our core competence lies in our distinctive and resilient business model, which gives us the competitive strengths to grasp the opportunities brought by the rebound in aviation demand as the COVID-19 pandemic subsided and to capitalise on the growth opportunities in the high-growth China aircraft leasing industry. Our key strengths include:

Positioning ourselves as a full life-cycle aircraft solutions provider

We have been continuously enhancing our aircraft full value chain operations and extending our service coverage to all major segments of the aircraft aftermarket. For the six months ended 30 June 2023, we have proactively pursued fleet management and lease management, upgrading our service capabilities in the aviation aftermarket. We have obtained the base maintenance license from CAAC for 3C-check of A320 series and B737NG series aircraft, improving our maintenance and overhaul capabilities further.

ARI operates a global life-cycle solutions platform to support our value chain ecosystem with our dual aircraft recycling bases in Harbin, PRC and in the United States, which is managed by its wholly-owned subsidiary, Universal Asset Management, Inc. ("**UAM**"), who specialised in aircraft disassembly, full recycling solutions, component sales, warehousing and third-party logistics headquartered in the United States. ARI and its subsidiaries have provided various aircraft inspection, consultancy and aircraft technical related services to the Group from time to time and have generated stable income for the Group. Together with ARI, we have reached a two-month short term lease arrangement with Norwegian Air Shuttle for three B738s in order to fill the delivery gap before importing to China. We have also leveraged on ARI's asset management expertise and industry resources to overcome challenges such as arranging off-site supervision of customs and acquiring FAA Export Certificate of Airworthiness during the COVID-19 pandemic facing travel ban. Through CAAM, ARI's associate company, we completed comprehensive solutions for five old aircrafts acquired from Air China Limited to assist the airline's fleet retirement plan, successfully maximizing the residual value of these assets through a series of complex sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. We have further strengthened customer loyalty and strengthened business opportunities with our strategic cooperation with UAM, where we identified LATAM's airframe retirement need during a new aircraft leasing discussion and UAM engaged with LATAM to purchase six A320 airframe for disassembly.

ARI, together with FL Technics and our group established an aircraft maintenance and engineering joint venture in Harbin, PRC in 2018, providing MRO services for aircraft with a focus on, among others, aircraft base maintenance, scheduled checks and overhaul, aircraft disassembly, engineering services, technical training and consultation. In March 2022, the aircraft recycling facility of ARI was approved to be included in the flight zone of Harbin Taiping International Airport, marking a new stage for domestic aircraft repair and maintenance business for us.

We have continued to develop ourselves as a full life-cycle aircraft solutions provider for the global aviation airlines and aircraft asset owners. Such business model has been effective as we have been able to leverage off the respective resources and synergies among our member companies and affiliated companies, enabling us to offer services, through ourselves and/or together with such companies, covering every stage of an aircraft life-cycle, including (a) aircraft ordering and procurement; (b) aircraft leasing, purchase and leaseback, and portfolio trading; and (c) aircraft disassembly and component sales, and MRO. Our business model also made us one of the rare few that could provide customers with one-stop fleet upgrade solutions as we not only have a large order book comprised of new-generation fuel-efficient aircraft that can help airline customers optimize their fleets and reduce carbon emissions, but also could provide professional old aircraft solutions and services to assist airlines' fleet retirement. This also puts us in a better position in the global trend of green aviation.

We also extended downstream along the aviation value chain into the end-user segment to further enhance our business synergies. In March 2020, we acquired a 72.82% interest in Aviation Synergy Ltd., which holds a 49% indirect equity interest in the Indonesian regional airline, TAM. In January 2021, we placed a firm order for 30 ARJ21 aircraft and, together with China Everbright Group ("**CEG**") and CEL, furthered our strategic cooperation with COMAC in the fields of aircraft asset management, MRO and aviation aftermarket services. In December 2022, we successfully delivered a COMAC ARJ21 aircraft to Indonesia carrier TransNusa, marking the first time for a China-made regional passenger jet to enter the overseas market. The aircraft was officially put into commercial operation in April 2023.

Narrow-body-dominant aircraft fleet leased to top class clients

As at 30 June 2023, 90% of our owned fleet, by number of aircraft, are narrow-body aircraft. The average age of our aircraft fleet was 8.3 years and we had a total order commitment of 213 narrow-body aircraft and regional jet to be delivered by 2028 (64 of which had been novated to a third party in late August 2023). Narrow-body aircraft is a highly liquid asset class and the most popular aircraft type mainly serve domestic routes and short-haul flights, which had led recovery in the aviation industry from the pandemic. With undergoing low-carbon transition of the aviation industry and rising fuel price, demand for our modern fleet have been increasing amongst the airlines globally for its fuel efficiency and low cost of maintenance as compared with the older models of aircraft.

The Group's aircraft fleet is mainly leased to top class clients. As at 30 June 2022, by number of aircraft, 73.5% of the Group's owned fleet were leased to Chinese airline customers (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with financial strength. As at 30 June 2023, the Group's overall customer base (including both owned and managed aircraft) covers 42 airlines in 20 countries and regions.

With the implementation of increasingly stringent environmental regulations on carbon emission level by aircraft, older models of aircraft are costlier to maintain, operate and modify to bring it in compliance with the environmental standards. In addition, there is an increasing demand for airlines in China to upgrade their fleets with new models because of fuel efficiency and ease of operations and maintenance. In light of all these factors and favourable governmental policies, our modern fleet gives us the strength of having a sustainable business model with constant cash flow of lease income.

No near-term marketing nor remarketing pressure

We have a strong track record of placing our aircraft, both new deliveries and returned aircraft, in advance. As of 30 June 2023, all aircraft scheduled to be delivered by March 2025 (excluding those which had been novated to third party in August 2023) have been mandated for lease. The one lease expiring in 2023 has been extended and those leases expiring in 2024 were at final stages of either second lease mandate, lease extension or retirement solutions. Hence our near-term marketing or remarket pressure is minimal.

Ready access to diverse and flexible funding sources across both PRC onshore and offshore platforms

Given the challenging business environment, managing liquidity is vital to the aviation industry for its recovery. We will continue to advance our onshore and offshore platforms to flexibly tap opportunities to access quality funding sources, including actively exploring green financing opportunities, and the diversity of funding channels have enabled us to readily access various banks, financial institutions and investors with multiple financing products.

Bank loans remain the main source of funding for our fleet and banks have given adequate credit lines to support our business development. With the long-term lease agreements with our airline customers, we are able to secure aircraft loans from commercial banks for aircraft acquisitions, thereby allowing us to manage our liquidity risk by matching the cash inflows and outflows through the receipt of lease income and the payment of regular loan repayments, respectively. As we have established our SPCs in China, we also have the flexibility to secure acquisition financing in China, which is an advantage we have over foreign lessors outside China. For the six months ended 30 June 2023, total new facilities and renewed facilities exceeded HK$14.5 billion, including aircraft project loans, PDP financing, working capital facilities, RMB bonds etc.

In view of the relatively stable interest rate environment and abundant liquidity supply in the PRC bond market, the Group successfully issued the first tranche of low-carbon transition corporate bonds in the PRC market with an amount of RMB1.5 billion in June 2023. It was oversubscribed by 1.83 times, fully demonstrating the wide recognition of the Group's operating strength by bond investors from the PRC and their strong support for the Group's investment in low-carbon transition fields in pursuit of sustainable development. In November 2023, the Group successfully issued the second tranche of the corporate bonds with an amount of RMB500 million and coupon rate of 3.58%, a new record low among past issuance with the same term in PRC market.

In June 2023, Fitch affirmed our long-term issuer default rating of "BB+" with a stable outlook, while Moody's affirmed our corporate family rating (CFR) of Ba1 with stable outlook in July 2023. In addition, in May 2023, CALC (Tianjin) received an AAA issuer rating from Dagong Global Credit Rating Co., Ltd, and an upgrade to AAA rating from China Cheng Xin International Credit Rating Co., Ltd, both with a stable outlook.

We have also received strong support from the associate companies under CEG, providing us with standby credits and committed working capital facilities in addition to liquidity provided by commercial banks.

As at 30 June 2023, the Group had cash and cash balances of HK$6,202.7 million and undrawn borrowing facilities of HK$3,990.3 million, and the Group's total balance of cash and bank balances with undrawn borrowing facilities was HK$10,193.0 million. In view of the foregoing measures, despite the backdrop of a challenging environment, the Group has gathered rich ammunition to tap opportunities from the imminent recovery of its key aviation markets in China and the region.

Strong support received from China Everbright Group

We have received strong support from CEG, which is provided through CEL, our largest shareholder as well as the associate companies under CEG. CALC is the key investee company of CEL and the flagship unit of CEG in the aircraft leasing segment. In January 2021, we signed a tripartite project investment cooperation memorandum with CEL and COMAC to cooperate in the areas of overseas operation of aircraft made in China, aircraft asset management and aviation aftermarket. This is part of CEG's wider strategic framework with COMAC as they explore cooperation in aviation field. China Everbright Bank is also currently one of the CALC's key relationship banks and provides us with access to diversified range of short-term and long-term financing funding channels.

Being one of the forerunners in the high-growth China aircraft leasing industry with a distinctive business model and a proven successful operating track record.

China's domestic and international air travel has demonstrated strong resilience and recovery during and after the COVID-19 pandemic. Prior to the COVID-19 pandemic, China's aircraft leasing industry has been growing rapidly as a result of the continuous expansion of the airline industry, favourable government policies, and the fact that aircraft leasing affords airline companies relatively low initial capital investment and fleet planning flexibility. As the COVID-19 pandemic gradually came under control, the domestic market in China has rebounded significantly with passenger traffic returned to pre-crisis level. With our established business model, we are well-positioned to capitalise on the growing aircraft leasing opportunities from the airlines in China.

Our business model, which is a combination of an offshore platform for aircraft acquisition and financing and an onshore platform for different leasing structures, together with our asset management capabilities, distinguishes us from other domestic and foreign lessors in China in the following aspects:

Aircraft acquisition

We distinguish ourselves from our competitors in China aircraft leasing industry by our ability to source new and used aircraft from the overseas aircraft manufacturers and the international secondary aircraft market. Our aircraft acquisition capability allows us to engage in direct purchase of aircraft for leasing purposes and as such, we can manage our overall aircraft portfolio in terms of aircraft model, aircraft age, and residual value. As of June 2023, we had total order commitments of 213 aircraft to be delivered by 2028, 64 of which had been novated to a third party in late August 2023.

We have established SPCs in Tianjin Dongjiang Free Trade Port Zone and Shanghai Pudong Airport Free Trade Zone, and they are our wholly-owned subsidiaries in China.

Under the current tax laws in China, airlines in China are required to withhold tax up to 10.0% on lease payments paid to international leasing companies outside China. Since December 2010, following the establishment of CALC (Tianjin) as the first wholly-foreign owned aircraft leasing company in Tianjin Dongjiang Free Trade Port Zone, we offer our airline customers an onshore leasing platform in China which can assist our airline customers to reduce their overall leasing cost and thereby, enhance their competition.

We are therefore able to offer competitive lease terms and deliver aircraft to our airline customers within a relatively short period of time, thereby reducing the time and the uncertainties involved in the aircraft procurement process for our airline customers.

Flexible lease structures

Our onshore leasing platform in China could attract potential airline customers to enter into business with us, as compared with the leasing of aircraft from other foreign lessors. We lease our aircraft to airline operators in China under aircraft lease agreements, pursuant to which the airline operators only require the approval from the NDRC before entering into the aircraft lease agreements with us.

Asset management capabilities

We have also been able to provide one-stop-shop solutions to our Chinese customers, which usually encounter difficulties in managing and disposing of their aged fleet. For example, CAAM, ARI's associate company, has recently acquired five old aircraft from Air China and completed comprehensive solutions to maximise their residual value through a series of sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. Such asset management capabilities have enabled us to enhance our relationships with Chinese airline customers; and stand out from our competitors in the Chinese leasing market.

Stable and attractive growth through our order book with Airbus, with whom we have strong relationship

We have a high-quality and growing airline customer base for aircraft leasing services. Since 2014, we have expanded our business into overseas markets in Asia, Europe and Americas. As at 30 June 2023, we had a fleet of 162 owned and 27 managed aircraft. Our clientele extended to 42 airlines in 20 jurisdictions and regions throughout the world, including Air China, China Eastern Airlines, China Southern Airlines, Chengdu Airlines, Sichuan Airlines, Shenzhen Airlines, Xiamen Airlines, Air Macau, China Airlines, Frontier Airlines, Hawaiian Airlines, Iberia, LATAM Airlines, Air India, Royal Jordanian, Virgin Australia, Pegasus Airlines, Spirit Airlines, DAT Airlines, etc. We have long-standing business relationship with our airline customers, some going back of 16 years and hence part of our existing airline customers are repeating customers which may be retained because of our favourable lease terms and our value-adding services. We have delivered a total of 28 aircraft, among which 18 were new aircraft from order book placements and 10 aircraft were through purchase and lease back arrangements for the year ended 31 December 2022. As at 30 June 2023, we have secured, by way of letters of intent, the lease of 26 aircraft to overseas airline customers.

Our fleet is expanding to cope with the increasing demand from our existing and potential airline customers for aircraft leasing services. As of June 2023, we had total order commitments of 213 aircraft to be delivered by 2028, 64 of which had been novated to a third party in late August 2023. These lease commitments will provide us with constant cash inflows of lease income in the future and that our strong aircraft delivery pipeline enables us to provide our airline customers with quick delivery schedule under leasing arrangements.

Operational and financial flexibility due to our independent status

We are an independent international aircraft leasing company focusing as well as a one-stop aircraft solutions provider on the aircraft leasing market. Our independent status from major commercial banks, aircraft manufacturers, and airline operators gives us the flexibility in selecting the aircraft that matches our growth strategies and structuring lease agreements tailoring for the specific business needs of our airline customers.

Aircraft lessors in China may be divided into four categories, namely independent aircraft lessors and aircraft lessors affiliated with commercial banks, aircraft manufacturers and airline operators, respectively. Compared to aircraft lessors affiliated with commercial banks, we enjoy the flexibility in selecting different acquisition financing solutions on the best commercial terms offered by different banks and financial institutions within and outside China. We are also not subject to the restrictions on leverage and equity applicable to banking industry in China. Compared to aircraft lessors affiliated with aircraft manufacturers, we have the flexibility in choosing different aircraft models from different aircraft manufacturers and sourcing aircraft from the secondary aircraft market. Compared to aircraft lessors affiliated with airline operators, we can provide services to all airlines with no customer base limitations. Hence, as an independent aircraft lessor, we have access to a wider customer base and have greater flexibility in structuring leasing and financing transactions.

Stable and experienced management team with a proven track record

We are led by experienced professionals with extensive experience in aircraft asset management and aircraft leasing industries in China. Our Mr. Zhang Mingao, Chairman and Executive Director, was appointed on 14 October 2022 and is also the chairman of Everbright Jiabao Co., Ltd. and the non-executive and non-independent chairman of Ying Li International Real Estate Limited. Mr Zhang was an executive director of CEL and the president of the CEL Group (as defined below). He is responsible for formulating the Group's overall strategic planning and directions. Our Mr. Poon Ho Man, Mike, Executive Director and Chief Executive Officer, is an entrepreneur and a pioneer of aviation sector in China. He founded the company in 2006. Our Ms. Liu Wanting, Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer, has more than 15 years of experience in the aircraft leasing industries in China. Our Mr. Li Guohui, Chief Financial Officer and Chief Strategy Officer, has over 30 years of experience working as a senior executive in blue chip and large-scale companies and arranged over U.S.$10 billion of corporate financing facilities. Our executive directors and senior management team are experienced in structuring lease transactions, risk management, aircraft acquisition financing, selection and delivery of aircraft, technical review, monitoring and compliance, and aircraft trading and marketing within and outside China. See "*Management*".

Our business operations are managed collaboratively by our risk management team, financing team, sale and marketing team and technical supports team. Mr. Jon Howey is the Head of Aviation Risk and is responsible for the risk management of our Group. Our sales and marketing team, with the collaborative efforts by Mr. Luis Ayala, our Chief Development Officer, Mr. Donald Liu, our Deputy Chief Commercial Officer, Greater China, Mr. Matt Corley, our Regional Head of America, Mr. Christopher Dennis-Meyer, our Regional Head of Sales & Marketing – EMEA and Mr. Qing Fang, our Head of Sales and Marketing – Greater China, provides access to potential aircraft acquisition and marketing opportunities. Our sales and marketing team also focuses on maintaining close contact with the airlines in China and globally and developing transaction structures in line with their business needs and the latest market and regulatory environment. Our technical supports team led by Mr. Richard Wall, our Chief Technical Officer, possesses extensive experience in technical aspect of aircraft operations. They regularly monitor the usage condition of our leased aircraft and provide technical supports and marketing service of used aircraft to our airline customers as part of our value-adding services. In respect of aircraft acquisition, our technical supports team also conducts technical reviews on the aircraft condition and the maintenance records for the used aircraft and to ensure that the specifications and modifications are met for the new aircraft.

Throughout our business development history, our senior management demonstrates proven capability to successfully implement different leasing transaction structures for new and used aircraft and for major airlines under different market conditions.

OUR GROWTH STRATEGIES

The COVID-19 pandemic has posed challenges of unprecedented magnitudes and breadths to the global aviation industry. However, as the COVID-19 pandemic subsided, global air passenger demand rose significantly and the volume of flights has rebounded robustly.

Airlines incline to reduce their capital expenditure through leasing more aircraft from global operating lessors like us so as to maintain liquidity and flexibility since the outbreak of the COVID-19 pandemic. Lessors' market share continues to rise and has surpassed 50% manifesting the growing power of lessors in the aviation industry.

On the supply side, the COVID-19 pandemic has greatly reduced the delivery and production of new aircraft. Conflicts between Russia and Ukraine as well as recent engines issue continued to hinder global supply chain. With limited production capacity, airlines will rely more on lessors to meet the needs of fleet expansion and renewal in response to the robust recovery of global air travel, further boosting the penetration rate of leasing.

The rapid growth of air travel amid ongoing supply chain issues, coupled with high inflation and interest rates, had been and is expected to continue pushing up lease rates. It is generally expected that the aircraft shortage would likely persist for a couple of years, contributing to high market value and lease rates. Moreover, global wave of carbon neutrality as well as fuel price hike urges airlines to speed up upgrading their fleets to new generation fuel-efficient aircraft.

Taking into account our outlook of this sector, we intend to pursue the following recovery and growth strategies:

Continue our development as a full life-cycle aircraft solutions provider

We will continue our development as a full life-cycle aircraft solutions provider for the global aviation industry and to exploit further synergies in the aviation and aircraft leasing ecosystem.

Together with ARI, we have reached a two-month short term lease arrangement for three B738s with Norwegian Air Shuttle in order to fill the delivery gap for importing to China. We have also leveraged on ARI's asset management expertise and industry resources to overcome challenges such as arranging off-site supervision of customs and acquiring FAA Export Certificate of Airworthiness during the COVID-19 pandemic facing travel ban. Through CAAM, ARI's associate company, we completed comprehensive solutions for five old aircrafts acquired from Air China Limited to assist the airline's fleet retirement plan, successfully maximizing the residual value of these assets through a series of complex sustainability solutions including parts swap, P2F conversions, portfolio trading, aircraft disassembly, component repair and sales. As the business of ARI continues to develop and take shape, ARI shall seek strategic investors to further support its growth and explore, among others, the possibility of listing on a stock exchange in the future, thereby enabling ARI to raise more capital for growth. We have also entered into a co-investment memorandum of understanding with a reputable PRC state-owned enterprise to develop the aviation aftermarket business.

Throughout the COVID-19 pandemic, our team proactively identified opportunities and actually turned crises into opportunities. We continued to enhance the Group's strengths in aircraft operating leasing around the world. The utilization rate of our owned fleet (except for the two aircraft related to Russian airlines that were written off from the book) remained 100%, benefitting from a relatively high proportion of 90% of narrow-body aircraft among the peer listed lessors. We not only provide aircraft leasing services customized to client requirements, but also unleash edges in its full value chain foothold to integrate professionally solutions for old and retiring aircraft and complete purchase-and-lease back transactions and disposals of retiring aircraft for major airlines, thereby helping them to mitigate residual risk. Such one-stop fleet upgrade services well positioned us to grasp opportunities emerging from airlines' accelerated fleet renewal and optimization demand in response to the trend of green aviation.

Expanding our narrow-body dominant fleet of aircraft

We continue to apply prudent principles in optimizing our fleet portfolio. As at 30 June 2023, we had 213 narrow-body aircraft and regional jet in our order book, to be delivered in stages by 2028 (64 of which had been novated to a third party in late August 2023). In making decisions on aircraft acquisition, we consider various factors such as the aircraft type and model, aircraft age, and the appetites of the airlines. We plan to focus on narrow-body aircraft which are suitable for domestic routes and short-haul regional flights. The Group continues to pursue its long-standing strategy of investing in new generation and fuel-efficient aircraft which are proven to have long useful lives, more likely to be in compliance with the stringent environmental protection standards and less costly to maintain and operate. The Group has been, and will continue to be, selective in the type of aircraft assets to be included in its portfolio. As of 30 June 2023, by number of aircraft, 90% of the Group's owned fleet, by number of aircraft, were narrow-body aircraft, a highly liquid asset class and the most popular aircraft type mainly serving domestic routes and short-haul flights, which led recovery in the aviation industry from the pandemic.

Global expansion with top-tier clientele

Starting from 2015, CALC had started to add international lessees to its client list. In recent years, the Group continued to strengthen its leading position in China market while actively expanding its global footprint with top-tier clients to enhance diversity in the geographical distribution of its customer base. The Group further strengthened its globalization development by expanding its footprint to the African and Oceania market in the first half of 2023. As at 30 June 2023, by number of aircraft, 73.5% of CALC's owned fleet were leased to Chinese airlines customers (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with financial strength; 26.5% of CALC's owned fleet were leased to CALC's non-Chinese clients, which were mainly flag-carriers or backed by strong shareholders. Going forward, global diversification will remain one of the focuses of CALC. In fact, over 60% of the aircraft scheduled for delivery during the second half of 2023 and 2024 have been leased to CALC's overseas clients.

Enhance Portfolio Trading and Asset Management Capabilities

In June 2018, we collaborated with four leading state-owned enterprises as mezzanine investors to roll out our global aircraft investment vehicle, CAG Bermuda 1 Limited ("**CAG**"). With the establishment of CAG, we have made great strides in building up our asset management capabilities. Perfecting our portfolio trading and asset management capabilities is instrumental in our long term strategy of increasing our presence in the aviation industry chain as a lessor playing heavier roles, with broader business opportunities. This is particularly important given the earth-breaking changes in the industry ecosystem in response to the pandemic. Active portfolio trades and asset management ensures our fleet portfolio to be optimized with discipline, capital efficiency at high levels and low gearing and strengthens of our core businesses.

Following the full operation of CAG, we rolled out ARG Cayman 1 Limited ("**ARG**") in December 2019 together with ARI and other investors, another aircraft investment vehicle focusing on mid-age and older aircraft portfolios primarily in the PRC domestic market and trading of used parts and components disassembly. During 2020, we injected four aircraft into ARG while its associate Aircraft Recycling International Limited served as the servicer to advance its asset management strengths.

During 2020, we injected two aircraft to a joint venture we established with HNCA Aviation & Equipment Leasing Co., Ltd. Furthermore, we joined forces with Moutai Financial Leasing Co., Ltd. in a strategic cooperative partnership for the investment in lease-attached aircraft portfolio in May 2020 and two aircraft had been injected therein by June 2023. We also completed the disposal of nine aircraft in 2021 and four aircraft in 2022, mainly to third-party lessors, so as to seek win-win cooperation where we optimize our fleet and asset portfolio while the latter expands its business presence.

Through the establishment of various aviation industry fund platforms and joint ventures, we have fostered industrial cooperation ecosystems, accreting value and realizing returns for financiers, investors and other aircraft asset owners in our capacity as an aircraft asset manager.

Diversifying our financing source and capital optimization to improve our credit ratings

We will continue to use aircraft loans and PDP financing mainly to support our aircraft acquisitions. Through the use of project financings, we match our regular loan repayments for the aircraft loans with our lease income, thereby generating constant cash inflows of lease income and reducing our liquidity risk. We use a combination of debt and equity financing of different terms and structures to further reduce our finance cost as and when appropriate.

Since 2018, we have been actively tapping into both the onshore and offshore capital markets by issuing equity and debt instruments, such as our issuance of RMB1 billion one-year unsecured debentures at a coupon rate of 3.65% completed in March 2020, RMB300 million one-year unsecured debentures at a coupon rate of 4% completed in June 2020, US$70 million five-year unsecured bonds at a coupon of 5.90% which US$35 million were issued in November 2020 and another US$35 million were issued in January 2021 and US$200 million perpetual bond at a coupon of 6.4% over LIBOR in December 2020. In 2021, we issued three-year US$100 million unsecured guaranteed notes at a coupon rate of 4.85%. In 2022, we issued the first low-carbon transition bond in China's aviation industry with principal amount of RMB1 billion at a coupon of 3.56%, as well as RMB1.2 billion corporate bonds. In 2023, we issued three-year RMB1.5 billion corporate bonds at a coupon rate of 3.85% and another RMB500 million corporate bonds with a coupon rate at a record-low level of 3.58%.

We will continue to expand and optimize our onshore and offshore financing channels, including actively exploring green financing opportunities from time to time; and we are determined to improve our international credit rating to investment-grade by various measures, so as to further enhance our financing capabilities with reduced costs.

Cooperation with COMAC

In January 2021, the Group procured ARJ21 series aircraft with 30 firm orders and 30 intended orders from Commercial Aircraft Service Corporation of China Ltd. ("**COMAC**"), and signed a tripartite project investment cooperation memorandum with CEL and COMAC in respect of deep and pragmatic cooperation in the areas of overseas operation of aircraft made in China, aircraft asset management and aviation aftermarket, etc.

We successfully delivered a COMAC ARJ21 aircraft to Indonesia carrier TransNusa in December 2022, marking the first time for a China-made regional passenger jet to enter the overseas market. It was officially put into commercial operation in April 2023 and successfully completed its debut flight, and later flew its first international flight in July 2023. Our second ARJ21 was delivered to TransNusa in June 2023, steadily pacing up our effort to promote commercial operation of China-made aircraft in overseas market.

When Chinese aircraft becomes popular in the global aviation market, we will enjoy the upside by being the first mover in leasing and exporting Chinese aircraft to overseas.

RECENT DEVELOPMENTS

Novation of aircraft

On 14 August 2023, we (through CALC Aircraft Assets Limited (the "**Novator**"), our wholly-owned subsidiary) entered into the novation agreement (the "**Novation Agreement**") with DAE AVIATION GROUP LTD (the "**Novatee**") pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "**Novation Arrangement**"). To facilitate and as part of the Novation Arrangement, China Aircraft Leasing Company Limited, another subsidiary of ours, entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. The Novation Arrangement was completed by the end of August 2023.

Disposal of aircraft

In September 2023, we completed the sale of two Airbus A320-200 aircraft to funds managed by Avenue Capital Group, with details announced on 17 January 2023. On 15 September 2023, we, through our wholly-owned special purpose vehicle (the "**Seller**"), entered into an aircraft sale and purchase agreement with a wholly-owned subsidiary of ABC Financial Leasing (農銀金融租賃有限公司) (the "**Purchaser**"), an independent third party, pursuant to which the Seller agreed to sell and the Purchaser agreed to buy one Airbus A320-214 aircraft. The sale transaction was subsequently completed in November 2023. On 13 December 2023, we, through our wholly-owned special purpose vehicle, entered into an aircraft sale and purchase agreement with a wholly-owned subsidiary of Taiping & Sinopec Financial Leasing Co. Ltd, an independent third party, in relation to the sale of one Airbus A321 NEO aircraft. The sale transaction was completed in December 2023.

Such sale transactions will increase the Group's net income from aircraft trading, satisfy the market's demand for aircraft and maintain the good relationship between the Group and its clients.

Tender offer for purchase of notes

On 20 September 2023, we completed our cash tender offer by acceptance and redemption of U.S.$50,720,000 in aggregate principal amount validly tendered for the U.S.$2,000,000,000 5.50 per cent. guaranteed bonds due 2024 issued by CALC Bond 3 Limited and U.S.$400,000 in aggregate principal amount validly tendered for the U.S.$100,000,000 4.85 per cent. guaranteed notes due 2024 issued by the Issuer. The tender offer was made as part of a proactive approach to manage our interest payments and debt structure.

Extension of ARI's shareholders' loan and guarantee

On 27 October 2023, ARI and its shareholders entered into the Fourth Supplemental Agreement, pursuant to which ARI and its shareholders agreed to extend the term of the shareholders' loan and guarantee to 31 December 2026. On the same date, ARI also entered into the exchangeable bond subscription agreement ("**EB Subscription Agreement**") with ZF Oriental 38 Limited ("**ZF Oriental**"), our wholly-owned subsidiary, in respect of ZF Oriental's subscription of the HK$850,000,000 exchangeable bonds due 2026 which are exchangeable into the fully-paid ordinary share(s) in the capital of China Aviation Aftermarket Holdings Limited (中飛航空後市場控股有限公司) (the "**Proposed Subscription**"), an indirect wholly-owned subsidiary of ARI. As part of the shareholders' loan provided by Aircraft Recycling International Holdings (an ARI shareholder) and assigned to ZF Oriental will be applied to settle the subscription money of the exchangeable bonds pursuant to the EB Subscription Agreement, our board proposed to reduce the annual cap for the shareholders' loan and guarantee agreement (as amended and supplemented by the Fourth Supplemental Agreement) to HK$650 million for each of the years ended 31 December 2024, 2025 and 2026 respectively (the "**New Annual Caps**"). The Fourth Supplemental Agreement, the New Annual Caps, the EB Subscription Agreement and the Proposed Subscription have been approved at the extraordinary general meeting held on 15 December 2023.

Insurance settlement in respect of one aircraft stranded in Russia

On 14 December 2023, we received a payment of approximately US$23.57 million under an insurance settlement with Insurance Company NSK, a Russian insurance company, in respect of one aircraft leased to Russian carrier Aeroflot which had been written-off from our book earlier, and have released claims against relevant parties accordingly.

OUR BUSINESS MODEL

Overview

We conduct the aircraft leasing business through our SPCs. Under a direct aircraft purchase and lease transaction, we place purchase orders for aircraft with the aircraft manufacturers, such as Airbus, and identify the appropriate airline lessees for leasing of the aircraft. Under an aircraft purchase and leaseback transaction, our airline lessees select the appropriate aircraft and transfer the relevant aircraft purchase commitment to us for leasing the aircraft back to our airline lessees.

The structure of these lease transactions allow our airline lessees to enjoy the exclusive right to use the aircraft during the lease term. In most cases in relation to new aircraft, we enter into long-term aircraft lease agreements with our airline lessees with the lease term that cover a significant portion of the entire economic useful lives of the aircraft. These arrangements will ensure that the long-term aircraft lease agreements can generate constant cash inflows of lease income that match the cash outflows for the repayment instalments of our aircraft loans, other than the balloon payment which is covered by the residual value of the aircraft.

We are also developing ourselves as a global aircraft full-value chain aircraft solutions provider.

The following sets forth a detailed description of each component of the principal steps involved:

Identifying potential aircraft acquisition opportunities

We acquire new aircraft directly from the aircraft manufacturers or through aircraft purchase and leaseback arrangement with airlines; and we also acquire used aircraft from airline operators (such as China Eastern Airlines, China Southern Airlines and China Airlines), third-party lessors or investors in the secondary aircraft market. In pursuing aircraft acquisitions, we consider whether the specific aircraft fits the specific needs and requirements of our airline customers and our prospective customers. We evaluate the reliability of an aircraft model and whether it is generally suitable for the business needs by the airlines in the market in terms of the aircraft type and model, age and fuel-efficiency level.

Pairing aircraft with appropriate lease arrangements

We may or may not secure lease placements at the time of confirming our aircraft acquisition commitments. We will assess the market condition and the likely demand for the relevant aircraft model. If we have not entered into any leasing letter of intent by the time of our aircraft acquisition, we will, prior to the delivery of such aircraft, identify prospective lessees based on our industry knowledge and business relationships. Our strategy is to lease our aircraft under long-term aircraft lease agreements which can provide us with constant cash inflows of lease income during the lease term. We also evaluate the creditworthiness of new airline customers.

Our sales and marketing team is responsible for maintaining close contacts with existing airline customers and explore leasing opportunities with new/prospective airline customers. This process includes the preparation of proposals in response to the requests from airline operators. We may also initiate the process if we know that an airline operator is planning to expand its fleet or implement a fleet restructuring plan.

We use SPCs in China, Dublin, Hong Kong or overseas as aircraft owners. We structure detailed terms of each lease on a case-by-case basis.

We manage lease expirations in our fleet over different periods of time in order to reduce concentrated lease expirations within a short time period. This arrangement will reduce the risks associated with fluctuations in the airline industry.

Direct aircraft purchase and lease transactions

We purchase aircraft from aircraft manufacturers, other airline operators or lessors in PRC or international secondary aircraft markets for leasing to the airline operators. The lease terms of which are generally the same as the lease terms in aircraft purchase and leaseback transaction. The only differences are that, under the direct aircraft purchase and lease transactions, we are able to negotiate with the aircraft manufacturers directly on the terms and the delivery time. We can also select the desirable aircraft models and types that can enhance our own fleet with better cost control.

Aircraft purchase and leaseback transactions

We purchase aircraft or accept the transfer of the relevant purchase commitment from the airline operators and lease the aircraft back to them. The airline operators select the appropriate aircraft, and we provide the leasing services to the airline operators.

Leasing and delivering aircraft to our airline customers

Following finalisation of all the lease terms, the definitive documents will normally be entered into within two to three months and the delivery of the aircraft will be taken place at such place as agreed with the relevant airline operator.

We will monitor the delivery schedule of the aircraft. If there is any delay, we will further discuss with our airline customers and the relevant banks on the terms and the commencement date of the related leasing and financing arrangements.

Technical inspection and reviews

For delivery of new aircraft, we will assist our airline customers in the sourcing of components, such as engines, seats, avionics, cabin finishes, safety equipment, and galleries. Our technical supports team will inspect the aircraft conditions at delivery centres to ensure that the required specifications and modifications are duly installed to meet our airline customers' requirements.

For delivery of used aircraft, we focus on the review of the maintenance history and records. Our technical supports team will undertake a detailed review of the maintenance history and the overall operating records of the aircraft to ensure that the aircraft is free from any material defects and service issues. A physical inspection will also be carried out at the time of delivery.

We closely monitor whether maintenance works of our aircraft have been duly performed and whether the required maintenance standards are duly compiled with by our airline customers. Our airline customers are required to produce utilization reports on a regular basis and maintenance reports on the conditions and maintenance of the leased aircraft every year. In addition, we also monitor the operating and credit condition of our airline customers regularly in order to assess their creditworthiness and to identify any potential default in advance.

Portfolio trading

Portfolio trading is an extension of our current businesses, through which we sell lease-attached aircraft to third party lessors or investors which are with limited aircraft acquisition and leasing capabilities. Depending on the need of our buyers, we may or may not retain the role as asset manager subsequent to the sale. Such trading of aircraft enhances our profitability as well as cashflow, allowing us to re-capitalize ourselves for further business growth.

OUR VALUE-ADDING (USED AIRCRAFT TRADING AND MARKETING) SERVICES

In addition to the aircraft leasing business, we also provide our airline customers with value-adding services which include trading and marketing of used aircraft and other advisory services on fleet management.

Through the provision of these value-adding services, we will have a better understanding of our airline customers' operational needs and their business expansion plans, which would help us to explore future aircraft leasing opportunities.

We distinguish ourselves from other aircraft leasing companies in China in our ability to source new and used aircraft both from the aircraft manufacturers and other international airlines, aircraft operators, sellers or lessors in the international secondary aircraft markets. There are only a few domestic aircraft leasing companies in China that have the capability to purchase aircraft, both new and used aircraft, from overseas. Most aircraft leasing companies in China are engaged in aircraft purchase and leaseback transactions with the airlines in China or purchase aircraft portfolios with leases directly from other aircraft leasing companies. Our capability to place direct aircraft purchase orders with overseas aircraft manufacturers allows us to provide quick delivery of the desirable aircraft to our airline customers. We may also purchase aircraft from PRC or international secondary aircraft markets if our airline customers in China request that the aircraft be leased and delivered to them within a relatively short period of time.

Our aircraft trading team and technical supports team help us with capitalising on acquisition and disposal opportunities for used aircraft in PRC or international secondary aircraft markets. Our aircraft trading team has good understanding of aircraft value and has experience and expertise in the trading of used aircraft. In addition, our business contacts with various buyers and sellers also provide us with access to diverse channels for the sourcing of used aircraft from PRC or international aircraft markets with good value and maintenance history. Back in September 2010, we structured our first aircraft purchase and lease transaction, pursuant to which we acquired an A320 aircraft from a European airline operator for leasing to Chengdu Airlines. We also entered into purchase-and-leaseback agreements with China Eastern Airlines for a total of 12 Airbus A321 aircraft aged 13-17 years in 2021, and with China Southern Airlines for a total of 10 Boeing B737-700 aircraft aged 10-18 years in 2022 in support of the airlines' fleet retirement and optimization plan.

We anticipate that there would be an increasing demand from airlines in China for aircraft retirement and replacement services in view of the stringent regulations on aircraft operation, environmental requirement on emission level, the restrictions on flight hours of the existing fleet, and the limitation of the total number of years that an aircraft can be in service.

OUR FLEET OF AIRCRAFT

Our fleet of aircraft and related leasing status

We have a modern aircraft fleet which enables us to build a high-quality and growing airline customer base. As at 30 June 2023, we had 189 aircraft in our fleet, including 162 owned and 27 managed aircraft. As at 30 June 2023, 90% of our aircraft are narrow-body aircraft, including Airbus A320 family aircraft and Boeing 737 NG aircraft. The average age of our self-owned aircraft fleet was 8.3 years as at 30 June 2023.

The following table sets forth certain information on our fleet and aircraft on order as at 30 June 2023:

	Number of owned aircraft as at 30 June 2023	Number of managed aircraft as at 30 June 2023	Number of aircraft to be delivered after 30 June 2023	Total
Aircraft type				
COMAC ARJ 21 series	2	–	28	30
Aircraft A320 CEO family	85	17	–	102
Aircraft A320 NEO family	37	6	120	163
Aircraft A330 CEO family	13	1	–	14
Boeing 737 NG family	23	2	–	25
Boeing 737 MAX family	1	–	65*	66
Boeing 787	1	1	–	2
Total	162	27	213	402

* *The commitment to purchase 64 of them had been novated to a third party in late August 2023.*

For the year ended 31 December 2022, the Group delivered a total of 28 aircraft, among which 18 were new aircraft from order book placement and 10 aircraft were completed through purchase and leaseback arrangements; and disposed of five aircraft to its aircraft asset management joint venture platform and third parties. As at 30 June 2023, the Group had 213 aircraft in its order book, comprising 120 Airbus A320 aircraft family and 65 Boeing B737 MAX family aircraft (the commitment to purchase 64 of which had been novated to a third party in late August 2023) and 28 ARJ21 series aircraft, which will be delivered by the end of 2028. We procured ARJ21 series aircraft with 30 firm orders and 30 intended orders from COMAC in January 2021; of which two had been delivered as of 30 June 2023.

We plan to focus on narrow-body aircraft which are suitable for inter-city routes in China and short-haul regional flights. Demand for narrow-body aircraft remains strong given that domestic markets led the recovery from the COVID-19 pandemic, as well as their large user base, as measured by the number of airlines that operate narrow-body aircraft, which allows for the relatively simple transition of aircraft to another operator at lease end.

Warranties given by us in respect of our leased aircraft

The relevant aircraft manufacturer warrants to us that each aircraft and its warranted parts at delivery are free from defects in material, workmanship, design and arising from failure to conform to the agreed specifications. Acting as the lessor, we would not provide any warranty as to aircraft frame and the engines. For used aircraft, we and the airline lessees will principally rely on the maintenance records to ensure that the aircraft is in the required condition. Our technical supports team will also inspect the aircraft at the time of delivery of a used aircraft, but we will not undertake technical review and detailed inspection of the configuration of the relevant aircraft which are to be responsible by the airline lessees.

During the full lease term, we, as the lessor, will require the airline lessees to undertake the required maintenance procedures and maintain full value insurance extending to the aircraft and its installed parts.

Our aircraft purchase commitment and related lease commitment from airline operators

Aircraft purchase commitment

We continue to apply prudent principles in optimizing our fleet portfolio. We continue to pursue our long-standing strategy of investing in modern aircraft that are the most fuel-efficient and sought-after category as we prepare ourselves for recovery and growth in the future. As of June 2023, we had 213 narrow-body and regional jet aircraft in our order book, comprising 120 Airbus A320 family, 65 Boeing B737 MAX family (the commitment to purchase for 64 of which had been novated to a third party in late August 2023) and 28 COMAC ARJ21, to be delivered in stages by 2028.

As at 30 June 2023, the majority of the Group's capital commitments is aircraft purchase commitment, which amounted to HK$78.8 billion (including purchase commitment for those aircraft novated to a third party subsequently in Aug 2023), representing the estimated total purchase costs of the aircraft contracted to be purchased and delivered net of PDP paid.

Such aircraft purchase commitment was expected to be financed by (a) PDP financing, (b) aircraft loans, (c) the asset-light strategy including disposal of aircraft and/or novation of aircraft purchase agreements, (d) debt and capital market issuance and (e) internally generated financial resources and additional financing.

OUR AIRLINE CUSTOMERS

Since 2014, we have expanded our business into overseas markets, such as Asia, Americas and Europe. Our customers included lessees of our leased and delivered aircraft and purchasers of the aircraft sold by us. China saw rapid recovery momentum for domestic routes during and after the pandemic, and as a result domestic routes and short-haul flights which were less impacted by the pandemic. As at 30 June 2023, by number of aircraft, 73.5% of the Group's owned fleet were leased to Chinese airline customers. Our non-Chinese clients are mainly flag-carriers or backed by strong shareholders. As at 30 June 2023, the Group's overall customer base (including both owned and managed aircraft) covers 42 airlines in 20 countries and regions. The following table sets forth the number of aircraft in our fleet leased to each jurisdiction as at 30 June 2023:

Lessees Jurisdiction	**Number of aircraft in our fleet leased**
Australia	1
Chile	11
China	116
Colombia	5
Denmark	1
Egypt	2
Iceland	2
India	5
Indonesia	7
Japan	2
Jordan	2
Macau, China	2
Malaysia	2
Mexico	3
Spain	3
Taiwan, China	7
Thailand	2
Turkey	3
USA	6
Vietnam	5
Total	**187***

* excluding the two aircraft that involve Russian airlines and were written-off from the book.

LEASE COMMITMENT FROM OUR AIRLINE CUSTOMERS

We actively seek and confirm lease commitment for the aircraft that are currently planned to be delivered in 2024 and 2025. The future lease commitment from airline customers consists of aircraft lease agreements and letters of intent.

We usually enter into letters of intent with airline operators before entering into the definitive lease agreements. We have delivered a total of 28 aircraft, among which 18 were new aircraft from order book placements and 10 aircraft were through purchase and lease back arrangements for the year ended 31 December 2022. In addition, as at 30 June 2023, we have secured, by way of letters of intent, the lease of 26 aircraft to overseas airline customer.

OUR SALES AND MARKETING

Throughout years of development, with our professional team possessing extensive international aviation market experience and our globalised sources of financing, we have developed into a full value-chain aircraft solutions provider.

We were named as the "Aircraft Lessor of the Year" for four consecutive years from 2015 to 2018 by Global Transport Finance for our expertise in delivering outstanding services and providing effective financing solutions to a diverse range of customers. We are the first ever Chinese lessor to obtain this international accreditation. We were also named as the "Asia-Pacific Lessor of the Year" for two consecutive years in 2017 and 2018 and won the "Editor's Deal of the Year for Innovation" award in 2018 as well as "Asia-Pacific Lease Deal of the Year" award in 2022 presented by Airline Economics.

Our sales and marketing activities focus on strengthening the business relationship with airline operators, airline manufacturers, banks and financial institutions in order to achieve long-term mutually beneficial cooperation.

As a full-value chain aircraft solutions provider, we will continue to utilise our expertise to create innovative and value-added fleet management solutions for airlines worldwide, as well as contribute to the future development of the global aviation finance sector.

OUR FINANCING STRATEGIES

Source of financing

Despite the backdrop of a challenging environment, we continue to advance our onshore and offshore financing platforms to flexibly tap opportunities to access quality funding sources, including actively exploring green financing opportunities. Diversified funding sources and financing instruments provide us with sufficient liquidity. Under the prevailing unprecedented times, we have successfully arranged project loan facilities for our new deliveries and our outstanding project loan balance was HK$23 billion as at 30 June 2023. We have also received strong support from the associate companies under CEG. Together with liquidity provided by other commercial banks, we have been granted US$957.4 million of standby credits and working capital facilities as at 30 June 2023.

In August 2020, we received the highest AAA credit rating from Dagong Global Credit Rating Co., Ltd, an accolade conducive to future financings in the domestic market in China.

In June 2021, we received a first-time corporate family rating (CFR) of Ba1 and a foreign currency and local currency issuer ratings of Ba2 from Moody's, with a stable outlook, and a first-time long-term IDR of BB+ and a short term IDR of B from Fitch, with a stable long-term outlook Ba1 credit rating from Moody's and BB+ credit rating from Fitch, which further strengthened our financing capability. In May 2023, CALC (Tianjin) received an AAA issuer rating from Dagong Global Credit Rating Co., Ltd, and an upgrade to AAA rating from China Cheng Xin International Credit Rating Co., Ltd, both with a stable outlook. The ratings fully reflect our leading industry position and the high recognition of our stable business, premium creditworthiness and strong shareholder support from an internationally renowned ratings agencies.

In 2020, 2021 and 2022 and for the six months ended 30 June 2023, aircraft loans and PDP financing remained the main source of funding to support our aircraft acquisitions. The aircraft loans were arranged for individual aircraft purchased, and the PDP financing was used for the settlement of PDPs.

Financing cost is our largest operating cost. We are focused on maintaining a competitive debt funding cost, and we achieve this by adopting prudent financial policies and by maintaining a diverse range of financing sources. As our lease agreements are expected to generate stable cash inflows of lease income, our current financing strategy, which is embedded in our business model, is to fully utilise the available banking facilities so long as (a) the interest rates of such aircraft loans are in the acceptable range and (b) the cash inflows of lease income during the lease term of each aircraft is sufficient for the regular repayments of the principal and the interest during the same time period. Hence, each aircraft leased by us will generate positive cash inflow to us. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our aircraft loans amounted to HK$10.5 billion, HK$15.5 billion, HK$19.1 billion and HK$22.9 billion, respectively.

In addition to the aircraft loans for aircraft acquisitions we have also arranged for PDP financing for the settlement of the PDPs. As at 31 December 2020, 2021 and 2022 and 30 June 2023, the balances of our PDP financing were HK$8.5 billion, HK$6.3 billion, HK$7.2 billion and HK$10.0 billion, respectively.

The determination of the interest rates for our aircraft loans and PDP financing are based on commercial negotiations between us and the relevant banks and financial institutions and are principally subject to floating interest rates. The amount of lease payments under our aircraft lease agreements are determined with reference to a number of factors on top of interest rates including market value of the relevant aircraft and lease terms and rates offered by other aircraft leasing companies. Hence, we may not be able to pass all the increase in our costs to our airline customers.

In 2018, we have transited into asset-light models through aircraft disposals to CAG, ARI and third parties. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, we received net income from aircraft transaction and aircraft trading of HK$514.3 million, HK$301.7 million, HK$207.1 million and HK$44.7 million, respectively, from disposal of aircraft to ARI, joint ventures and third parties.

Since 2015, we have further diversified our source of financing by obtaining export credit agencies' guaranteed project financing and issuing convertible bonds, medium-term notes and bonds in the capital markets. Capitalising on the relative abundance of liquidity in the domestic market in China, we issued RMB1.0 billion short-term debentures at a 3.65% coupon in March 2020 and RMB300 million short-term debentures at a 4% coupon in June 2020.

We have also completed the issuance of US$70 million five-year unsecured bonds at a coupon of 5.90% with two issuances of US$35 million in November 2020 and January 2021 respectively and US$200 million perpetual bond at a coupon of 6.4% over LIBOR in December 2020. In 2022, we issued the first low-carbon transition bond in China's aviation industry with principal amount of RMB1 billion at a coupon of 3.56%, as well as RMB1.2 billion corporate bonds and RMB1.5 billion medium term notes.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, we incurred interest expenses of HK$1,328.8 million, HK$1,211.3 million, HK$1,610.5 million, HK$757.9 million and HK$1,075.9 million respectively.

Financing channels

We select different banks to provide us with aircraft loans and PDP financing based on a number of factors such as the interest rate, percentage of the aircraft valuation covered, and the collaterals required. We obtained aircraft acquisition financing (including aircraft loans and PDP financing) from various financial institutions.

We will also consider re-financing as and when appropriate to enhance our interest margin in light of the changing interest-rate environment.

We will continue to diversify our financing strategies and alternatives to support our finance needs for fleet expansion and business growth, including active aircraft portfolio management which involves portfolio trading to adjust the composition of our fleet of aircraft, with a view to monetise the assets to capitalise future fleet expansion and business growth opportunities.

Aircraft loans

We finance our aircraft acquisitions through PDP financing and aircraft loans. For our aircraft loans, the interest rate is principally determined with reference to one-month, three-month or six-month floating rates and will be adjusted at regular intervals according to the market conditions. The average effective interest rate as at 30 June 2023 of interest-bearing debts (including borrowings, bonds and debentures and medium-term notes) was 5.72%, compared to 4.28% for the six months ended 30 June 2022.

Before entering into any aircraft loan transaction, we will review the terms in detail and will ensure that the repayment instalments under the aircraft loan match the expected cash inflows of lease income over the entire lease term from the aircraft. We will only secure and confirm the aircraft loans for aircraft acquisitions about three months before the scheduled delivery date of the aircraft. This is intended to reduce the finance cost for standby but unused facilities involved.

The aircraft loans were secured by a legal charge over the leased aircraft, a pledge of the shares of the SPC being the registered owner of the relevant aircraft, corporate guarantees provided by certain members of our Group, and pledge of bank deposits amounting to HK$45.4 million, HK$46.5 million, HK$288.4 million and HK$600.4 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

PDP financing

We need to pay PDPs for certain aircraft agreed to be purchased and delivered to us. The PDP financing is a specific purpose bank borrowing, mainly on unsecured basis, either bilateral or syndicated, obtained by us solely for the purpose of settling PDPs. As at 31 December 2020, 2021 and 2022 and 30 June 2023, the balances of our PDP financing were HK$8,456.6 million, HK$6,303.4 million, HK$7,180.3 million and HK$9,991.4 million, respectively. As the PDP financing is attributable to the acquisition of aircraft under construction, the interest incurred by us on the PDP financing will not be charged to our profit and loss, but treated as capitalised interest cost as part of our prepayments. The amount of interest will then be re-classified to property, plant, and equipment under operating leases or finance lease receivables under finance leases.

Other unsecured bank borrowings

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we have unsecured bank borrowings in the amount of HK$2,595.1 million, HK$5,600.1 million, HK$6,067.5 million and HK$6,099.3 million, respectively. The facilities are on unsecured basis with initial loan tenors range from one year to three years. For the six months ended 30 June 2023, all of these unsecured bank borrowings were guaranteed by certain companies of the Group. We obtained these facilities through associate companies under CEG and various banks in China, Hong Kong and the rest of Asia Pacific Region.

Export credit agencies' guaranteed project financing

In March 2015, we obtained the first guarantee arrangement from the Export Credit Guarantee Department of the United Kingdom for the financing of three aircraft delivered to Air India in 2015. This is an important financing support alternative for our global business expansion strategy.

Medium term notes

In July 2015, our wholly-owned subsidiary, CALC (Tianjin), issued senior unsecured RMB340.0 million medium-term notes, becoming the first aircraft lessor to obtain approval and the first member of Tianjin Dongjiang Free Trade Port Zone to be approved for note issuance. The notes bear interest at 6.5% per annum with tenor of five years. In July 2020, we have fully repaid these medium-term notes.

In November 2016, CALC (Tianjin), issued RMB330.0 million medium-term notes. The notes bear interest at 4.19% per annum with tenor of five years.

In August 2019, CALC (Tianjin), issued RMB800.0 million medium-term notes. The notes bear interest at 4.93% per annum with tenor of three years.

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

As at 30 June 2023, after deducting the issuing cost, the total carrying amount of these notes was HK$1,619.0 million.

For the six months ended 30 June 2023, we have incurred HK$37.8 million on interest expenses in relation to the medium-term notes.

Bonds and debentures

In August 2016, our wholly-owned subsidiary, CALC Bond 2 Limited, issued five-year senior unsecured US$300.0 million bonds due in 2021 which were listed on the Hong Kong Stock Exchange and guaranteed by the Guarantor. These bonds bear coupon interest at 4.9% per annum. The bonds had either been repurchased or fully repaid at maturity.

In March 2017, our wholly-owned subsidiary, CALC Bond 3 Limited, issued five-year US$300.0 million senior unsecured bonds due in 2022 which are listed on the Hong Kong Stock Exchange and guaranteed by the Guarantor. These bonds bear coupon interest at 4.7% per annum. The bonds had either been repurchased or fully repaid at maturity.

In March 2017, our wholly-owned subsidiary, CALC Bond 3 Limited, issued seven-year US$200.0 million senior unsecured bonds due in 2024 which are listed on the Hong Kong Stock Exchange and guaranteed by the Guarantor. These bonds bear coupon interest at 5.5% per annum. In November 2020, we repurchased the principal amount of US$400,000 of these bonds on the Hong Kong Stock Exchange for a total payment of US$384,000. All the repurchased bonds were subsequently cancelled.

In June 2019, one of our wholly-owned subsidiaries in the PRC issued three-year RMB1.0 billion unsecured bonds due in 2022, bearing coupon rate of 5.2% per annum. These bonds were listed on the Shanghai Stock Exchange. These bonds were fully repaid at maturity.

In March 2020, one of our wholly-owned subsidiaries in the PRC issued one-year RMB1.0 billion unsecured debentures at the coupon rate of 3.65% per annum and were listed on the Inter-Bank Bond Market of China. These debentures were fully repaid at maturity.

In June 2020, one of our wholly-owned subsidiaries in the PRC issued one-year RMB300.0 million unsecured debentures at the coupon rate of 4% per annum and were listed on the Inter-Bank Bond Market of China. These debentures were fully repaid at maturity.

In November 2020, China Aircraft Leasing Group Holdings Limited entered into a subscription agreement with an independent third party in relation to the issuance of five-year US$70 million senior unsecured bonds, of which US$35 million were issued in November 2020 and due in 2025 and another US$35 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

In July 2021, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.98%. These debentures had been fully repaid on maturity.

In August 2021, the Group issued three-year unsecured bonds, with coupon rate adjustment option for the Group and sell-back option for investors exercisable at the end of the second year, in a principal amount of RMB100.0 million due in 2024, bearing coupon rate of 4.2% per annum. These bonds were listed on the Shanghai Stock Exchange. The sell-back option for investors was exercised in August 2023 and the bonds were fully repaid.

In December 2021, the Group issued three-year US$100.0 million unsecured guaranteed notes due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Guarantor and were listed on the Hong Kong Stock Exchange. In May 2022, we repurchased the principal amount of US$8,200,000 of these notes on the Hong Kong Stock Exchange. All the repurchased notes were subsequently cancelled.

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

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

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

For the six months ended 30 June 2023, we have incurred HK$137.4 million on interest expenses in relation to such bonds and debentures.

Residual value insurance

In addition to the insurance coverage required to be maintained by our airline customers over the aircraft leased to them, historically, we also maintain residual value insurance in respect of our leased aircraft as part of our risk management measures. The purpose of maintaining the residual value insurance is to protect us against future risks associated with the value of the aircraft, including the risk of diminution of value of the insured aircraft resulting from changing market conditions. Hence, our residual value insurance are arranged with reputable insurers which are independent third parties.

Hedging transactions

Because of the exposure to the floating interest rates, we entered into interest rate swaps contracts for managing our exposure on our aircraft loans to interest rate fluctuations. As at 30 June 2023, we had 19 outstanding interest rate swap contracts which will expire at various dates from 28 August 2023 to 24 December 2025, to exchange floating rates from SOFR into fixed interest rates in a range of 0.4% to 3.0%. As at 30 June 2023, this arrangement was secured by initial deposits of HK$5.0 million.

We are not engaged in any interest hedging activity for the PDP financing and working capital loan as PDP financing and working capital loan are of short term of approximately one to five years, and one to three years respectively. We have not been involved in any speculative activities in 2020, 2021 and 2022, and for the six months ended 30 June 2023.

We closely monitor currency exchange risks and hedge the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, we may use the currency forward contracts to hedge our currency exchange risk. We will continue to monitor currency exchange risk through matching the currencies of lease receivables and borrowings to the greatest extent possible.

Managing our liquidity risk

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our gearing ratio (calculated by dividing borrowings, medium-term notes, bonds and debentures by total assets) was 80.1%, 80.9%, 81.5% and 83.0%, respectively. Most of our liabilities are aircraft loans incurred by us for aircraft acquisitions. We manage our liquidity risk by arranging aircraft loans such that their interest payments match our cash inflow of lease income under the relevant lease in terms of repayment schedules, type of interest (fixed or floating rate) and/or currency (U.S. dollar and Renminbi). Where there is a mismatch between the type of interest, we have retained the flexibility to enter into interest rate swap arrangements. Through such matching and hedging arrangements, we have implemented effective measures to limit our liquidity risk.

In December 2020, our wholly-owned subsidiary CALC Perpetual Bond Cayman 1 Limited issued a US$200 million perpetual bond in Hong Kong which was classified as equity and improved gearing ratio. We will continue to explore further financing options both within and outside China by leveraging any financing opportunities then arise.

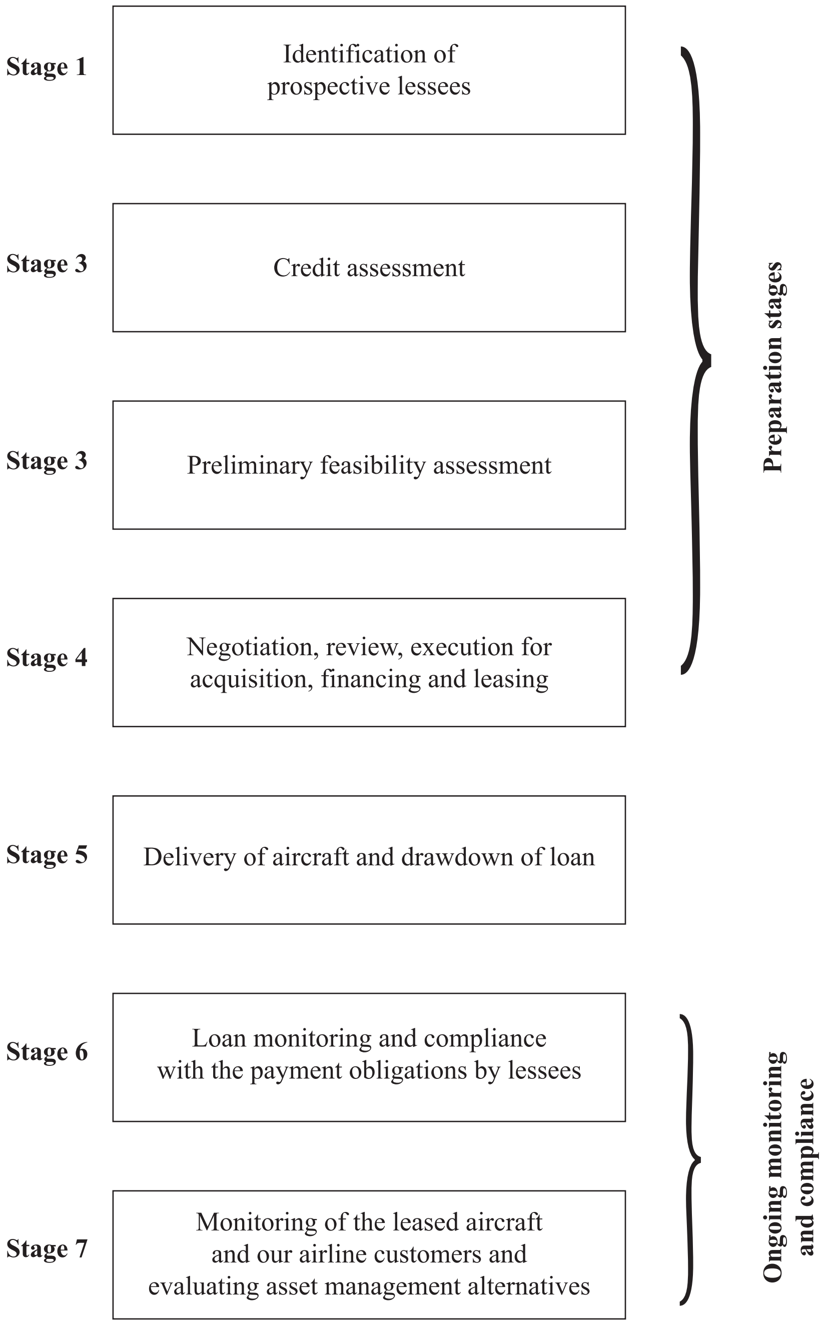
OUR FUNDING SUPPLIERS

Commercial banks and various financial institutions provide us with aircraft acquisition financing in the form of aircraft loan and PDP financing. The aircraft loans are arranged for each individual aircraft delivery, and the PDP financing is used for the settlement of the PDPs. Commercial banks further provide us with working capital loans for general corporate purposes.

Our source of funding also extends to investors in the debt capital market who subscribe for our bonds, and those engaged in special financing structures such as Japanese Operating Lease with Call Options (JOLCO).

OUR BUSINESS OPERATIONS IN AIRCRAFT LEASING BUSINESS

We have a clear segregation of business departments with delineation of roles and responsibilities to execute our business model. We have established different departments responsible for procurement, sales and marketing, technical review, finance and accounting, project management and legal and compliance. We set forth below the operational workflow in our aircraft acquisition and leasing transactions:



Prior to the preparation stages, we will assess the overall market conditions and forecasted demand on various aircraft types, as well as review our fleet composition and hence gauge the commercial merits in making any aircraft acquisitions. Our procurement team, together with senior management where appropriate, will then negotiate commercial terms and place orderbooks with aircraft manufacturers. Regular meetings and discussions are also held from time to time so as to improve such purchase terms and conditions in accordance with the then-market-situation.

It may then take several months to complete the preparation stages for our leasing depending on the complexity of the transaction and whether the airline is a new customer. For any new aircraft delivery, we usually place the aircraft with a lessee 12 to 18 months prior to its scheduled delivery.

Stage 1: Identification of prospective lessees

We prepare on an ongoing basis, a demand forecast for aircraft by our existing airline customers and prospective airline customers in the next six to 12 months according to the published market data, analysis performed by our sales and marketing department, and our close contacts with our airline customers. We contact our existing airline customers from time to time to explore any potential business opportunities.

Stage 2: Credit assessment

We have internal assessment procedures to evaluate the background and the credit worthiness of any new airline customers by considering its financial position, market share, background of shareholders and business reputation. We also take into consideration their business strategies in future and their fleet expansion plan.

Stage 3: Preliminary feasibility assessment

For any potential transactions identified, our transaction management team and banking and financing team will perform a preliminary feasibility assessment.

The preliminary feasibility assessment covers different aspects. We study and analyse the background of the airline customer including its operating history and shareholders, the routes operated by it, and other financial information. Specific needs of the airline in respect of the type and specification requirements will also be studied and compared with our aircraft ordered or to be ordered.

We will also evaluate different transaction structures and the relevant leasing and financing options. Lease terms including time frame, the amount of the lease payment, the payment schedule, and potential financing terms including interest rate, duration and the amount of loan will also be considered for the purpose of making an overall assessment of the legal and operational risks of a particular transaction. Interest rate risk, counterparty and credit risk, our level of debt, and the residual value risk of the aircraft. Cash flow analysis will also be performed to access the financial impact of the transaction.

In evaluating an aircraft purchase and leaseback transaction, we will assess the profitability and the return on investment, our counter-party risk, leverage risk, and the residual value risk.

After completing the feasibility assessment and if we are satisfied that the proposed transaction is commercially viable, we will commence further discussions and negotiations on the leasing letter of intent with the prospective airline customer.

Stage 4: Negotiation, review, and execution for acquisition, leasing and financing

We will proceed to obtain preliminary indications from banks for the financing arrangements. Generally we will require indications from at least two banks for each project financing; and will provide mandate to the one offering us with the best terms and conditions.

We will then proceed to prepare documentation based on the negotiated and approved terms of the relevant aircraft acquisition (for purchase and leaseback), leasing and financing.

Stage 5: Delivery of aircraft and drawdown of loan

We will proceed to coordinate with different parties for aircraft delivery and drawdown of the aircraft loan(s). The process represents the collaborative efforts of our different departments to ensure that all the related arrangements will be completed according to the planned schedule.

Our banking and financing team monitors the drawdown of loan pursuant to the time schedule stipulated in the aircraft loan agreement.

Stage 6: Loan monitoring and compliance with the payment obligations by lessees

Our accounting department monitors the receipt of the lease income from our airline customers, and ensures adequate fund would be available for repayment of loan interest and principal of bank loans to the financiers. We will closely monitor if there is any delay in the lease payment by our airline customers and follow-up actions to be taken promptly in case of such delay.

Compliance review will be conducted from time to time on our compliance with the loan covenants (including information regarding the financial ratios and capital requirements as stipulated under the covenants in the financing agreement) under the bank loan agreement. We will monitor any breach of covenant and any likely impact as a result.

Stage 7: Monitoring of the leased aircraft and our airline customers and evaluating asset management alternatives

Our sales and marketing team and asset management team will closely monitor the condition of our leased aircraft. We monitor whether the maintenance is duly performed and whether the required maintenance standards are duly compiled with by our airline customers. Our airline customers are required to produce utilization reports regularly and maintenance reports annually in respect of the operation, condition and maintenance of the leased aircraft. The purpose of these regular reviews is to ensure that the aircraft is operated under the prescribed conditions set forth in the relevant aircraft lease agreements.

In addition, we also closely monitor the operating and credit condition of our airline customers in order to assess the creditworthiness of our airline customer and to identify any potential risk of default. We have a delinquent lessee policy in place and lease rent receivables are monitored on a daily basis by our risk department. We also have an aircraft repossession process to follow whenever appropriate.

COMPETITION

We are an independent and fast-growing aircraft leasing company. We compete with aircraft leasing companies domestically and internationally. The aircraft leasing industry has high entry barriers, which include licences, initial capital, continuous funding capabilities, adequate risk management measure, and strong technical support capability.

Competition in the aircraft leasing industry is keen. Our competitors are mainly aircraft leasing companies which are affiliates of commercial banks, leasing divisions or subsidiary leasing arms owned and operated by airlines and aircraft manufacturers and independent aircraft leasing companies. Our competitors include domestic aircraft leasing companies in China, such as CDB Leasing, BoComm Leasing and ICBC Leasing Co., and international leasing companies, such as Air Lease Corporation, GE Capital Aviation Services, SMBC Aviation Capital, Avolon, AerCap Holdings N.V. BOC Aviation, and bank-affiliated aircraft leasing companies. Leasing divisions or subsidiaries operated by aircraft manufacturers generally focus on providing alternative financing options to their airline customers in the sale of aircraft and equipment, and as such the business demand of these leasing subsidiaries is largely to support and satisfy the business need and expansion of their parent companies. Leasing businesses affiliated with airline operators may only serve their affiliated airlines. Independent aircraft leasing companies have wider customer base owing to their independence and greater flexibility to structure leasing and financing options and the accessibility to diversified funding options. Competition in the aircraft leasing business is based on a number of aspects, including the lease rates, lease terms, delivery dates, availability of the aircraft model in the market, aircraft specifications, condition of the aircraft, and other lease provisions. Competition in aircraft re-marketing focuses principally on the availability of suitable aircraft at appropriate prices.

Our ability to compete against our competitors depends on our ability to distinguish ourselves from other aircraft leasing companies in the industry by way of our innovative business model and comprehensive tailored services to be provided to our airline customers. Our positioning as a full life-cycle aircraft solutions provider gives us competitive advantages over our competitors as we are able to provide our airline customers with a solution at 'both ends' – we take up the airlines' existing aircraft, often being mid-aged and/or matured aircraft, therefore releasing our airline customers' demand for capacity, which then allows us to provide these airline customers with leases of younger aircraft satisfying such demand. With this vision, ARI has been committed to strengthening its capability in fulfilling the global demand for mid-aged and/or matured aircraft solutions and asset management by operating a global life-cycle solutions platform to support our value chain ecosystem with its dual aircraft recycling bases in Harbin, the PRC and in the U.S. Combining with the strong support by UAM (the world's leading global aviation services provider based in the US, which was fully acquired by ARI in March 2017) and China Aviation Aftermarket Holdings, together with the integrated resources and customer base provided by us, ARI can provide a state-of-art global platform of mid-aged and/or matured aircraft solutions, which form an integral part of our overall business strategy as a full life-cycle aircraft solutions provider.

INTELLECTUAL PROPERTY

We conduct our business under the trade names of "CALC" in English and "中國飛機租賃" in Chinese. We have registered various trademarks in China and Hong Kong to ensure that we have the right to use the trade names and the registered trademarks. The trade names and the trademarks are important in recognising us as a Chinese aircraft leasing company.

We confirm that we are not involved in any proceedings in respect of, and we have not received notice of any claim for infringement of, any intellectual property rights of any third party.

EMPLOYEES (EXCLUDING ARI GROUP)

As at 30 June 2023, we had over 183 employees across 12 offices worldwide.

Our staff management and recruitment policies, working environment, and career development opportunities have contributed to good staff relationship and retention of our staff members.

We provide regular training to our staff members to keep them informed of the latest information on the market and industry. We recruit such number of staff based on our business development. We recruit employees from a number of sources, including universities, internal referral, and career fairs, social media and job advertising portal.

We have established effective employee incentive systems to remunerate our employees with outstanding performance.

With regard to our employees in China, we have complied with the applicable laws and regulations on employees' benefits. As at the date of this Offering Circular, we have also fully complied with the provident fund requirements and other statutory requirements for our employees in Hong Kong. We have not experienced any major dispute with any of our employees which have a material adverse impact on our business and operating results. Our relations with our employees are good.

INSURANCE

Our operations involve a number of inherent risks, such as risks associated with the value of the aircraft, business interruption, hostilities and labour strikes. We and certain of our aircraft are covered by insurance policies by reputable insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage. The insurance coverage in place is in line with industry and market standards and is adequate and sufficient for the conduct of our business.

LEGAL PROCEEDINGS

As at the date of this Offering Circular, we and our subsidiaries have not been involved in any legal or administrative proceedings or arbitration that could have a material adverse effect on our respective financial condition or results of operations, nor are we aware of any potential legal or administrative proceedings or arbitration involving us or any of our subsidiaries that would have a material adverse effect on our financial condition or results of operations. We and our subsidiaries however may from time to time be involved in certain legal proceedings arising in the ordinary course of business.

MANAGEMENT

DIRECTORS

Our board of directors consists of seven directors, comprising three executive directors, one non-executive director, and three independent non-executive directors. The powers and duties of our board of directors include:

- convening shareholders' meetings and reporting at shareholders' meetings our board of directors' responsibilities and work done;
- implementing the resolutions passed at shareholders' meetings;
- determining our business plans and investment plans;
- formulating our annual budget and final accounts;
- formulating our proposals for profit distributions and for the increase or reduction of our share capital; and
- exercising other powers, functions and duties as conferred by our memorandum and articles of association.

The table below sets forth the age and designation of each of our directors as at the date of this Offering Circular:

Name	Age	Position
Mr. ZHANG Mingao	56	Chairman and Executive Director
Mr. POON Ho Man	51	Executive Director and Chief Executive Officer
Ms. LIU Wanting	42	Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer
Ms. WANG Yun	55	Non-executive Director
Mr. CHEOK Albert Saychuan	73	Independent Non-executive Director
Dr. TSE Hiu Tung, Sheldon	59	Independent Non-executive Director
Mr. FAN Chun Wah, Andrew, J.P.	45	Independent Non-executive Director

Executive Directors

Mr. ZHANG Mingao, aged 56, is our Chairman of the Board and an Executive Director. Mr ZHANG is also the chairman of Everbright Jiabao Co., Ltd (stock code: 600622.SH) and the non-executive and non-independent chairman of Ying Li International Real Estate Limited (stock code: 5DM.SGX).

Mr. ZHANG was an executive director of China Everbright Limited (stock code: 165.HK) ("**CEL**" and together with its subsidiaries, collectively "**CEL Group**"), a substantial shareholder of the Company (the "**Shareholder**"), and the President of CEL Group. He was also the general manager of the asset management department of China Everbright Bank Company Limited (stock codes: 601818.SH, 6818.HK) ("**Everbright Bank**"). Since Mr. ZHANG joined Everbright Bank in 1999, he had served as the risk director of Everbright Bank (Suzhou Branch), the risk director of small and medium enterprises department of Everbright Bank (Headquarters) and the president of Everbright Bank (Wuxi Branch).

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

Mr. POON Ho Man, aged 51, is our Executive Director and the Chief Executive Officer. Mr. POON is the chairman of the Sustainability Steering Committee on Environmental, Social and Governance Issues and a member of each of our Strategy Committee and Remuneration Committee. He is also a director of certain subsidiaries of the Guarantor and holds indirectly 14.13% equity interest in Linkasia Airlines Group Limited ("**Linkasia Airlines**"), a non-wholly-owned subsidiary of the Guarantor. He is responsible for formulating the Group's overall strategic planning and managing overall business operations. Mr. POON has over 25 years of experience in direct investment, structured financing and aviation financing, of which over 15 years has been spent focusing on aircraft leasing.

Mr. POON founded China Aircraft Leasing Group, which has been developed into an aircraft full life-cycle solutions provider under his leadership. Mr. POON also oversaw the founding of ARI, which is the first in Asia to provide solutions for mid-to-end life aftermarket aircraft. ARI is indirectly owned by FPAM, a substantial shareholder of the Guarantor, as to 18% which is in turn beneficially owned by Mr. POON as to 50%. Mr. POON serves as the chief executive officer and a director of ARI as well as certain subsidiaries of ARI.

Mr. POON obtained the degree of Bachelor of Engineering from the University of Hong Kong in 1995, and obtained the degree of Executive Master of Business Administration from Tsinghua University in 2005. Mr. POON has been a CFA charterholder of the Association for Investment Management and Research (now known as the Chartered Financial Analysts Institute) since March 2002.

Mr. POON was a member of the eleventh and twelfth Heilongjiang Province Committee of the Chinese People's Political Consultative Conference ("**CPPCC**") and the Vice Chairman of HKCPPCC (Provincial) Members Association Foundation Limited. Mr. POON also obtained the World Outstanding Chinese Award from World Chinese Business Investment Foundation in 2006.

Ms. LIU Wanting, aged 42, is our Executive Director, Deputy Chief Executive Officer and Chief Commercial Officer. Ms. LIU is also a member of each of the Strategy Committee and the Sustainability Steering Committee on Environmental, Social and Governance Issues. Ms. LIU also acts as director of certain of our subsidiaries. She holds indirectly 13.05% equity interest in Linkasia Airlines; and was a director of each of ARI and its subsidiaries. Ms. LIU is responsible for our Group's overall strategic planning and implementation, as well as managing overall commercial operations. Ms. LIU joined our Group in June 2006 and is the founding member of our Group.

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

Non-executive Directors

Ms. WANG Yun, aged 55, is our Non-executive Director, a member of each of Remuneration Committee and Sustainability Steering Committee on Environmental, Social and Governance Issues and chairman of Strategy Committee. She is also the chairman of CALC (Tianjin).

Ms. WANG is currently an executive director and vice president of China Everbright Limited (stock code: 165.HK), and a non-executive and non-independent director of Ying Li International Real Estate Limited (stock code: 5DM.SGX). She was a non-executive director of Everbright Grand China Assets Limited (stock code: 3699.HK).

Prior to joining the Group, Ms. WANG worked at the National Planning Commission of the People's Republic of China (currently known as the National Development and Reform Commission of the People's Republic of China) from September 1991 to July 1992. From July 1992 to March 1993, Ms. WANG worked as the finance manager at Beijing Fulanka Digital System Co., Ltd. From March 1993 to May 1998, Ms. WANG worked as the finance supervisor at China Everbright International Economic and Technical Cooperation Corporation. From May 1998 to November 1999, Ms. WANG worked as the financial manager at China Everbright (South Africa) Company (Proprietary) Limited ("**Everbright South Africa**") and Everbright International Engineering (Proprietary) Company ("**Everbright International Engineering**"). From November 1999 to September 2007, Ms. WANG worked as the chief financial officer of Everbright South Africa and Everbright International Engineering. From September 2007 to October 2012, Ms. WANG worked as the senior manager of insurance and non-financial audit division of the audit department at CEG. From October 2012 to April 2014, Ms. WANG was appointed as the division chief of banking division of the audit department at CEG. From April 2014 to August 2016, Ms. WANG worked as the senior deputy manager of the audit department and the division chief of insurance and non-financial audit division at CEG. From August 2016 to November 2017, Ms. WANG worked as the deputy general manager of the audit department and the senior manager of industrial and other audit offices at CEG. Ms. WANG was the general manager of the financial management department at CE Hong Kong from November 2017 to April 2023. Ms. WANG was appointed as a director of CE Hong Kong from January 2018 to May 2023. Ms. WANG has been appointed as a chief representative of CEG's representative office in Macau since March 2022.

Ms. WANG graduated from the Central Institute of Finance and Economics (currently known as the Central University of Finance and Economics) specializing in foreign financial accounting in 1991. Ms. WANG later received a Master of Business Administration from De Montfort University, De Montfort South Africa, Sandton Campus in March 2006. Ms. WANG is a non-practicing member of the Chinese Institute of Certified Public Accountants and holds the qualification of Senior Accountant in China.

Independent Non-executive Directors

Mr. CHEOK Albert Saychuan, aged 73, is our Independent Non-executive Director. Mr. CHEOK is also the chairman of our Nomination Committee, and a member of each of our Audit Committee and Remuneration Committee.

Mr. CHEOK graduated from the University of Adelaide, Australia with First Class Honours in economics. Mr. CHEOK is a fellow of CPA Australia. He is a banker with over 40 years of experience in banking and business consultancy in the Asia-Pacific region.

Between May 1979 and February 1982, Mr. CHEOK was an advisor to the Australian Government Inquiry into the Australian Financial System which introduced comprehensive reforms to the Australian banking system. He was the chief manager at the Reserve Bank of Australia from October 1988 to September 1989 before becoming the deputy commissioner of Banking of Hong Kong for about three and a half years. He was subsequently appointed as an executive director in charge of banking supervision at the Hong Kong Monetary Authority from April 1993 to May 1995. Mr. CHEOK was the chairman of Bangkok Bank Berhad in Malaysia, a wholly-owned subsidiary of Bangkok Bank of Thailand, from September 1995 to November 2005. Mr. CHEOK was formerly the vice chairman of Export and Industry Bank, Inc., which is listed on The Philippine Stock Exchange, from February 2006 to April 2012. Mr. CHEOK was the vice president of the board of governors of the Malaysian Institute of Corporate Governance until the end of 2020.

Mr. CHEOK is the independent non-executive chairman of Amplefield Limited (listed in Singapore), an independent non-executive director of Supermax Corporation Berhad (listed in Malaysia), and a non-executive chairman of Forbidden Food Limited (listed in Australia).

Outside his various board capacities, Mr. CHEOK is a well accomplished personal investment banker and financial adviser to select clients in Hong Kong, China and South East Asia. In this capacity he has been involved in several high profile mergers and acquisitions, asset acquisitions, corporate restructuring, corporate strategies, brand image and building and private fund management. He has also been an adviser to governments in various capacities.

Dr. TSE Hiu Tung, Sheldon, aged 59, is our Independent Non-executive Director. Dr. TSE is also the chairman of our Remuneration Committee, and a member of each of our Audit Committee and the Nomination Committee. Dr. TSE is a partner at a law firm in Hong Kong providing corporate and commercial legal services and has over 20 years of experience in corporate finance, mergers and acquisitions, private equity, joint ventures and compliance matters. Dr. TSE is qualified to practise law in Hong Kong, England and Wales and the PRC. Dr. TSE is currently an independent non-executive director of Wise Living Technology Co., Ltd (stock code: 2481.HK). He was also an independent non-executive director of Fullsun International Holdings Group Co., Limited (stock code: 627.HK). He graduated with a bachelor's degree in law from Zhongshan University in Guangzhou in 1986. Dr. TSE obtained a master's degree in law and a doctorate degree in law from the University of London, the United Kingdom in 1989 and 1993 respectively. He is a China appointed attesting officer, and a fellow member of the Hong Kong Securities Institute. He has also been a member of the 12th and the 13th China Political Consultative Committee of Guizhou Province since January 2018.

Mr. FAN Chun Wah, Andrew, *J.P.,* aged 45, is our Independent Non-executive Director. Mr. FAN is also the chairman of our Audit Committee, and a member of each of our Nomination Committee and Remuneration Committee. Mr. Fan is a practicing certified public accountant in Hong Kong with over 16 years of experience. He holds a Bachelor Degree of Business Administration (Accounting and Finance) from The University of Hong Kong and a Bachelor Degree in Laws from the University of London.

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

Mr. FAN is currently an independent non-executive director of Sing Tao News Corporation Limited (stock code: 1105.HK), Nameson Holdings Limited (stock code: 1982.HK), Culturecom Holdings Limited (stock code: 343.HK), Chuang's China Investments Limited (stock code: 298.HK) and China Overseas Grand Oceans Group Ltd. (stock code: 81.HK), all shares of which are listed on the Main Board of the Hong Kong Stock Exchange.

Mr. FAN was an independent non-executive director of certain companies which shares are listed on the Main Board of the Hong Kong Stock Exchange, namely, Space Group Holdings Limited (stock code: 2448.HK) from January 2018 to August 2022 and Fulum Group Holdings Limited (stock code: 1443.HK) from October 2014 to May 2021.

SENIOR MANAGEMENT

The table below sets forth the age and designation of our key senior management as at the date of this Offering Circular:

Name	Age	Current position
Mr. LI Guohui	52	Chief Financial Officer, Chief Strategy Officer and Company Secretary
Mr. TANG Yu Ping	54	Chief Operating Officer

Mr. LI Guohui, aged 52, joined our Group in January 2023 and is our Chief Financial Officer, Chief Strategy Officer and Company Secretary. He is responsible for jointly managing the strategic planning, financing, investor relations, company secretarial matters, listing rules compliance and accounting matters of the Group. Prior to joining the Group, he has a track record in serving senior positions in the blue-chip and large-scale companies. He has served as senior manager in investment, merger and acquisition/financial analysis of International Maritime Carriers Group in Singapore and Hong Kong from 2005 to 2009 and accounting director of finance department of China Resources (Group) Co., Ltd from 2009 to 2013 Mr. LI has served as an executive director, the chief financial officer, the vice president and the authorised representative under Rule 3.05 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited of China Resources Pharmaceutical Group Limited (stock code: 03320.HK) from 2013 to 2019, a non-executive director of Dong-E E-Jiao Co., Ltd. (stock code: 000423.SZ) and China Resources Double Crane Pharmaceutical Co., Ltd. (stock code: 600062.SH) and a supervisor of Sanjiu Medical & Pharmaceutical Co., Ltd. (stock code: 000999.SZ). He was an executive director and joint chief financial officer of Zhongsheng Group Holdings Limited (stock code: 881.HK) from 2019 to 2022. Mr. LI received a Master's degree in Financial Management from Nanyang Technological University in Singapore in 2005 and a Master's degree in Business Administration from Wuhan University in 2003 and obtained professional qualifications as a Chartered Financial Analyst qualified by the CFA Institute and a Certified Public Accountant (Singapore) qualified by the Singapore Institute of Chartered Accountants.

Mr. TANG Yu Ping, aged 54, is our Chief Operating Officer, is overall responsible for all aspects of transaction-related functions including legal and risk, and in particular oversees transaction planning and closing, OEM and critical procurement affairs, pricing and business analysis, deal structure and tax planning, structured finance as well as special corporate projects such as contingency tasks. Mr. TANG joined the Group in 2011 as financial controller who was responsible for financial management and accounting as well as listing preparation and pre-IPO investment management. Mr. TANG is also a director or an alternate director of certain subsidiaries of the Company and ARI. Prior to joining the Group, Mr. TANG held senior financial positions in various companies listed in Hong Kong. He has over 29 years of experience in corporate development, financial management and consulting for various industries including aircraft leasing, aviation logistics, manufacturing, corporate finance advisory and e-media. By profession, Mr. TANG is a certified public accountant in Hong Kong and a chartered accountant in England and Wales. He is also a fellow member of the HKICPA, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. TANG graduated with the degree of Bachelor of Arts in economic and social studies from the University of Manchester, and obtained the degree of master of science in operational research and information systems from the London School of Economics and Political Science, University of London.

SUBSTANTIAL SHAREHOLDERS

Based on the information available to our directors as at 30 June 2023 (including such information as was available on the website of the Hong Kong Stock Exchange) or so far as they are aware of, as at 30 June 2023, the entities and/or persons who had interests or short positions in our shares or underlying shares which fall to be disclosed by us under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by us under Section 336 of the SFO or had otherwise notified to us were as follows:

Name of shareholders	Capacity/nature of interest	Number of Shares (L)(1) held	Total interests	Approximate percentage of Shares in issue(2)
CEL Aviation Investment Holdings Limited ("**CEL Aviation**")	Beneficial owner	244,065,373(3)	244,065,373	32.79%
China Everbright Limited ("**CEL**")	Interest of controlled corporation	283,417,693(3)	283,417,693	38.08%
China Everbright Holdings Company Limited ("**CE Hong Kong**")	Interest of controlled corporation	283,417,693(4)	283,417,693	38.08%
China Everbright Group Ltd ("**CE Group**")	Interest of controlled corporation	283,417,693(5)	283,417,693	38.08%
Central Huijin Investment Limited ("**Central Huijin**")	Interest of controlled corporation	283,417,693(5)	283,417,693	38.08%
Friedmann Pacific Asset Management Limited ("**FPAM**")	Beneficial owner	176,496,672(6)	176,496,672	23.71%
Capella Capital Limited ("**Capella**")	Interest of controlled corporation	176,496,672(6)	176,496,672	23.71%
POON Ho Man	Interest of controlled corporation	186,427,261(7)&(8)	186,427,261	25.05%
Christina NG	Interest of controlled corporation	176,496,672(7)	–	–
	Beneficial owner	7,500,000	183,996,672	24.72%

Notes:

(1) The letter, "L" denotes the entity/person's long position in the securities.

(2) Based on 744,355,352 share(s) with par value of HK$0.10 each in the share capital of the Guarantor ("**Shares**") in issue as at 30 June 2023.

(3) By virtue of the SFO, CEL was deemed to be interested in 244,065,373 and 39,352,320 Shares held by CE Aviation and China Everbright Financial Investments Limited respectively, both of which are wholly-owned by CEL.

(4) CEL was owned as to 49.39% by Honorich Holdings Limited and 0.35% by Everbright Investment & Management Limited, both of which were wholly-owned by CE Hong Kong. CE Hong Kong indirectly held more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong was deemed to be interested in all Shares mentioned in note (3) above by the SFO.

(5) Central Huijin held 63.16% equity interest in CE Group which in turn held 100% of the issued share capital of CE Hong Kong. Accordingly, CE Group and Central Huijin were deemed to be interested in all Shares mentioned in notes (3) and (4) above.

(6) FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM by virtue of the SFO.

(7) Capella was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man. Accordingly, Mr. POON and Ms. NG were deemed to be interested in all Shares mentioned in note (6) above by virtue of the SFO.

(8) Mr. POON Ho Man was interested in 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

Save as disclosed above, as at 30 June 2023, our Directors are not aware of any person who had an interest or short position in the Shares or underlying Shares of us which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by us under Section 336 of the SFO or had otherwise notified to us.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement that will be issued in respect of each Tranche will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue:

[**MiFID II product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*][1] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**UK MiFIR product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (as amended, "**MiFID II**")]/[MiFID II]; [or] (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.]/[; or][(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**").][2] Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

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1 The ICMA proposed proportionate "professional investors" only product governance approach envisages that a negative target market will be unlikely. At the time of the programme establishment/update, consider what types of bonds may be issued and whether the flexibility to include a negative target market may be needed for a particular issuance. Note that a programme which only envisages vanilla issuance (this will be the majority of the deals we do in Asia) is unlikely to require a negative target market placeholder. If a negative target market is deemed necessary, wording along the following lines could be included: "The target market assessment indicates that Notes are incompatible with the needs, characteristic and objectives of clients which are [fully risk averse/have no risk tolerance or are seeking on-demand full repayment of the amounts invested]."

2 Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

[**UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); [or] (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement [Directive (EU) 2016/97/the Insurance Distribution Directive], where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA[.]/[; or] [(iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA.][3] Consequently no key information document required by [Regulation (EU) No 1286/2014/the PRIIPs Regulation] as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[**Singapore Securities and Futures Act Product Classification:** In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).][4]

Pricing Supplement dated [•]

CALC BONDS LIMITED
(*incorporated in the British Virgin Islands with limited liability*)
(the "**Issuer**")

Issue of

[*AGGREGATE NOMINAL AMOUNT OF TRANCHE*] [*TITLE OF NOTES*]
(the "**Notes**")

Unconditionally and Irrevocably Guaranteed by

CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED
(*incorporated in the Cayman Islands with limited liability*)
(the "**Guarantor**")

under the

U.S.$3,000,000,000 GUARANTEED MEDIUM TERM NOTE PROGRAMME
(the "**Programme**")

3 Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

4 Relevant Dealer(s) to consider prior to the launch of the offer whether it is necessary to obtain the necessary product classification from the Issuer pursuant to Section 309B of the SFA, taking into account whether the Notes will be offered to any persons other than the exempted investors under Section 309B of the SFA. If not necessary, the legend may be deleted in its entirety.

[This pricing supplement (this "**Pricing Supplement**") is for distribution to Professional Investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the "**Professional Investors**") only.

Notice to Hong Kong investors: Each of the Issuer and the Guarantor confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, the Guarantor or the Guarantor together with its subsidiaries taken as a whole (the "Group") or the quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

This Pricing Supplement, together with the Offering Circular (as defined below), includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor and the Group. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.][5]

WARNING

The contents of this Pricing Supplement have not been reviewed by any regulatory authority of any jurisdiction. You are advised to exercise caution in relation to the offering of the Notes. If you are in any doubt about any of the contents of this Pricing Supplement, you should obtain independent professional advice.

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the offering circular dated 6 February 2024 (the "**Offering Circular**") [and the Supplemental Offering Circular dated [•]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the Supplemental Offering Circular dated [•]] and this Pricing Supplement.

[*N.B. If the Guarantor has published any consolidated financial statements dated as at a date, or for a period ending, subsequent to the financial statements appearing in the latest Offering Circular, ensure that such financial statements are provided to potential investors of the relevant series of Notes as soon as practicable upon announcement of the deal*]

5 Applicable for Notes to be listed on the Hong Kong Stock Exchange only.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 6 February 2024. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*] [and the Supplemental Offering Circular dated [•]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement, the Offering Circular [and the Supplemental Offering Circular dated [•]].]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		CALC Bonds Limited
2.	Guarantor:		China Aircraft Leasing Group Holdings Limited
3.	(i)	Series Number:	[•]
	(ii)	Tranche Number:	[•]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [•] below, which is expected to occur on or about [date]]/[Not Applicable]]
4.	Specified Currency or Currencies:		[•]
5.	Aggregate Nominal Amount:		
	(i)	Series:	[•]
	(ii)	Tranche:	[•]
6.	(i)	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (if applicable)]
	[(ii)	Net proceeds:	[•] [*Delete for unlisted issuances*]]

7.	(i)	Specified Denominations:[6, 7]	[•]
	(ii)	Calculation Amount:	[•]
8.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable]
9.	Maturity Date:		[*Fixed rate – specify date/Floating rate* – Interest Payment Date falling in or nearest to [*specify month*]][8]
10.	Interest Basis:		[[•] per cent. Fixed Rate] [[EURIBOR/HIBOR/CNH HIBOR/*specify other reference rate*] +/- [•] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
11.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
12.	Change of Interest Basis or Redemption/Payment Basis:		[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]/[Not Applicable]
13.	Put/Call Options:		[Investor Put][9] [Issuer Call] [Change of Control Put Option] [(further particulars specified below)]

6 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

7 If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower nominal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of €1,000 in excess thereof. No notes in definitive form will be issued with a denomination above €199,000. In relation to any issue of Notes which are a "Global Note exchangeable to Definitive Notes" in circumstances other than in the limited circumstances specified in the Global Note, such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

8 Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

9 For as long as Bearer Notes issued in accordance with TEFRA D are represented by a Temporary Global Note, an Investor Put shall not be available unless the certification required under TEFRA D with respect to non-U.S. beneficial ownership has been received by the Issuer or the Agent.

14.	Date of Board approval or other corporate or regulatory approval required for issuance of Notes:	[*Specify details of any Board approval or other corporate or regulatory approval*]
15.	Listing:	[The Stock Exchange of Hong Kong Limited/*specify other/None] (For Notes to be listed on the Hong Kong Stock Exchange, insert the expected effective listing date of the Notes)*
16.	Method of distribution:	[Syndicated/Non-syndicated]

Provisions Relating to Interest (if any) Payable

17.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/other (*specify*)] in arrear]
	(ii) Interest Payment Date(s):	[[•] in each year, [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]] (*N.B.: This will need to be amended in the case of long or short coupons*)
	(iii) Fixed Coupon Amount(s):	[•] per Calculation Amount[10]
	(iv) Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(v) Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) or Actual/365 (Fixed)[11] or [*specify other*]]
	(vi) Determination Date(s):	[Not Applicable/*Give details*]
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*Give details*]

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10 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards in the case of Renminbi denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.".

11 Applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

18.	Floating Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	[•] [[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment [, as the Business Day Convention in (v) below is specified to be Not Applicable]
(ii)	Specified Period(s)/Specified Interest Payment Dates:	[[•] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(iii)	Interest Period Date:	[Not Applicable]/[•][in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(iv)	First Interest Payment Date:	[•]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*/Not Applicable]
(vi)	Business Centre(s):	[•]
(vii)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(viii)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent):	[•]
(ix)	Screen Rate Determination:	
	– Reference Rate:	[•] (*Either EURIBOR, HIBOR, CNH HIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement*)
	– Interest Determination Date(s):	[•] (*first day of each Interest Period if Hong Kong dollar HIBOR and the second day on which T2 is open prior to the start of each Interest Period if EURIBOR*)

	– Relevant Screen Page:	[•]
		(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	(x) ISDA Determination:	
	– Floating Rate Option:	[•]
	– Designated Maturity:	[•]
	– Reset Date:	[•]
	(xi) Margin(s):	[+/-] [•] per cent. per annum
	(xii) Minimum Rate of Interest:	[•] per cent. per annum
	(xiii) Maximum Rate of Interest:	[•] per cent. per annum
	(xiv) Day Count Fraction:	[Actual/Actual or Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) Other]
	(xv) Benchmark discontinuation and fallback provisions	
	– Benchmark Discontinuation (Condition 5(k)):	[Applicable/Not Applicable]
	– Fallback provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
19.	Zero Coupon Note Provisions:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Accrual Yield:	[•] per cent. per annum
	(ii) Reference Price:	[•]
	(iii) Any other formula/basis of determining amount payable:	[•]

	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Actual/Actual or Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) Other]
20.	Index Linked Interest Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula:	[*give or annex details*]
	(ii)	Calculation Agent:	[•]
	(iii)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Issuing and Paying Agent):	[•]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(v)	Specified Period(s)/Specified Interest Payment Dates:	[•]
	(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(vii)	Business Centre(s):	[•]
	(viii)	Minimum Rate of Interest:	[•] per cent. per annum
	(ix)	Maximum Rate of Interest:	[•] per cent. per annum
	(x)	Day Count Fraction:	[•]
21.	Dual Currency Interest Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
	(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent):	[•]

(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[•]

Provisions Relating to Redemption

22.	Issuer Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[•]
(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[•] per Calculation Amount/*specify other*/See Appendix]
(iii)	If redeemable in part:	
–	Minimum Redemption Amount:	[•]
–	Maximum Redemption Amount:	[•]
(iv)	Notice period (if other than as set out in the Conditions):	[•] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or the Trustee*)
23.	Investor Put:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[•]
(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[•] per Calculation Amount/*specify other*/See Appendix]

	(iii) Notice period (if other than as set out in the Conditions):	[•] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or the Trustee*)
24.	Change of Control Put:	[Applicable (at 101 per cent. of the nominal amount)/Not Applicable]
25.	Final Redemption Amount:	[[•] per Calculation Amount/*specify other*/See Appendix]
26.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[[•] per Calculation Amount/*specify other*/See Appendix]

General Provisions Applicable to the Notes

27.	Form of Notes:	[**Bearer Note**s: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice[12]] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [**Registered Notes**: Global Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Certificate]

[12] If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof", the Temporary Global Note shall not be exchangeable on [•] days' notice.

28.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] (*Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs [18 (vi)] and [20(vii)] relate*)
29.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
30.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. N.B.: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
31.	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	[Not Applicable/*give details*]
	(ii) Instalment Date(s):	[Not Applicable/*give details*]
32.	Other terms or special conditions:	[Not Applicable/*give details*]

Distribution

33.	(i) If syndicated, names and addresses of Managers and commitments:	[Not Applicable/*give names and addresses and commitments*]
	(ii) Date of Subscription Agreement:	[Not Applicable/*insert date*]
	(iii) Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
34.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name and address*]
35.	Total commission and concession:	[•] per cent. of the Aggregate Nominal Amount
36.	U.S. Selling Restrictions:	[Reg. S Category 1/Category 2; TEFRA D/TEFRA C/TEFRA not applicable[13]]
37.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable[14]]
38.	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable[15]]
39.	Additional selling restrictions:	[Not Applicable/*give details*]

13 "TEFRA not applicable" is only available for Bearer Notes with a term of 365 days or less (taking into account any unilateral extensions and rollovers) or Registered Notes.

14 If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.

15 If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.

40.	Private Bank Rebate:	[Not Applicable/*give details*] (*For any issuance where paragraph 21 of the Hong Kong SFC Code of Conduct is applicable, also refer to paragraph 47(i) below*)

Operational Information

41.	Any clearing system(s) other than Euroclear or Clearstream and the relevant identification number(s):	[CMU/Not Applicable/*give name(s) and number(s)*]
42.	Delivery:	Delivery [against/free of] payment
43.	Additional Paying Agent(s) (if any):	[•]
	ISIN:	[•]
	Common Code:	[•]
	(*insert here any other relevant codes such as a CMU instrument number*)	
44.	Registrar:	[China CITIC Bank International Limited/*specify alternative Registrar (if applicable)*][16]
45.	Rating[s]:	The Notes to be issued have [not] been rated: [S&P: [•]]; [Moody's: [•]]; [Fitch: [•]]; [[Other: [•]]
46.	Legal Entity Identifier of the Issuer:	254900UVKL8TG019VC95

[16] In respect of Registered Notes denominated in Hong Kong dollars which do not constitute "loan capital" (as defined in the Stamp Duty Ordinance (Cap. 177) of Hong Kong), an alternative Registrar shall be appointed for the relevant Series to maintain the Register outside of Hong Kong.

47. Hong Kong SFC Code of Conduct:[17]

(i) Rebates:	[A rebate of [•] bps is being offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the capital market intermediaries otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
(ii) Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	[*include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide*]/[Not Applicable]
(iii) Marketing and Investor Targeting Strategy:	[*if different from the programme offering circular*]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISATION

In connection with this issue, [*insert name of Stabilisation Manager*] (the "**Stabilisation Manager**") [provided that [•] shall not be appointed or acting as the Stabilisation Manager] (or any person acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there can be no assurance that the Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required for the issue of Notes described herein pursuant to the Programme.]

[17] If paragraph 21 of the SFC Code applies to a drawdown pursuant to the Programme, the parties should consider preparing and circulating the Preliminary Pricing Supplement to investors prior to pricing or including the same in a BBG announcement to investors.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: ______________________________
Duly authorised

Signed on behalf of the Guarantor:

By: ______________________________
Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following, other than the words in italics, is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of the terms and conditions together with the relevant provisions of the relevant Pricing Supplement or (ii) the terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in the terms and conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the terms and conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

References to "hereon" are to the relevant Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The Notes are issued by CALC Bonds Limited (the "**Issuer**") under the medium term note programme (the "**Programme**") pursuant to the Trust Deed (as defined below). The due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed is guaranteed by China Aircraft Leasing Group Holdings Limited (the "**Guarantor**") as specified hereon.

The Notes are constituted by a trust deed dated 6 February 2024 (as may be further supplemented, amended and/or restated as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") between the Issuer, the Guarantor and China CITIC Bank International Limited as trustee (the "**Trustee**", which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) for the Noteholders (as defined below). These terms and conditions (these "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An agency agreement dated 6 February 2024 (as may be further supplemented, amended and/or restated as at the Issue Date, the "**Agency Agreement**") has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, China CITIC Bank International Limited as initial issuing and paying agent, transfer agent, calculation agent, registrar and, for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU**"), CMU lodging and paying agent, and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**" (such Issuing and Paying Agent, CMU Lodging and Paying Agent, Paying Agents, Registrar, Transfer Agents and Calculation Agent(s) being together referred to as the "**Agents**"). For the purposes of these Conditions, all references to the Issuing and Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Copies of the Trust Deed and the Agency Agreement are available for inspection by the Noteholders at all reasonable times during 9:00 a.m. (Hong Kong time) to 3:00 p.m. (Hong Kong time) from Monday to Friday (other than public holidays) upon prior written request and proof of holding and identity satisfactory to the Trustee at the principal office for the time being of the Trustee (presently at 80/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified office for the time being of the Issuing and Paying Agent.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments (the "**Receiptholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, (a) all the provisions of the Trust Deed and (b) those provisions applicable to them of the Agency Agreement. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects, and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series with such Tranche of Notes and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates (as defined below) and/or issue prices.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered, as the case may be, and "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered, as the case may be, and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes:** Subject to this Condition 2(b) and Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and any other evidence as the Registrar or the relevant Transfer Agent may require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed (i) by the Issuer, with the prior written approval of the Registrar and the Trustee or (ii) by the Registrar, with the prior written approval of the Trustee. A copy of the current Regulations will be made available by the Registrar to any Noteholder upon prior written request and proof of holding and identity satisfactory to the Registrar.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of the Issuer's or the Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(b) or Condition 2(c) shall be available for delivery within five business days of receipt of a duly completed form of transfer or the Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar, as the case may be, to whom delivery or surrender of such form of transfer, the Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, the Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate (free of charge to the holder and at the Issuer's expense) to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar, as the case may be, the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar, as the case may be.

(e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon (i) payment by the relevant Noteholders of any tax or other governmental charges that may be levied or imposed in relation to them (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Registrar or the relevant Agent being satisfied that the Regulations have been complied with.

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) after the exercise of the put option in Condition 6(e) or Condition 6(f), (iii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6(c) or Condition 6(d) or (iv) during the period of seven days ending on (and including) any Record Date (as defined below).

3 Guarantee and Status

(a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. Its obligations in that respect (the "**Guarantee**") are contained in the Trust Deed.

(b) **Status of Notes and Guarantee:** The Notes and the Receipts and the Coupons relating to them constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and the obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a), at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively.

4 Negative Pledge and Other Covenants

(a) ***Negative Pledge:***

So long as any Note or Coupon remains outstanding, neither the Issuer nor the Guarantor will, and the Guarantor will ensure that none of the Principal Subsidiaries will, create or permit to subsist, any Security Interest (save for any Permitted Security Interest) upon any of its present or future undertakings, assets or revenues (including uncalled capital) to secure the repayment of, or any guarantee or indemnity in respect of, any Public External Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons (i) the same security as is created or subsisting to secure any such Public External Indebtedness, guarantee or indemnity or (ii) such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) ***Issuer's Activities:***

The Issuer undertakes that it will not, and the Guarantor shall procure that the Issuer will not, so long as any Note or Coupon remains outstanding, carry on any business activity whatsoever other than in connection with the Programme and the issue of the Notes and the Coupons and any other activities in connection therewith or incidental thereto (such activities shall, for the avoidance of doubt, include (i) the establishment and maintenance of the Programme, (ii) the offering, sale or issuance of the Notes, the Coupons and other securities under the Programme and (iii) the on-lending of the proceeds of the issue of the Notes, the Coupons and/or other securities issued under the Programme to the Guarantor or any other Subsidiaries of the Guarantor).

(c) ***Information Rights:***

Under the Trust Deed, so long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Guarantor is obliged to furnish the Trustee with a Compliance Certificate (on which the Trustee may rely as to such compliance) (i) within 14 days after the Guarantor Audited Financial Reports or the Guarantor Unaudited Financial Report, as the case may be, are made publicly available or (ii) within 14 days of any written request by the Trustee.

(d) ***Definitions:***

In these Conditions:

"**Compliance Certificate**" means a certificate of the Guarantor signed by any authorised signatory of the Guarantor confirming that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Guarantor, as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(i) no Event of Default (as defined in Condition 10) or Potential Event of Default (as defined below) has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event has occurred, giving details of it;

(ii) each of the Issuer and the Guarantor has complied with all its obligations under the Trust Deed, the Agency Agreement, the Notes and the Coupons or, if non-compliance has occurred, giving details of it; and

(iii) no Change of Control (as defined in Condition 6(f)) has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event has occurred, giving details of it;

"**Group**" means the Guarantor and its consolidated Subsidiaries taken as a whole;

"**Guarantor Audited Financial Reports**" means annual audited financial statements (on a consolidated basis) of the Guarantor, including a consolidated balance sheet, a consolidated statement of income, a consolidated statement of comprehensive income, a consolidated statement of changes in equity and a consolidated statement of cash flows, together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Guarantor Unaudited Financial Reports**" means semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited financial statements (on a consolidated basis) of the Guarantor, including a consolidated balance sheet, a consolidated statement of income, a consolidated statement of comprehensive income, a consolidated statement of changes in equity and a consolidated statement of cash flows, together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them, as prepared on a basis consistent with the Guarantor Audited Financial Reports;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**National Export Credit Agency Guaranteed Capital Markets Instrument**" means any Public External Indebtedness issued by an entity (not being the Issuer, the Guarantor or a Principal Subsidiary) that is guaranteed by any National Export Credit Agency;

"**National Export Credit Agency**" means any of the Export-Import Bank of the United States or the Export Credits Guarantee Department of the U.K. or the Export Credit Guarantee Scheme of Germany or COFACE of France or any other agency of the government of any country that provides guarantees to support the financing of aircraft (or parts thereof) exported from that country;

"**Net Assets**" means total assets less total liabilities;

"**outstanding**" has the meaning ascribed to it in the Trust Deed;

"**Permitted Security Interest**" means:

(i) any Security Interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof or any substitute security created on such property or asset in connection with the refinancing of the indebtedness secured by the relevant property or asset (provided that the principal amount secured by any such security may not be increased without the approval by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders);

(ii) any lien arising by operation of law;

(iii) any Security Interest on any property or asset securing any Public External Indebtedness if (A) by the terms of such indebtedness it is expressly provided that recourse by the holders of such indebtedness is limited to the properties or assets of the issuer or, as the case may be, borrower of such Public External Indebtedness and the revenues to be generated by the operation of, or loss of or damage to, such properties or assets, for repayment of the moneys advanced and payment of interest thereon and (B) such financing is not guaranteed by the Issuer, the Guarantor or any Principal Subsidiary; and

(iv) any Security Interest on any property or asset of the Issuer, the Guarantor or any Principal Subsidiary which is created pursuant to any securitisation (including, for the avoidance of doubt, securitisation in the form of rental realisation), repackaging or like arrangement in accordance with normal market practice;

"**Potential Event of Default**" means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfillment of any other requirement provided for in Condition 10 become an Event of Default;

"**PRC**" means the People's Republic of China (for the purposes hereof not including Hong Kong or Macau Special Administrative Region of the PRC or Taiwan);

"**Principal Subsidiary**" means any Subsidiary of the Guarantor whose Net Assets, as shown by the consolidated accounts of such Subsidiary, based upon which the latest Guarantor Audited Financial Reports have been prepared, are at least 10.0 per cent. of the Net Assets of the Group as shown by such Guarantor Audited Financial Reports, provided that if any such Subsidiary (the "**Transferor**") shall at any time transfer the whole or a substantial part of its business, undertaking or assets to the Guarantor or another Subsidiary of the Guarantor (the "**Transferee**") then (i) if the whole of the business, undertaking and assets of the Transferor shall be so transferred, the Transferor shall thereupon cease to be a Principal Subsidiary and the Transferee (unless it is the Guarantor) shall thereupon become a Principal Subsidiary and (ii) if only a substantial part of the business, undertaking and assets of the Transferor shall be so transferred, the Transferor shall remain a Principal Subsidiary and the Transferee (unless it is the Guarantor) shall thereupon become a Principal Subsidiary.

Any Subsidiary which becomes a Principal Subsidiary by virtue of (i) above or which remains or becomes a Principal Subsidiary by virtue of (ii) above shall continue to be a Principal Subsidiary until the earlier of the date of issue of (A) the first Guarantor Audited Financial Reports prepared as at a date later than the date of the relevant transfer which show the Net Assets as shown by the consolidated accounts of such Subsidiary, based upon which such Guarantor Audited Financial Reports have been prepared, to be less than 10.0 per cent. of the Net Assets of the Group, as shown by such Guarantor Audited Financial Reports or (B) a report by the Group's auditors dated on or after the date of the relevant transfer which shows the Net Assets of such Subsidiary on a consolidated basis to be less than 10.0 per cent. of the Net Assets of the Group. A certificate (on which the Trustee may rely conclusively without liability to any Noteholder, Receiptholder, Couponholder or any other person) by the Guarantor that a Subsidiary is or is not a Principal Subsidiary shall, in the absence of manifest error, be conclusive;

"**Public External Indebtedness**" means any indebtedness represented by bonds, notes, debentures, debenture stock, loan stock, certificates or other similar instruments which (i) has an original maturity in excess of one year and (ii) is, or is capable of being, quoted, listed or traded on any stock exchange or over-the-counter or other similar securities market outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements), provided that any amounts owed in relation to a National Export Credit Agency Guaranteed Capital Markets Instrument will not constitute Public External Indebtedness notwithstanding that such amounts are guaranteed directly or indirectly by the Issuer, the Guarantor or any Principal Subsidiary;

"**Security Interest**" means any mortgage, charge, lien, pledge, encumbrance or other security interest of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, charge, lien, pledge, security interest, easement or encumbrance of any kind); and

a "**Subsidiary**" of any person means (i) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or (ii) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

5 Interest and Other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) **Interest Payment Dates:** Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, "**Interest Payment Date**" shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) **Business Day Convention:** If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day (as defined below), then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) **Rate of Interest for Floating Rate Notes:** The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and/or any other term as specified in the relevant Pricing Supplement have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes where the Reference Rate is an inter-bank offered rate

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either, in the case of EURIBOR or HIBOR, 11.00 a.m. (Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or, in the case of CNH HIBOR, 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time), as the case may be, on the Interest Determination Date (as defined below) in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than EURIBOR or HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) If sub-paragraph (y) above applies and the Calculation Agent has received offered quotations from fewer than two Reference Banks, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this sub-paragraph (z), the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as a risk-free alternative reference rate

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined where the Reference Rate is a risk-free alternative reference rate (such as the Secured Overnight Financing Rate or SOFR), the Rate of Interest for each Interest Accrual Period (including the method or basis of calculating or determining the Rate of Interest) will be as further specified in the relevant Pricing Supplement.

(iv) **Rate of Interest for Index Linked Interest Notes:** The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note.

As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum Rate of Interest/Minimum Rate of Interest, Maximum Instalment Amount/Minimum Instalment Amount and Maximum Redemption Amount/Minimum Redemption Amount and Rounding:**

(i) If any Margin is specified hereon (either (A) generally or (B) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (B), calculated in accordance with Condition 5(b) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 5(g)(ii).

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Maximum Instalment Amount or Minimum Instalment Amount or Maximum Redemption Amount or Minimum Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (B) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction (as defined below) for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(i) but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.

(j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may, but shall not be obliged to, do so (or may, but shall not be obliged to, appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee or such agent appointed by it shall apply the foregoing provisions of this Condition 5(j), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) **Benchmark Discontinuation:**

(i) **Independent Adviser:** If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) as specified in the relevant Pricing Supplement remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (if any, in accordance with Condition 5(k)(ii)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(k)(iv)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(k) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 5(k).

If (A) the Issuer is unable to appoint an Independent Adviser; or (B) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(k)(i) prior to the date which is 5 business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(k)(i).

(ii) **Successor Rate or Alternative Rate:** If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(k)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(k)).

(iii) **Adjustment Spread:** The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate, as the case may be. If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or the Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iv) **Benchmark Amendments:** If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(k) and the Independent Adviser determines (A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(k)(v), without any requirement for the consent or approval of the Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 5(k)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 5(k)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) **Notices, etc.:** Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(k) will be notified at least 5 business days prior to the relevant Interest Determination Date by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 16, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer:

(A) confirming (I) that a Benchmark Event has occurred, (II) the Successor Rate or, as the case may be, the Alternative Rate, (III) the applicable Adjustment Spread and (IV) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(k); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as satisfactory and sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

(vi) **Survival of Original Reference Rate:** Without prejudice to the obligations of the Issuer under Condition 5(k)(i), Condition 5(k)(ii), Condition 5(k)(iii) and Condition 5(k)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii) will continue to apply unless and until a Benchmark Event has occurred.

For the purposes of this Condition 5(k):

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate, as the case may be, and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) (if no such recommendation has been made, or in the case of an Alternative Rate) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate, as the case may be, in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) (if the Independent Adviser determines that no such spread, formula or methodology is customarily applied) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate, as the case may be;

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(k)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes;

"**Benchmark Amendments**" has the meaning given to it in Condition 5(k)(iv);

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist;

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate);

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued;

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally or in respect of the Notes;

(v) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

(vi) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (A) in the case of sub--paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (B) in the case of sub-paragraph (iv) above, on the date of the prohibition of use of the Original Reference Rate and (C) in the case of sub-paragraph (v) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and notified to the Trustee, the Calculation Agent and the Paying Agents as soon as reasonably practicable. For the avoidance of doubt, neither the Trustee, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination;

"**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Calculation Agent;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(k)(i);

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(l) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than euro or Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Notes denominated in euro, any day on which T2 is open for the settlement of payments in euro (a "**TARGET Business Day**"); and/or

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Notes denominated in a currency and/or one or more Business Centres are specified hereon, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{([360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1))}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{([360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1))}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{([360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1))}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date (as defined below) in any year to but excluding the next Determination Date;

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi (other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR) or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is not Sterling, euro, Hong Kong dollars or Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR;

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon;

"**ISDA Definitions**" means the 2021 ISDA Interest Rate Derivatives Definitions (as amended, supplemented or updated from time to time and including each Matrix (a successor matrix thereto) referred to therein) or any successor definitional booklet for interest rate derivatives published from time to time by the International Swaps and Derivatives Association, Inc. or any successor thereto, unless otherwise specified hereon;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Note and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Renminbi in the Hong Kong inter-bank market, in each case selected by the Calculation Agent and notified in writing to the Trustee or as specified hereon;

"**Reference Rate**" means the rate specified as such hereon;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon or any successor or replacement thereto;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"**T2**" means the real time gross settlement system operated by the Eurosystem or any successor system.

(m) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or financial institution engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, or purchased and cancelled as provided in this Condition 6(a)(i), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its outstanding nominal amount) or, in the case of a Note falling within Condition 6(a)(i), its final Instalment Amount.

(b) **Early Redemption:**

(i) **Zero Coupon Notes:**

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b)(i), except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph (C) shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) **Other Notes:** The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i)), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable), and in writing to the Trustee and the Paying Agents, at their Early Redemption Amount (as described in Condition 6(b)) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee was called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes or the Guarantee, as the case may be, then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(c), the Issuer or the Guarantor, as the case may be, shall deliver to the Trustee (A) a certificate signed by any director of the Issuer or the Guarantor, as the case may be, stating that the obligation referred to in (i) above of this Condition 6(c) cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it and (B) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer or the Guarantor, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled (but shall not be obliged) to accept and rely conclusively upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(c), in which event the same shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders. All Notes in respect of which any notice of redemption is given under this Condition 6(c) shall be redeemed on the date and in such manner as specified in such notice in accordance with this Condition 6(c).

(d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b))), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as determined by the Issuer and notified in writing to the Trustee, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon, together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Redemption for Change of Control:** At any time following the occurrence of a Change of Control, the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that holder's Notes on the Change of Control Put Settlement Date at a redemption price equal to 101 per cent. of their nominal amount, together with accrued interest up to but excluding such Change of Control Put Settlement Date. In order to exercise such right, the holder of the relevant Note must deposit at the specified office of the Issuing and Paying Agent or any other Paying Agent such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) (in the case of Bearer Notes) with any Paying Agent or (in the case of Registered Notes) the Certificates evidencing such Note(s) to be redeemed with the Registrar or any Transfer Agent, in each case at its specified office together with a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent, Transfer Agent or the Registrar (as applicable) (a "**Change of Control Put Exercise Notice**"), by not later than 30 days following a Change of Control, or, if later, and provided that the Issuer shall have given notice of a Change of Control to Noteholders in accordance with Condition 16 within 14 days of such Change of Control, 30 days following the date upon which such notice is given to Noteholders.

The "**Change of Control Put Settlement Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above in this Condition 6(f).

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Settlement Date.

The Issuer shall give notice to Noteholders in accordance with Condition 16 and to the Trustee and the Issuing and Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 6(f).

None of the Trustee or any of the Agents shall be required to take any steps to ascertain whether a Change of Control has occurred and shall not be responsible for or liable to the Noteholders, the Receiptholders, the Couponholders, the Issuer or the Guarantor for any loss arising from any failure to do so.

In this Condition 6(f):

"**Affiliate**" means, with respect to any person, any other person (i) directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with, such person or (ii) who is a spouse or child of any person described in (i) above; or (iii) any trust established for the benefit of any person described in (i) and (ii) above;

a "**Change of Control**" occurs when:

(i) China Everbright Limited and any of its Affiliates collectively cease to be the single largest shareholder of the Guarantor; or

(ii) the Guarantor ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer;

"**Control**" means (where applicable): (i) the ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of a person or (ii) the right to appoint and/or remove all or the majority of the members of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, and the terms "**Controlling**" and "**Controlled**" have meanings correlative to the foregoing; and

a "**person**" means any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state, agency of a state (in each case whether or not being a separate legal entity).

(g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6(g) and the provisions specified hereon.

(h) **Purchases:** The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Noteholders or for the purposes of Condition 10, Condition 11(a) or Condition 12 or when the Trustee is determining prejudice or material prejudice to Noteholders.

(i) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries may, at the Issuer's or the Guarantor's discretion, be held, resold or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so redeemed by the Issuer or surrendered for cancellation shall be cancelled and may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

(j) **Calculations:** Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption under this Condition 6, whether from the Issuer, the Guarantor or any Noteholder, or have any duty to verify the accuracy, validity and/or genuineness of any documents in relation thereto or in connection therewith, and none of them shall be liable to the Noteholders, the Issuer, the Guarantor or any other person for not doing so.

7 Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Notes denominated in Renminbi, by transfer from the relevant Paying Agent's office outside the United States to a Renminbi account maintained by or on behalf of the Noteholder with a Bank in Hong Kong.

In this Condition 7(a) and Condition 7(c), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to T2.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(b) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(c) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(c) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(c)(ii).

(ii) Interest (which for the purpose of this Condition 7(c) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi or otherwise specified, on the fifth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

(A) in the case of Notes denominated in a currency other than Renminbi, in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(B) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(c), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(d) **Payments subject to Fiscal Laws:** All payments will be subject in all cases to (i) any applicable fiscal or other laws, regulations and directives applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto but no commission or expenses shall be charged to the Noteholders, the Receiptholders or the Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder, Receiptholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee (where required in accordance with the Agency Agreement) to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where these Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(b).

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are generally open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 Taxation

All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee, as the case may be, shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC at a rate up to and including the aggregate rate applicable on the date on which agreement is reached to issue the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will increase the amounts paid by it to the extent required, so that the net amount received by the Noteholders, the Receiptholders and/or the Couponholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or the Guarantor, as the case may be, is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate or (ii) by the British Virgin Islands, the Cayman Islands or Hong Kong, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Noteholders, the Receiptholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Note, Receipt or Coupon or under the Guarantee, as the case may be:

(a) to, or to a third party on behalf of, a Noteholder, Receiptholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC other than the mere holding of the Note, Receipt or Coupon; or

(b) presented (or in respect of which the Certificate evidencing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the Noteholder, Receiptholder or Couponholder would have been entitled to such Additional Tax Amounts on presenting it for payment on the 30th day.

References in these Conditions to principal, premium and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No Additional Tax Amounts shall be paid to a holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income declarable under the laws of the British Virgin Islands, the Cayman Islands, Hong Kong or the PRC, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Tax Amounts had that beneficiary, settlor, member or beneficial owner been the holder thereof.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate evidencing such Note), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

If the Issuer and/or the Guarantor become subject at any time to any taxing jurisdiction other than the British Virgin Islands, the Cayman Islands, Hong Kong and the PRC, references in these Conditions to the British Virgin Islands, the Cayman Islands, Hong Kong and/or the PRC shall be construed as references to the British Virgin Islands, the Cayman Islands, Hong Kong, the PRC and/or such other jurisdiction, as the case may be.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Guarantor or the Noteholders or any other person to pay such tax, duty, charges, withholding or other payment.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in aggregate nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (subject in each case to the Trustee first having been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor declaring that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with any accrued and unpaid interest:

(a) **Non-Payment:** there is a failure to pay the principal of or any premium (if any) or interest on any of the Notes when due and such failure continues for a period of seven days; or

(b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Notes or the Trust Deed (where applicable), which default is incapable of remedy or, if such default is capable of remedy, such default is not remedied within 45 days after notice of such default shall have been given to the Issuer or the Guarantor, as the case may be, by the Trustee; or

(c) **Cross-Acceleration:** (i) any other present or future indebtedness of the Issuer, the Guarantor or any of the Principal Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described) or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period or (iii) the Issuer, the Guarantor or any of the Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$50,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 10(c) operates); or

(d) **Unsatisfied Judgment:** one or more judgment(s) or order(s) for the payment of any amount exceeding U.S.$50,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 10(d) operates) is rendered against the Issuer, the Guarantor or any of the Principal Subsidiaries, such judgment continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment and no further appeal or judicial review from such judgment is permissible under applicable law; or

(e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 45 days; or

(f) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries over the whole or a substantial part of the assets of the Issuer, the Guarantor or the Principal Subsidiaries, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 30 days; or

(g) **Insolvency:** the Issuer, the Guarantor or any of the Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a substantial part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a substantial part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or commences a voluntary case or proceeding under any applicable bankruptcy law, consents to the entry of judgment, decree or order for relief against it in an involuntary case or proceeding under any applicable bankruptcy law, consents to the appointment of a receiver of it or for a substantial part of its property and assets, consents to or acquiesces in the institution of a bankruptcy or an insolvency proceeding against it, or takes any corporate action to authorise or effect any of the foregoing, or a moratorium is agreed or declared in respect of or affecting all or a substantial part of the debts of the Issuer, the Guarantor or any of the Principal Subsidiaries, except, in the case of a bankruptcy or an insolvency case or proceeding only, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor, as the case may be, or another Subsidiary of the Guarantor or (B) any other person on an arms' length basis, where the proceeds resulting from such transfer are transferred to or otherwise vested in the Issuer or the Guarantor, as the case may be, or another Subsidiary of the Guarantor; or

(h) **Winding-up:** an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution of the Issuer, the Guarantor or any of the Principal Subsidiaries, or the Issuer, the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or a substantial part of its business or operations, except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger, consolidation or disposal (A) on terms approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (B) in the case of a Principal Subsidiary, (x) whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor, as the case may be, or another Subsidiary of the Guarantor or (y) any disposal or sale of a Principal Subsidiary to any other person on arms' length terms for market consideration, where the proceeds resulting from such disposal or sale are transferred to or otherwise vested in the Issuer or the Guarantor, as the case may be, or another Subsidiary of the Guarantor; or (ii) a members' voluntary solvent winding-up of any Principal Subsidiary; or

(i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Trust Deed; (ii) to ensure that those obligations referred to in (i) are legally binding and enforceable and (iii) to make the Notes, the Coupons and the Trust Deed admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done; or

(j) **Illegality:** it is or will become unlawful for any of the Issuer and the Guarantor to perform or comply with any one or more of their respective obligations under any of the Notes, the Coupons, the Trust Deed and/or the Agency Agreement; or

(k) **Unenforceability of Guarantee:** the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force or effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor; or

(l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Condition 10(a) to Condition 10(k) (both inclusive).

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested to do so in writing by Noteholders holding not less than 10 per cent. in aggregate nominal amount of the Notes for the time being outstanding (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses). The quorum for any meeting convened to consider an Extraordinary Resolution (as defined in the Trust Deed) will be two or more persons holding or representing more than 50 per cent. in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution (as defined in the Trust Deed) or (viii) to modify or cancel the Guarantee (subject to Condition 11(b)), in which case the necessary quorum will be two or more persons holding or representing not less than 66 2/3 per cent. or at any adjourned meeting not less than 33 1/3 per cent. in aggregate nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution (as defined in the Trust Deed) duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Receiptholders and Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate nominal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution (as defined in the Trust Deed) passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification of Agreements and Deeds:** The Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer or the Guarantor to the Noteholders as soon as practicable.

(c) **Substitution:** The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, the Receiptholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary as defined in the Trust Deed of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to interests of, or be responsible for the consequences of such exercise for individual Noteholder, Receiptholder or Couponholder, and the Trustee shall not be entitled to require on behalf of any Noteholder, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholder, Receiptholder or Couponholder.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may (but shall not be obliged to), at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution (as defined in the Trust Deed) or so requested in writing by Noteholders holding at least 25 per cent. in aggregate nominal amount of the Notes then outstanding and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder and/or Couponholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

The Trustee may refrain from taking any steps or actions or instituting any proceedings in any jurisdiction if the taking of such steps or actions or the institution of such proceedings in that jurisdiction would, based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking any such steps or actions or instituting any such proceedings if it would otherwise render it liable to any person in that jurisdiction or if, based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor, any subsidiary of the Issuer and/or the Guarantor and/or any entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for or liable for the performance (financial or otherwise) by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder, Receiptholder, Couponholder or any other person for any action taken by the Trustee or such Agent in accordance with any instruction, direction, request or resolution of the Noteholders. The Trustee shall be entitled to rely conclusively on any instruction, direction, request or resolution of Noteholders given by holders of the requisite nominal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed or these Conditions to exercise any discretion or power, take or refrain from taking any action, make any decision or give any direction or certification, the Trustee is entitled, prior to its exercising any such discretion or power, taking or refrain from taking any such action, making any such decision or certification, or giving any such direction or clarification of any direction, to seek directions from the Noteholders by way of an Extraordinary Resolution (as defined in the Trust Deed), and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Noteholders, the Receiptholders, the Couponholders, or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction as a result of seeking such direction from the Noteholders or in the event that no direction is given to the Trustee by the Noteholders. The Trustee shall not be under any obligation to monitor or supervise compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions or to monitor or take any step to ascertain whether an Event of Default or a Potential Event of Default or a Change of Control has occurred, and it shall not be responsible or liable to the Issuer, the Guarantor, the Noteholders, the Receiptholders, the Couponholders or any other person for not doing so.

The Trustee may rely without liability to the Noteholders, the Receiptholders, the Couponholders or any other person on any report, confirmation, certificate, information or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, information, advice or opinion and, in such event, such report, confirmation, certificate, information, advice or opinion shall be binding on the Issuer, the Guarantor and the Noteholders, the Receiptholders and the Couponholders.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer or the relevant Agent may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes.

16 Notices

Notices to the holders of Registered Notes shall be in English and mailed to them at their respective addresses in the Register and deemed to have been given on the fourth business day (being a day other than a Saturday, a Sunday or a public holiday) after the date of mailing and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the Issuer's expense in a manner that complies with the rules and regulations of that stock exchange. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Asia and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the Issuer's expense in a manner that complies with the rules and regulations of that stock exchange. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

So long as any Global Note or the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

So long as any Global Note or the Global Certificate is held on behalf of the operator of the CMU, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to the accountholder shown in a CMU Issue Position Report issued by the operator of the CMU on the business day preceding the date of dispatch of such notice as holding interests in the Global Note or Global Certificate.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons, the Agency Agreement and the Guarantee, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, Receipts, Coupons or Talons, the Guarantee, the Agency Agreement and the Trust Deed. Accordingly, any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons, the Guarantee, the Agency Agreement or the Trust Deed ("**Proceedings**") shall be brought in the courts of Hong Kong. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Agent for Service of Process:** The Issuer has irrevocably appointed the Guarantor (whose principal place of business in Hong Kong is currently at 32nd Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) to receive service of process in any Proceedings in Hong Kong, and the Guarantor has accepted such appointment. Such service shall be deemed completed on delivery to such agent (whether or not it is forwarded to and received by the Issuer). If for any reason such agent ceases to be able to act as such or no longer has an address in Hong Kong, each of the Issuer and the Guarantor irrevocably agrees to forthwith appoint a substitute process agent in Hong Kong to accept service of process on behalf of the Issuer and the Guarantor and deliver to the Trustee a copy of the agent's acceptance of that appointment within 30 days of such cessation. Nothing shall affect the right to serve process in any manner permitted by law.

(d) **Waiver of Immunity:** Each of the Issuer and the Guarantor has, pursuant to the Trust Deed, waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Terms used in this section that are not otherwise defined shall have the meanings given to them in "Terms of Conditions of the Notes".

INITIAL ISSUE OF NOTES

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or a sub-custodian for the Hong Kong Monetary Authority as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depositary or with a sub-custodian for the Hong Kong Monetary Authority as operator of the CMU or registration of Registered Notes in the name of (i) any nominee for the Common Depositary or for Euroclear or Clearstream or (ii) the Hong Kong Monetary Authority and delivery of the relevant Global Certificate to the Common Depositary or the sub-custodian for the Hong Kong Monetary Authority as operator of the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Save as provided in the following paragraphs each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled (or in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

EXCHANGE

Temporary Global Notes

Each Temporary Global Note may be exchanged (free of charge to the holder) on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a Permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in of the records of the CMU) have so certified.

The holder of a Temporary Global Note will not be entitled to receive any payment in respect of the Notes represented by the Temporary Global Note that falls due on or after the Exchange Date unless, upon due certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. The payments in respect of a Note issued under TEFRA D may not be collected without certification as to non-U.S. beneficial ownership.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, (free of charge to the holder) on or after its Exchange Date in whole but not, except as provided in the paragraph titled "*Partial Exchange of Permanent Global Notes*" below, in part for Definitive Notes if the Permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfer of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) of the Terms and Conditions of the Notes may only be made in part if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In the event that a Global Certificate is exchanged for a definitive certificate, such definitive certificate shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the Specified Denomination will not receive a definitive certificate in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Terms and Conditions of the Notes (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after an Exchange Date, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent).

In exchange for any Global Note, or part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of the Global Note submitted for exchange. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, Bearer Notes in definitive form having, where appropriate, Coupons, Receipt(s) and/or a Talon attached on issue and, unless the context requires otherwise, means a Certificate (other than a Global Certificate) and includes any replacement Note or Certificate issued pursuant to the Terms and Conditions of the Notes. Definitive Notes will be security printed in accordance with applicable legal and stock exchange requirements substantially in the forms set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means, in relation to a Temporary Global Note, the first day following the expiry of 40 days after the Issue Date and, in relation to a Permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) is located and in the city in which the relevant clearing system is located.

Amendment to Terms and Conditions of the Notes

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due on or after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused.

Payments on any Temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to a Global Note held through the CMU) will be made against presentation and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note at the specified office of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

Condition 7(f) of the Terms and Conditions of the Notes will apply to the Definitive Notes only. For the purposes of any payments made in respect of a Global Note, the relevant place of presentation (if applicable) shall be disregarded in the definition of "**business day**" set out in Condition 7(h) of the Terms and Conditions of the Notes.

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the "**record date**"), where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payment of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and, save in the case of final payment, no presentation of the relevant Global Note or Global Certificate shall be required for such purpose.

So long as the Notes are represented by the Global Note or the Global Certificate and the Global Note or Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions of the Notes, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Note or Global Certificate.

Prescription

Claims against the Issuer in respect of principal and interest of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 of the Terms and Conditions of the Notes).

Meetings

The holder of a Temporary Global Note or a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Temporary Global Note, Permanent Global Note or Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholders holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Temporary Global Note, a Permanent Global Note or a Global Certificate that is required by the Terms and Conditions of the Notes to be cancelled (other than upon its redemption) shall be effected by reduction in the nominal amount of the relevant Temporary Global Note or Permanent Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) for endorsement in the relevant schedule to such Temporary Global Note or Permanent Global Note or, in the case of a Global Certificate, by reduction in the aggregate nominal amount of the Certificates in the Register, whereupon the nominal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a Permanent Global Note or by a Global Certificate may only be purchased by the Issuer, the Guarantor or any of their respective Subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of any Notes of the Issuer provided for in the Terms and Conditions of the Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Terms and Conditions of the Notes, except that the notice shall not be required to contain the serial numbers of the Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Terms and Conditions of the Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Terms and Conditions of the Notes substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised and the option may be exercised in respect of the whole or any part of the Permanent Global Note, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent), or to a Paying Agent acting on behalf of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent), for notation. Any option of the Noteholders provided for in the Terms and Conditions of the Notes while such Notes are represented by a Global Certificate may be exercised in respect of all or some of the Notes represented by the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interest if such accountholders were the holders of the Notes represented by such Global Note or the relevant Global Certificate, as the case may be.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be validly given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Terms and Conditions of the Notes or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes of that Series may be validly given by delivery of the relevant notice to CMU in substitution for publication as required by the Terms and Conditions of the Notes or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the date on which such notice is delivered to the CMU.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

TAXATION

The following summary of certain Hong Kong, PRC, US, British Virgin Islands and Cayman Islands tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In addition, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 of Hong Kong (the "**Amendment Ordinance**") came into effect on 1 January 2023. Under the Amendment Ordinance, certain foreign-sourced interest on the Notes accrued to an MNE entity (as defined in the Amendment Ordinance) carrying on a trade, profession or business in Hong Kong is regarded as arising in or derived from Hong Kong and subject to Hong Kong profits tax when it is received in Hong Kong. The Amendment Ordinance also provides for relief against double taxation in respect of certain foreign-sourced income and transitional matters.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3% of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

With effect from 17 November 2023, if stamp duty applies to the transfer of Registered Notes required to be registered in Hong Kong and which are not otherwise exempt it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

PRC

The following summary describes certain PRC tax consequences of ownership and disposition of the Notes by beneficial owners who, or which, are not residents of China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this "*Taxation – PRC*" section. In considering whether to invest in the Notes, investors should consult their own tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law (the "**EIT Law**") and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau Special Administrative Region and Taiwan) but whose "de facto management body" are within the territory of PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay PRC enterprise income tax at the rate of 25% in respect of their taxable income. Although the rules are not entirely clear, dividends from a PRC tax resident enterprise should be excluded from the taxable income of a recipient that is also a PRC tax resident enterprise. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of PRC, the Issuer may be treated as a PRC tax resident enterprise for the purpose of the EIT Law, and the Issuer may be subject to PRC enterprise income tax at the rate of 25% on its taxable income. At the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law.

However, the Issuer may be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no connection to its establishment inside the PRC must pay enterprise income tax on income sourced within the PRC, and such income tax must be withheld at source by the PRC payer. Accordingly, if the Issuer is treated as a PRC tax resident enterprise by the PRC tax authorities, the Issuer may be required to withhold income tax from the payments of interest in respect of the Notes to any non-PRC Noteholder, and gain from the disposition of the Notes may be subject to PRC tax, if the income or gain is treated as PRC-source. The tax rate is generally 10% for non-resident enterprise Noteholders and 20% in the case of non-resident individuals, subject to the provisions of an applicable tax treaty. The Issuer has agreed to pay additional amounts to Noteholders, subject to certain exceptions, so that they would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

In addition, if the Guarantor is regarded as a PRC tax resident enterprise and if the Issuer is not able to make payments under the Notes and the Guarantor fulfils the payment obligations under the Guarantee, the Guarantor must withhold PRC income tax on payments with respect to the interest accrued on the Notes to non-resident enterprise holders generally at the rate of 10% (and possibly at a rate of 20% in the case of payments to non-resident individual holders), subject to the provisions of any applicable tax treaty.

FATCA WITHHOLDING

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

BRITISH VIRGIN ISLANDS

The following is a discussion on certain British Virgin Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under British Virgin Islands law.

Under existing British Virgin Islands laws:

(i) The Issuer and all payments of interest and principal on the Notes and other amounts made by the Issuer to persons who are not persons resident in the British Virgin Islands and any capital gains realised with respect to the disposal of the Notes by persons who are not persons resident in the British Virgin Islands are exempt from all provisions of the Income Tax Act in the British Virgin Islands.

(ii) No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any debt obligation or other securities of the Issuer.

(iii) All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer and its subsidiaries do not hold an interest in real estate in the British Virgin Islands.

(iv) There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to payments the Issuer or its shareholders may make under the transaction documents relating to the Notes.

CAYMAN ISLANDS

Under the laws of the Cayman Islands, payments of interest, principal or premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest, principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the issue of the Notes. The holder of any Notes (or a legal personal representative of such holder) whose Notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Notes. Certificates evidencing registered Notes, to which title is not transferable by delivery, will not attract Cayman Islands stamp duty. However, an instrument transferring title to a registered Note, if brought to or executed in the Cayman Islands, would be subject to nominal Cayman Islands stamp duty. Stamp duty will be payable on any documents executed by the Guarantor if any such documents are executed in or brought into the Cayman Islands or produced before the Cayman Islands Courts.

The Guarantor has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (2011 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (2011 Revision), the Governor in Cabinet undertakes with the Guarantor:

- That no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Guarantor or its operations; and

- In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of the Guarantor; or (ii) by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

- These concessions shall be for a period of 20 years from 8 January 2013.

The Cayman Islands does not have any income tax treaty arrangement with any country, however the Cayman Islands has entered into tax information exchange agreements with a number of countries.

This section is a general introduction into the PRC legal system and the principal PRC laws and regulations which are relevant to our business and operations. As this is not a detailed analysis, it may not be that comprehensive. Persons considering the purchase of the Notes should consult their own legal advisors.

The PRC Legal System

The PRC legal system is made up of the PRC Constitution national laws, regulations, directives and local laws, laws of Special Administrative Regions, laws resulting from international treaties entered into by the PRC government and judicial interpretations. In general, PRC court judgments do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "**NPC**") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing state agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council of the PRC (中華人民共和國國務院) (the "**State Council**") is the highest organ of the state administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in an effective judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures. A party which deems that an effective judgement is erroneous may also apply for retrial.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and amended on 28 October 2007, 31 August 2012, 27 June 2017 and 1 January 2024, respectively, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant domicile. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's domicile, the place of execution or implementation of the contract or the place of the object of the contract. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years after the enforcement period stipulated in the judgement by the court. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by any party to the action, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognised and enforced by a PRC court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination in accordance with the principle of reciprocity, unless (1) the court finds that the foreign court has no jurisdiction over the case; (2) the respondent has not been legitimately summoned or the respondent has been legitimately summoned but has not been given a reasonable opportunity to make a representation and debate, or the litigant without litigation capacity has not been assigned appropriate agent; (3) the judgment or ruling is obtained by fraud; (4) the people's court has made a judgment or ruling on the same dispute, or has recognised the judgment or ruling made by a court of a third country for the same dispute; or (5) the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

Foreign Exchange Controls

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The PRC State Administrative of Foreign Exchange ("**SAFE**"), under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local the SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centres. The exchange rates used by swap centres were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre had to obtain the prior approval of the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System, effective from 1 January 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres. On 26 March 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (the "**Provisional Regulations**"), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organisations and social organisations in the PRC.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply of Renminbi. Pursuant to such system, the PBOC set and published the daily Renminbi-U.S. dollar exchange rate. Such exchange rate was determined with reference to the transaction price for Renminbi-U.S. dollar in the inter-bank foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On 29 January 1996, the State Council promulgated the Regulations of the People's Republic of China on the Administration of Foreign Exchange ("**Control of Foreign Exchange Regulations**") which became effective from 1 April 1996. The Control of Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most current account items are subject to the approval by relevant banks that are duly authorised by the SAFE to do so, while capital account items are still subject to the SAFE approval directly. The Control of Foreign Exchange Regulations was subsequently amended on 14 January 1997. Such amendment affirms that the State shall not restrict international current account payments and transfers. On 1 August 2008, the Control of Foreign Exchange Regulations was further amended pursuant to a resolution of the State

Council of China and came into effect on 5 August 2008 (the "**New Forex Regulation**"). Under the New Forex Regulation, foreign currency received under current account by onshore entities will not be asked to be settled into Renminbi automatically, while foreign currency under capital account may also be maintained upon approval. The Renminbi will be convertible for current account items (including the distribution of dividends, interest and royalties payments, and trade and service-related foreign exchange transactions) upon presentation of valid receipts and proof certifying the purposes of the conversion of Renminbi into foreign currency to the designated foreign exchange banks. Conversion of Renminbi into foreign exchange and remittance of foreign exchange funds outside of PRC for capital account items, like direct investment, loan, loan guarantee, securities investment, capital contribution and repatriation of investment, is still subject to restriction, and prior approval from the SAFE or its competent branch.

On 20 June 1996, the PBOC promulgated the Provisions on the Settlement and Sale of and Payment in Foreign Exchange (the "**Settlement Regulations**") which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. Domestic entities seeking to enter into foreign exchange transactions are required to open up foreign exchange accounts for current account or capital account transactions, as the case may be, at banks involved in foreign exchange business. Interest payments for foreign debt may be made from a foreign exchange account of a domestic entity or using foreign exchange purchased at designated foreign exchange banks after the verification of the bona fide nature of the transaction by the SAFE. Domestic entities may apply to the SAFE for approval to purchase foreign exchange by presenting valid documents required by the Settlement Regulations for repayment of foreign debt principal and such payment can be made upon the approval of the SAFE.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swap Business pursuant to which and with effect from 1 December 1998, all foreign exchange swap business in the PRC for foreign-invested enterprises was discontinued, while the trading of foreign exchange by foreign-invested enterprises was to be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On 21 July 2005, the PBOC announced that, beginning from 21 July 2005, the PRC will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar only. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of Renminbi on the following business day.

On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate for the last trading date. It is possible that the PRC government could adopt a more flexible currency policy in the future, which could result in further and more significant revaluations of Renminbi against the U.S. dollar or any other foreign currency. Any future exchange rate volatility relating to Renminbi or any significant revaluation of Renminbi may materially and adversely affect our cash flows, revenue, earnings and financial position, as well as the value of any distributions payable to the Guarantor by its PRC subsidiaries.

EIT LAW

Prior to 1 January 2008, under the then applicable PRC law and regulations, entities established in the PRC were generally subject to a 33% EIT. However, entities that satisfied certain conditions enjoyed preferential tax treatment. In accordance with the tax laws and regulations effective until 31 December 2007, foreign invested manufacturing enterprises scheduled to operate for a period not less than ten years were exempted from paying state income tax for two years starting from its first profit making year and were allowed a 50% reduction in its tax rate in the third, fourth and fifth years ("**two-year exemption and three-year reduction by half**").

On 16 March 2007, the NPC enacted the EIT law, which, together with its related implementation rules issued by the State Council on 6 December 2007 and amended on 23 April 2019, became effective on 1 January 2008 and amended on 29 December 2018. The new EIT law imposes a single uniform income tax rate of 25% on all Chinese enterprises, including foreign invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatments available under the previous tax laws and regulations. On 26 December 2007, the State Council issued a Notice on the Implementation of the Transitional Preferential Tax Policies, or Circular 39. Further, as at 1 January 2008, the enterprises that previously enjoyed "two-year exemption and three-year reduction by half" of EIT and other preferential treatments in the form of tax deductions and exemptions within specified periods may, after the implementation of the new EIT law, continue to enjoy the relevant preferential treatments until the expiration of the time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008.

After the implementation of the new EIT law, the preferential tax treatment for encouraged enterprises located in western China and certain industry-oriented tax incentives are still available. Pursuant to the Announcement on Continuation of CIT Policies for Large-scale Development in the Western Region, effective from 1 January 2021, the enterprises within the state-encouraged industry located in western China are taxed at a preferential income tax rate of 15% for years from 1 January 2021 to 31 December 2030.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated dealer agreement (as may be further amended, supplemented or restated from time to time, the "**Dealer Agreement**") dated 6 February 2024, agreed with the Issuer and the Guarantor a basis on which they or any of them may from time to time agree to subscribe Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*". Under the terms of the Dealer Agreement, the Issuer (falling whom the Guarantor) will pay each relevant Dealer a commission (if any) agreed between the Issuer, the Guarantor and the relevant Dealer in respect of Notes subscribed by it. The Issuer (failing whom the Guarantor) has agreed to reimburse the Arrangers for certain of their expenses properly incurred in connection with the update of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer and the Guarantor have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer and/or the Guarantor and/or their respective subsidiaries and affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or the Guarantor and/or their respective subsidiaries and affiliates in the ordinary course of their business.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or the Guarantor or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Furthermore, in connection with each Tranche of Notes issued under the Programme, it is possible that a significant proportion of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the Notes may be constrained. The Issuer, the Guarantor and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Dealers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Notes and could adversely affect the trading price and liquidity of the Notes. The Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer or the Guarantor.

Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMIs (including private banks): This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Guarantor, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the Guarantor, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer, the Guarantor or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are *bona fide*, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer and the Guarantor. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those relevant Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Dealer(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information, in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the relevant Dealers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that each of them and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Guarantor, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealers with such evidence within the timeline requested.

SELLING RESTRICTIONS

United States of America

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold or, in the case of Bearer Notes, delivered within the United States except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented that it has not offered or sold or, in the case of Bearer Notes, delivered, and has agreed that it will not offer or sell or, in the case of Bearer Notes, deliver, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, the Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented that it has not offered or sold or, in the case of Bearer Notes, delivered, and has agreed that it will not offer or sell or, in the case of Bearer Notes, deliver, the Notes of any identifiable tranche (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S. Each Dealer who has subscribed for Notes of a Tranche (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant lead manager) shall determine and certify to the Issuing and Paying Agent the completion of the distribution of the Notes of such Tranche. Each Dealer and its affiliates has also agreed that, at or prior to confirmation of sale of Notes and the Guarantee, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes and the Guarantee from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act."

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, each Dealer represents and agrees that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and, in respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of exempt notes which are also Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

This Offering Circular has been prepared by the Issuer and the Guarantor for use in connection with the offer and sale of the Notes outside the United States. The Issuer, the Guarantor and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

EEA

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA.

For the purposes of this provision:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(c) not a qualified investor as defined in the Prospectus Regulation; and

(ii) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restrictions under the Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(i) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(iii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129, as amended.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the UK. For the purposes of this provision:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

  (a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

  (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

  (c) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA; and

(ii) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restriction under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the UK except that it may make an offer of such Notes to the public in the UK:

(i) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the Financial Conduct Authority provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(iii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the UK, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Section 86 of the FSMA,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**UK Prospectus Regulation**" means the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA.

Other Regulatory Restrictions in the United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer represents, warrants and agrees, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Taiwan

Unless the Notes have been registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan, the Notes may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Dealer has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including Hong Kong, the Macau Special Administrative Region of the People's Republic of China or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular, any Pricing Supplement or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

British Virgin Islands

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that none of this Offering Circular or the Notes shall be distributed to, or received by, any person in the British Virgin Islands if the distribution of any of this Offering Circular or the Notes to, or receipt of any of this Offering Circular or the Notes by, that person shall constitute a public offer within the meaning of the Securities and Investment Business Act, 2010 (as amended) ("**SIBA**"), notwithstanding that Part II of the SIBA is not in force as at the date of this Offering Circular.

Cayman Islands

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that no offer or invitation, whether directly or indirectly, will be or has been made to the public in the Cayman Islands to subscribe for the Notes and no such invitation is made hereby. Each Dealer has represented, warranted and undertaken that the public in the Cayman Islands will not be invited to subscribe for the Notes.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply in all material respect with all applicable securities laws, regulations and directives in force in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Offering Circular, any other offering or publicity material or any Pricing Supplement, in all cases at its own expense.

None of the Issuer, the Guarantor, the Trustee or any of the Dealers represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. With regard to each Tranche, the relevant Dealer(s) will be required to comply with any additional restrictions agreed among the Issuer, the Guarantor and the relevant Dealer(s) and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme and the issue of the Notes thereunder and the giving of the Guarantee. The establishment of the Programme and the issue of the Notes thereunder was authorised by the resolutions of the sole director of the Issuer dated 24 November 2017. The Guarantee was authorised by the resolutions of the board of directors of the Guarantor dated 24 November 2017 and 21 March 2019. The update of the Programme was authorised by the resolutions of the sole director of the Issuer dated 5 February 2024 and the board of directors of the Guarantor on 5 February 2024.

LITIGATION

None of the Issuer, the Guarantor or any member of the Group is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened. The Issuer or the Guarantor may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business.

NO MATERIAL ADVERSE CHANGE

There has been no material adverse change in the financial or trading position, prospects or results of operations of the Issuer, the Guarantor and the Group since 30 June 2023.

DOCUMENTS AVAILABLE

For so long as Notes may be issued pursuant to this Offering Circular, copies of the following documents (in the case of the documents specified in paragraphs (iii) to (vii) below, subject to receipt by the Trustee from the Issuer of the same) will be available (upon written request and satisfactory proof of holding and identity), during usual business hours (being between 9:00 a.m. and 3:00 p.m., Hong Kong time) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the specified office of the Trustee, being at the date of this Offering Circular, at 80/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong:

(i) the Trust Deed (which includes the form of the Global Notes, the Global Certificates, the Notes in definitive form, the Coupons, the Receipts and the Talons);

(ii) the Agency Agreement;

(iii) the Audited Consolidated Financial Statements;

(iv) the Reviewed Consolidated Interim Financial Statements;

(v) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer or the Trustee as to its holding of Notes and identity); and

(vi) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced.

CLEARING OF THE NOTES

The Notes may be accepted for clearance through Euroclear, Clearstream and the CMU. The appropriate ISIN and common code or CMU Instrument Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. If the Notes are to be cleared through any additional or alternative Clearing System, the appropriate information will be specified in the applicable Pricing Supplement.

FINANCIAL STATEMENTS

The Audited Consolidated Financial Statements, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The Reviewed Consolidated Interim Financial Statements, which are included elsewhere in this Offering Circular, have been reviewed by PricewaterhouseCoopers in accordance with HKSRE 2410.

LISTING OF NOTES

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. Separate application may be made for the listing of the Notes on the Hong Kong Stock Exchange.

The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant Specified Currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies). Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer, the Guarantor or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

INDEX TO FINANCIAL STATEMENTS

Note:

The Audited Consolidated Financial Statements set out herein are reproduced from the Guarantor's annual reports for the years ended 31 December 2021 and 2022. The Reviewed Consolidated Interim Financial Statements set out herein are reproduced from the Guarantor's interim report for the six months ended 30 June 2023. These reports were not specifically prepared for the purpose of reproduction in this Offering Circular. Pages references included in the Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements set out herein refer to pages set out in the relevant annual or interim report.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the Shareholders of China Aircraft Leasing Group Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 76 to 171, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Assessment on working capital sufficiency	
Refer to Note 2.1(a) to the consolidated financial statements. As at 31 December 2021, the Group's current liabilities exceeded its current assets by HK$9,228.2 million (Note 3.1.3). The Group had capital commitments amounting to HK$93,930.6 million (Note 35) mainly relating to aircraft purchase, of which HK$13,777.0 million was payable within one year. The coronavirus epidemic ("the COVID-19") and responsive government actions have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally in the short term, all of which might have a contrary effect on the business operation and financial condition of the Group. The directors focus on the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The Group has prepared detailed cash flow forecasts. The Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 31 December 2021 and therefore continue as a going concern. The directors' forecasts are based on a number of assumptions including the aircraft delivery and leasing schedules, available financing resources that have been granted or will be granted and the amount of capital commitments. We focused on this matter because the preparation of cash flow forecasts requires the directors to make significant judgement on the assessment of the assumptions.	We obtained the Group's cash flow forecasts, which covered a period of not less than twelve months from 31 December 2021. We evaluated the key assumptions made in those cash flow forecasts, in particular the forecast aircraft delivery schedules, available financing resources and capital commitments. To test the aircraft delivery and leasing schedules, we examined aircraft purchase agreements entered into by the Group and aircraft manufacturers; and lease agreements or letters of intent entered into by the Group and airline companies. To test available financing resources, we obtained independent confirmations from relevant financial institutions, examined loan agreements or letters of intent issued by financial institutions during the year. We confirmed the Group's year end cash and cash equivalents, and borrowing balances by obtaining independent confirmations from the financial institutions. To test the amount of capital commitments, we examined aircraft purchase agreements entered into by the Group and aircraft manufacturers. We compared the actual outcome with the forecast for the year 2021 to evaluate management assessment made in prior year. We performed sensitivity analysis over key assumptions to ascertain the extent of adverse changes that would make the Group incapable of meeting its ongoing obligations as they fall due. We assessed the adequacy of the disclosures relating to the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. Based on the work performed, the directors' assumptions of the cash flow forecasts were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for tax positions	
Refer to Note 4.1(a) and Note 16 to the consolidated financial statements. As at 31 December 2021, current income tax liabilities were HK$40.3 million and deferred income tax liabilities were HK$898.2 million. We focused on this area because the Group is subject to taxation in multiple jurisdictions and, in many cases, the ultimate tax treatment cannot be determined until being concluded with the relevant tax authority. In addition, the directors are required to exercise significant judgement in determining the appropriate amount of deferred tax based on the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of the lease terms.	We assessed the inherent risk of material misstatement on provision for tax positions by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We examined the correspondences between the Group and the relevant tax authorities and between the Group and its external advisers. We made reference to the taxation laws of the relevant tax jurisdictions to evaluate the available evidence for assessing the provision made by the directors. We evaluated the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of the lease terms by checking the lease agreements and testing the calculation of depreciation and estimated realisable values. We tested mathematical accuracy of the directors' calculations of current and deferred tax provisions and evaluated whether the calculations were in line with the Group's tax policies and the tax rules and regulations in the respective jurisdictions, and had been applied consistently. Based on the work performed, the provision for tax positions were supported by available evidence.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Assessment of investment in CAG Group	
Refer to Note 4.2(c) to the consolidated financial statements. In June 2018, the Group and some mezzanine financiers jointly established CAG Group with a shareholding ratio of 20% and 80% respectively. CAG Group is principally engaged in lease-attached aircraft portfolio investment. The Group provides aircraft and lease management service to CAG Group. The management has assessed its investment in CAG Group on the basis of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from CAG Group. The Group has concluded that it does not control CAG Group. We focused on this matter because the assessment as to whether the Group has control of CAG Group requires the directors to make significant judgement.	We discussed with management and examined all the relevant documents entered into by the Group relating to the investment in CAG Group to update our understanding of the contractual rights and obligations of the transactions. We assessed the extent of the Group's power over CAG Group based on the consideration and assessment of the relevant factors including CAG Group's purpose and design, CAG Group's relevant activities, the decision-making authority about the relevant activities and whether the rights of the Group give it ability to direct the relevant activities based on the documents available and our understanding and knowledge of the industry. We evaluated the key assumptions used in the calculation of the variable returns from CAG Group, including the distribution and the interest from CAG Group pursuant to the shareholders' agreement and shareholder loan agreement and servicer fees income earned. We tested the mathematical accuracy of the model used in calculating the variable returns from CAG Group. In light of the above, we evaluated the ability of the Group to use its power over CAG Group to affect the amount of the Group's returns. Based on the work performed, we found the directors' assessments were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision of lease receivables	
Refer to Note 4.1(d), Note 7 and Note 9 to the consolidated financial statements. Due to the COVID-19 pandemic, many of the airline customers have curtailed their commercial operations, which could result in lease defaults. As at 31 December 2021, the finance lease receivables and operating lease receivables are HK$7,724.5 million and HK$553.8 million respectively. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management made impairment provisions of finance lease receivables of HK$10.1 million (Note 7) and impairment provisions of operating lease receivables of HK$174.3 million (Note 9). The Group applied the simplified approach on measuring expected credit losses ("ECL") prescribed by HKFRS 9. The management categorised the lease receivables portfolio based on the lease classification and shared credit risk characteristics of airlines, and recognised provision for ECL based on assumptions about risk of default and loss given default, which include consideration of historical credit loss experience, current status and forward-looking information. We focused on this matter because the provision for ECL involves significant accounting estimations and judgements.	We assessed the inherent risk of material misstatement on provision for lease receivables by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We understood, evaluated and validated key controls over the internal credit rating assessment. We reviewed the modelling methodology for measurement of ECL, and assessed the reasonableness of the key parameters, judgements and assumptions in relation to the models. We assessed the forward-looking information management used to determine ECL, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios. We examined the calculation of ECL model, on a sample basis, to validate whether the ECL calculation reflected the modelling methodology documented by management. We assessed the adequacy of the disclosures relating to provision for lease receivables in the context of the HKFRS disclosure requirements. Based on the procedures performed, we considered that the risk assessment of provision for lease receivables remained appropriate and model, significant assumptions and data used by the directors in the assessment of provision for lease receivables were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chow Sai Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2022

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2021 HK$'000	2020 HK$'000
ASSETS			
Property, plant and equipment and right-of-use assets	5	**23,243,760**	18,450,641
Investments in and loans to associates and joint ventures	6	**1,273,350**	1,134,904
Finance lease receivables – net	7	**7,714,408**	7,263,697
Financial asset at fair value through profit or loss	8	**750,841**	797,888
Derivative financial assets	20	**114,937**	17,720
Prepayments and other assets	9	**11,232,542**	13,418,840
Assets classified as held for sale	10	**675,569**	–
Aircraft components trading assets		**10,136**	19,486
Restricted cash	11	**237,187**	411,786
Cash and cash equivalents	12	**4,776,389**	4,877,557
Total assets		**50,029,119**	46,392,519
EQUITY			
Share capital	13	**74,762**	72,000
Reserves	14	**1,987,850**	1,585,478
Retained earnings		**2,507,621**	2,235,560
Equity attributable to shareholders of the Company		**4,570,233**	3,893,038
Perpetual capital securities and other non-controlling interests	15	**1,447,022**	1,522,731
Total equity		**6,017,255**	5,415,769
LIABILITIES			
Deferred income tax liabilities	16	**898,240**	788,716
Borrowings	17	**32,477,860**	26,763,014
Medium-term notes	18	**979,816**	1,338,308
Bonds and debentures	19	**7,022,708**	9,054,779
Derivative financial liabilities	20	**143,226**	355,566
Income tax payables		**40,274**	24,897
Interest payables		**210,268**	276,113
Other liabilities and accruals	21	**2,239,472**	2,375,357
Total liabilities		**44,011,864**	40,976,750
Total equity and liabilities		**50,029,119**	46,392,519

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

The financial statements on pages 76 to 171 were approved by the Board of Directors on 16 March 2022 and were signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Total revenue			
Lease income			
Finance lease income	22	**540,634**	541,243
Operating lease income	22	**1,959,809**	1,945,545
		2,500,443	2,486,788
Other operating income			
Net income from aircraft transactions and aircraft components trading	23	**301,741**	514,275
Other income	24	**475,882**	484,719
		3,278,066	3,485,782
Expenses			
Interest expenses	25	**(1,211,254)**	(1,328,782)
Depreciation	5	**(820,663)**	(859,349)
Expected credit losses		**(144,213)**	(80,630)
Other operating expenses	26	**(282,018)**	(268,299)
		(2,458,148)	(2,537,060)
Operating profit		**819,918**	948,722
Other gains/(losses)	28	**13,578**	(306,750)
Share of losses and provisions on investment in associates and joint ventures	6	**(1,290)**	(208,971)
Profit before income tax		**832,206**	433,001
Income tax expenses	29	**(204,936)**	(165,058)
Profit for the year		**627,270**	267,943
Profit/(loss) attributable to			
Shareholders of the Company		**525,780**	334,143
Holders of perpetual capital securities and other non-controlling interests		**101,490**	(66,200)
		627,270	267,943
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	30(a)	**0.722**	0.482
– Diluted earnings per share	30(b)	**0.722**	0.482

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Profit for the year		**627,270**	267,943
Other comprehensive income/(loss) for the year:			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	20	**195,810**	(203,011)
Currency translation differences		**71,237**	(37,848)
		267,047	(240,859)
Items that will not be reclassified subsequently to profit or loss			
Currency translation differences attributed to the non-controlling interests		**(957)**	(689)
Total other comprehensive income/(loss) for the year, net of tax		**266,090**	(241,548)
Total comprehensive income for the year		**893,360**	26,395
Total comprehensive income/(loss) for the year attributable to			
Shareholders of the Company		**792,827**	93,284
Holders of perpetual capital securities and other non-controlling interests		**100,533**	(66,889)
		893,360	26,395

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Perpetual capital securities and other non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2021	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769
Comprehensive income						
Profit for the year	–	–	525,780	525,780	101,490	627,270
Other comprehensive income						
Cash flow hedges (Note 20)	–	195,810	–	195,810	–	195,810
Currency translation differences	–	71,237	–	71,237	(957)	70,280
Total comprehensive income	–	267,047	525,780	792,827	100,533	893,360
Transactions with shareholders and non-controlling interests						
Buy-back of shares (Note 13(a))	(251)	(38,220)	–	(38,471)	–	(38,471)
Dividends (Note 31)	3,013	173,545	(253,719)	(77,161)	–	(77,161)
Dividend distributed to perpetual capital securities (Note 15)	–	–	–	–	(176,242)	(176,242)
Total transactions with shareholders and non-controlling interests	2,762	135,325	(253,719)	(115,632)	(176,242)	(291,874)
Balance as at 31 December 2021	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Perpetual capital securities and other non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2020	67,727	1,559,472	2,342,515	3,969,714	–	3,969,714
Comprehensive income						
Profit/(losses) for the year	–	–	334,143	334,143	(66,200)	267,943
Other comprehensive loss						
Cash flow hedges (Note 20)	–	(203,011)	–	(203,011)	–	(203,011)
Currency translation differences	–	(37,848)	–	(37,848)	(689)	(38,537)
Total comprehensive (loss)/income	–	(240,859)	334,143	93,284	(66,889)	26,395
Transactions with shareholders and non-controlling interests						
Issuance of perpetual capital securities (Note 15)	–	–	–	–	1,545,501	1,545,501
Transactions with non-controlling interests	–	–	–	–	44,119	44,119
Buy-back of shares (Note 13(a))	(300)	(18,872)	–	(19,172)	–	(19,172)
Share option scheme:						
– Value of services (Note 14(a))	–	330	–	330	–	330
– Share options lapsed	–	(23,746)	23,746	–	–	–
Dividends (Note 31)	4,573	309,153	(464,844)	(151,118)	–	(151,118)
Total transactions with shareholders and non-controlling interests	4,273	266,865	(441,098)	(169,960)	1,589,620	1,419,660
Balance as at 31 December 2020	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Profit before income tax		832,206	433,001
Adjustments for:			
– Depreciation	5	820,663	859,349
– Net income from aircraft transactions	23	(297,128)	(514,275)
– Expected credit losses		144,213	80,630
– Interest expenses	25	1,211,254	1,328,782
– Share-based payments	14(a)	–	330
– Unrealised currency exchange losses		93,035	279,366
– Fair value (gains)/losses on interest rate, currency swaps and currency forwards	20	(109,509)	22,542
– Share of losses and provisions on investment in associates and joint ventures	6	1,290	208,971
– Gain on repurchase of bonds	19	(4,314)	(1,474)
– Interest income		(113,571)	(102,850)
– Fair value gains on financial asset at fair value through profit or loss		(39,041)	(38,960)
		2,539,098	2,555,412
Changes in working capital:			
– Finance lease receivables – net		(408,238)	(433,449)
– Prepayments and other assets		33,547	(686,340)
– Aircraft components trading assets		9,350	(19,486)
– Other liabilities and accruals		79,149	(338,678)
Cash generated from operations		2,252,906	1,077,459
Income taxes paid		(78,087)	(92,104)
Net cash flows generated from operating activities		2,174,819	985,355
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,819,940)	(2,900,017)
Proceeds from disposal of aircraft		2,055,341	5,534,659
Pre-Delivery Payments ("PDP") paid for acquisition of aircraft		(172,028)	(4,422,512)
PDP refunded for acquisition of aircraft		561,451	378,213
Interest received		108,713	113,517
Payments relating to financial asset at fair value through profit or loss		(8,833)	(41,814)
Proceeds from distribution of financial asset at fair value through profit or loss		3,938	21,569
Proceeds from disposal of financial asset at fair value through profit or loss		95,685	–
Investment in associates and joint ventures		(1,290)	(3,447)
Payments relating to loans to associates and joint ventures		(295,484)	(275,559)
Repayments of the loans to associates and joint ventures		130,006	213,563
Net cash flows used in investing activities		(3,342,441)	(1,381,828)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021 HK$'000	2020 HK$'000
Cash flows from financing activities			
Proceeds from borrowings		**19,613,538**	9,771,604
Issue of bonds and debentures, net of transaction costs		**2,370,300**	1,696,189
Issue of perpetual capital securities, net of transaction costs		**–**	1,545,501
Repayments of borrowings		**(14,347,250)**	(9,689,697)
Repurchase and repayment of bonds and debentures, including transaction costs		**(4,513,480)**	(54,368)
Repayment of medium-term notes		**(397,650)**	(377,524)
Repayment of lease liabilities		**(15,714)**	(21,044)
Repayment of amount due to non-controlling interests		**(38,612)**	(38,950)
Interest paid in respect of derivative financial instruments		**(139,127)**	(74,896)
Interest paid in respect of borrowings, notes, bonds and debentures		**(1,483,767)**	(1,505,411)
Decrease in deposits pledged in respect of borrowings		**9,667**	4,910
Decrease/(Increase) in deposits pledged in respect of derivative financial instruments		**167,499**	(181,946)
Buy-back of shares, including transaction costs		**(38,471)**	(19,172)
Dividends paid to holder of perpetual capital securities	15	**(87,235)**	–
Dividends paid to shareholders		**(77,161)**	(151,118)
Net cash flows generated from financing activities		**1,022,537**	904,078
Net (decrease)/increase in cash and cash equivalents		**(145,085)**	507,605
Cash and cash equivalents at beginning of the year		**4,877,557**	4,352,327
Currency exchange difference on cash and cash equivalents		**43,917**	17,625
Cash and cash equivalents at end of the year		**4,776,389**	4,877,557

The notes on pages 83 to 171 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands. The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Company and its subsidiaries (together, the "Group") have operations mainly in Mainland China and other countries or regions globally.

The consolidated financial statements for the year ended 31 December 2021 are presented in Hong Kong dollar ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial asset at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Going concern

As at 31 December 2021, the Group's current liabilities exceeded its current assets by HK$9,228.2 million. The Group had total capital commitments of HK$93,930.6 million as at 31 December 2021, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years till the end of 2027. Out of the total capital commitments, HK$13,777.0 million is forecasted to be incurred and payable within one year based on the current delivery schedule and forecasted delivery schedule with the Original Equipment Manufacturers ("OEMs"). In addition, according to the relevant aircraft purchase agreements, Pre-Delivery Payments ("PDP") scheduled and forecasted to be paid in the next twelve months from 31 December 2021 amounted to HK$6,945.9 million. The Group will satisfy these capital commitments through the Group's internal resources, available banking facilities and may also require additional aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 31 December 2021, the Group has bank and cash balances of HK$5,013.6 million and undrawn borrowing facilities of HK$3,117.0 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Going concern *(continued)*

During the years 2020 and 2021, COVID-19 and responsive travel restrictions imposed by the governments have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, which have a negative effect on the business operation and financial condition of certain airline customers of the Group. The Group experienced delay in lease payments from a few airline customers during the year ended 31 December 2021. Moreover, the Group also adjusted the delivery schedules of new aircraft and agreed to defer lease payments due to the impact of COVID-19.

The Group will need to secure a substantial amount of funds in the foreseeable future to finance these financial obligations and capital expenditures under contractual and other arrangements. The directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than twelve months from 31 December 2021. The directors have taken into account the following plans and measures for the purposes of their assessment:

– The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful to adjust the delivery schedules in the past and during COVID-19 pandemic. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs often accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances after mutual discussion in good faith. Based on its experience, the Group is confident that it would be able to obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next twelve months from 31 December 2021 as and when needed.

– New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and the repayments of the PDP financing due upon delivery of aircraft. Such aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes finances the new aircraft with internal resources or short-term financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the year ended 31 December 2021, the Group has obtained 41 aircraft project loan facilities of US$1,153.4 million (approximately equivalent to HK$8,993.2 million) from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time and has concluded one aircraft project loan facility subsequent to 31 December 2021. Based on these aircraft project loan arrangements, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 31 December 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

– The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approvals from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience and industry knowledge. The directors are of the view that they are able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances. The Group had PDP financing facilities from certain banks to provide financing up to HK$3,689.2 million to the Group to satisfy part of the forecasted committed PDP payments of HK$6,945.9 million in the next twelve months from 31 December 2021. The Group has also initiated the process to obtain new PDP loan facilities with certain banks and has received commitment of new PDP loan facilities with facility amount of US$260.0 million (approximately equivalent to HK$2,027.2 million) subsequent to 31 December 2021. The remaining balances of PDP scheduled to be paid in the next twelve months from 31 December 2021 are expected to be funded by internal resources of the Group.

– As at 31 December 2021, the Group had working capital loan and revolving loan facilities of HK$7,758.1 million out of which HK$6,690.0 million has been utilised. The directors are confident that the Group can draw down the remaining unutilised loan facilities of HK$1,068.1 million as and when required and will be able to renew substantially all the existing revolving facilities. The Group has also initiated the process to obtain new working capital loan and revolving loan facilities with certain banks and has currently concluded two new working capital loan and revolving loan facilities with facility amount of US$75.0 million (approximately equivalent to HK$584.8 million) subsequent to 31 December 2021.

– The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes, as well as other debt and capital financing. In particular, the Group has obtained the official registration acceptance notification from the National Association of Financial Market Institutional Investors for issuance of super short-term debenture up to a principal amount of RMB3.0 billion in the PRC within two years from June 2021. In July and August 2021, the Group completed the issuance of RMB1.0 billion senior unsecured super short-term debentures and unsecured bond of RMB100 million in the PRC. The Group has obtained Ba1 corporate credit rating from Moody's and BB+ corporate credit rating from Fitch, and updated US$3.0 billion guaranteed Medium Term Note ("MTN") programme in Hong Kong in July 2021. In December 2021, the Group completed the issuance of three-year US$100 million MTN in Hong Kong. The Group will review the market conditions and consider to issue the super short-term debntures and US$ bond under the MTN programme if appropriate. In February 2022, the Group completed the issuance of three-year RMB1.2 billion private bonds in the PRC. Based on above updates and the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

– The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled certain aircraft to be disposed of in the next twelve months from 31 December 2021, of which the Group has signed letter of intent or sale and purchase agreements up to March 2022 for the disposals of six aircraft. During the year ended 31 December 2021, the Group completed nine aircraft disposals and received net proceeds from disposals after loan repayment of HK$735.1 million. Based on the Group's experience in aircraft portfolio trading in previous years, the directors are confident that the scheduled disposal of aircraft in the next twelve months from 31 December 2021 will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 31 December 2021.

– The Group is closely monitoring the impact of COVID-19 on its airline customers and communicated with those airline customers to work out mutually agreeable solution if required. The Group will closely monitor the collection and urge these airline customers to settle the deferral lease rent according to the schedule upon market recovery. The directors are of the view that although the negative impact of COVID-19 to the aviation industry will prevail for a while before the full recovery of international passengers' travel, given the operations of many of the Group's customers are in the PRC with normal domestic operations, the Group expects there will not be any material deterioration in the operating cashflow in the next twelve months from 31 December 2021.

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, continued availability of existing banking facilities for working capital and PDP payments, the cash flows generated from its business operations, the successful rescheduling of delivery schedules for new aircraft, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments and the successful disposal of aircraft as planned, the Group has sufficient working capital for its present requirements in the next twelve months from 31 December 2021. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and hence prepared the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) *New and amended standards adopted by the Group*

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2021:

- COVID-19-related Rent Concessions – Amendments to HKFRS 16
- Interest Rate Benchmark Reform – Phase 2

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

(c) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2022 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2021.

	Effective Date
Property, Plant and Equipment: Proceeds before intended use – Amendments to HKAS 16	1 January 2022
Reference to the Conceptual Framework – Amendments to HKFRS 3	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37	1 January 2022
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)	1 January 2022
Annual Improvements to HKFRS Standards 2018 – 2020	1 January 2022
Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates – Amendments to HKAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12	1 January 2023
HKFRS 17 Insurance Contracts	1 January 2023 (deferred from 1 January 2021)
Classification of Liabilities as Current or Non-current – Amendments to HKAS 1	1 January 2023 (deferred from 1 January 2022)
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	Applied when an entity applies "Classification of Liabilities as Current or Non-current – Amendments to HKAS 1"
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to HKFRS 10 and HKAS 28	N/A

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

A business is defined in HKFRS 3 as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income or generating other income from ordinary activities.

The three components of a business are: inputs; processes; and outputs. An input is an economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it, such as non-current assets, intellectual property, the ability to access necessary materials or rights, employees and so on. A process is a system, standard, protocol, convention or rule that, when it is applied to an input or inputs creates outputs, or has the ability to contribute to the creation of outputs. Outputs are the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income (such as interest or dividends) or generate other income from ordinary activities. A business consists of inputs and processes applied to the inputs that have the ability to contribute to the creation of outputs.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(a) ***Consolidation*** *(continued)*

(i) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss. Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

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

(iii) Disposal of subsidiaries

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

(b) Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(c) Structured entities

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

2.3 Associates and joint ventures

Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Investments in associates and joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The equity-accounted investment includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an equity-accounted investment, any difference between the cost of the equity-accounted investment and the share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill. If the ownership interest in an equity-accounted investment is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the equity-accounted investment, including any other unsecured long-term receivables that, in substance, form part of the investor's net investment in the associate or joint ventures, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investment.

The Group determines at each reporting date whether there is any objective evidence that the equity-accounted investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates and joint ventures *(continued)*

Joint arrangements *(continued)*

Profits and losses resulting from upstream and downstream transactions involving assets that do not constitute a business between the Group and its equity-accounted investments are recognised in the Group's financial statements only to the extent of unrelated investor's equity-accounted investments. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The profits or loss resulting from a downstream transaction involving assets that constitute a business, as defined in HKFRS 3, between the Group and its associate or joint venture is recognised in full in the consolidated financial statements. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. Gains or losses on dilution of equity-accounted investments are recognised in profit or loss.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);

(iii) all resulting foreign exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The estimated useful lives and estimated residual value rate are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft and engine	25 years from the date of manufacture	15%
Leasehold improvements	Shorter of lease term or 3 years	0%
Office equipment	2 to 5 years	5%
Office building	50 years	0%
Others	4 to 10 years	0%

The assets' residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Gains and losses on disposal of aircraft are recognised within net income from aircraft transactions and aircraft trading in the consolidated statement of income. Gains and losses on disposal of other property, plant and equipment are recognised within other operating income/expenses in the consolidated statement of income.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale.

2.9 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The debt instruments shall be classified as financial asset not at fair value through profit or loss ("FVPL") if the cash flow characteristics cannot pass the test on solely payments of principal and interest on the principal amount. Otherwise, the classification of debt instruments will depend on the business model provided the fair value option is not elected.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(b) Recognition and derecognition

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

(c) Measurement

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(c) Measurement *(continued)*

Equity instruments

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

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

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For operating lease receivables and finance lease receivables except for unguaranteed residual values for which impairment is subject to the requirements under HKAS 36, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the finance lease receivables.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The financial assets and financial liabilities of the Group that are subject to such enforceable master netting arrangements or similar agreements are not offset in accordance with HKFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of exposures to variability in cash flows (cash flow hedges) that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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

The fair values of derivative financial instruments designated in hedge relationships are disclosed in notes to the consolidated financial statements. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in other gains or losses in the consolidated statement of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the forecast transaction being hedged affects profit or loss (for example, when the interest payment that is hedged occurs). They are recorded in the expense lines in the consolidated statement of income in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any gain or loss on the hedging instrument that has been accumulated in equity from the period when the hedge was effective remains in equity. When the forecast transaction is ultimately recognised in profit or loss, the related accumulated hedge gain or loss in equity is reclassified to profit or loss. When a forecast transaction is no longer expected to occur, any accumulated hedge gain or loss in equity is immediately reclassified and included in other gains or losses in the consolidated statement of income.

Derivatives that do not qualify for hedge accounting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Aircraft components trading assets

Aircraft components trading assets consist primarily of airframe parts. Aircraft components trading assets are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing the aircraft components trading assets to their present location and condition.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in liabilities, if any.

2.14 Share capital and treasury share

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are recognised in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to shareholders of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to shareholders of the Company.

2.15 Equity instruments

Financial instruments issued by the Group are classified as equity instruments when both of the following conditions are satisfied:

(a) The financial instruments have no contractual obligation to pay in cash or other financial assets to other parties nor to exchange financial assets or liabilities under potential adverse condition with other parties;

(b) The financial instruments should and can be settled via equity instruments of the Group. For non-derivative instruments, the instruments have no contractual obligation to be settled by delivering fixed number of equity instruments of the Group. For derivative instruments, they can only be settled through the exchange of fixed number of the Group's equity instruments with fixed amount of cash or other financial assets.

Perpetual capital securities issued by the subsidiaries of the Company with no contractual obligation to repay the principal or to pay any distribution are classified as perpetual capital securities in equity of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value, and less any repaid principal is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and is included in the computation of the loan's effective interest rate. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Interests related to progress payments made in respect of aircraft in the process of construction on forward order are capitalised and such amounts are added to prepayments on aircraft. The amount of interest capitalised is the actual interest costs incurred on funding specific to the progress payments or the amount of interest costs which could have been avoided in the absence of such progress payments.

Other borrowing costs are expensed as incurred.

2.17 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted before the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax *(continued)*

(b) *Deferred income tax* *(continued)*

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities or trustees. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities or trustees and are separate from those of the Group.

(c) *Profit-sharing and bonus plan*

The Group recognises a liability and an expense for bonuses and profit sharing, based on formulae that take into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares over which the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

In addition, in some circumstances employees or consultants may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the financial statements of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.21 Leases

(a) *Where the Group is lessee*

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects such penalties upon the Group exercising a purchase option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(a) ***Where the Group is lessee*** *(continued)*

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of office premises are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(b) Where the Group is lessor

Finance lease

A finance lease is a lease that the Group as the lessor uses to transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. The Group recognises assets held under a finance lease as finance lease receivable at an amount equal to net investment in the lease, which is the gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the leases is the sum of the lease payments receivable and any unguaranteed residual value accruing to the lessor. At the commencement of the lease term, the lease payments included in the measurement of the net investment in the lease mainly comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date: (a) fixed payments less any lease incentives payable; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

A lessor shall account for a modification to a finance lease as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows: (a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall: (i) account for the lease modification as a new lease from the effective date of the modification; and (ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. (b) otherwise, the lessor shall apply the requirements of HKFRS 9.

See Note 2.9 for accounting policies for derecognition and impairment of finance lease receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(b) Where the Group is lessor *(continued)*

Operating lease
A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

See Note 2.9 for accounting policies for impairment of operating lease receivables.

2.22 Revenue and income recognition

(a) Finance lease income

The finance income under a finance lease is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Variable lease payments that do not depend on an index or a rate is recognised as income in the period in which the event or condition that triggers those payments occurs.

(b) Operating lease income

The lease payments under operating lease are recognised as income on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate is recognised as income in the period in which the event or condition that triggers those payments occurs.

(c) Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised within other income (Note 24).

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(d) Net income from aircraft components trading

Net income from aircraft components trading originates primarily from the sale of engine and airframe parts. The sale is recognised when the relevant asset is delivered and the control of the relevant asset has been transferred to the buyer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue and income recognition *(continued)*

(e) Service income

Service income is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the consolidated statement of income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of income on a straight-line basis over the expected lives of the related assets.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are mainly given by the Company to banks, financial institutions and other bodies to support subsidiaries in securing loans, overdrafts and other banking facilities.

Where a financial guarantee in relation to borrowings or other payables of subsidiaries is provided for no compensation, its fair value is accounted for as an equity contribution and recognised as part of the cost of the investment in subsidiaries in the financial statements of the Company.

2.25 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

2.26 Segment information

The Group is mainly engaged in the provision of aircraft leasing services to airline companies in China. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

3.1.1 Market risk

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

(a) *Currency exchange risk*

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other assets, financial liabilities including borrowings, medium-term notes, bonds and debentures, other liabilities and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and certain borrowings used to finance the leases are denominated in US$, while some borrowings are denominated in RMB. The management of the Group closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group uses the currency swaps and currency forwards to hedge its exposure to currency exchange risk. The foreign currency swaps and foreign currency forwards do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains or losses, please refer to Note 20 and Note 28.

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Cash and cash equivalents	**697,006**	595,809
Other financial assets	**269,513**	131,959
Total financial assets	**966,519**	727,768
Bank borrowings	**(95,794)**	(581,924)
Medium-term notes	**(979,816)**	(1,338,308)
Bonds and debentures	**(2,573,699)**	(2,728,930)
Other financial liabilities	**(378,201)**	(778,200)
Total financial liabilities	**(4,027,510)**	(5,427,362)
Notional amount of foreign currency forwards	**2,942,880**	475,040
Net exposure	**(118,111)**	(4,224,554)

As at 31 December 2021, the Group had one outstanding currency swap contract with notional principal of US$15,684,000 (equivalent to approximately HK$122,290,000) (2020: US$15,684,000(equivalent to approximately HK$121,593,000)). For details, please refer to Note 20.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk (continued)

(a) *Currency exchange risk (continued)*

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US$ as at 31 December 2021 and 2020.

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Profit before tax		
– 5% appreciation of RMB against US$	**(11,616)**	(216,681)
– 5% depreciation of RMB against US$	**11,616**	216,681

(b) *Cash flow and fair value interest rate risk*

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, long-term borrowings, bonds and debentures and medium-term notes at fixed rates expose the Group to fair value interest rate risk.

The Group's primary objective is to manage cash flow interest rate risk.

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank borrowings do not match. The following table indicates the amount of bank borrowings exposed to interest rate risk as at 31 December 2021 and 2020.

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Borrowings exposed to US$ London Interbank Offered Rate ("LIBOR")	**19,220,602**	19,053,634
Borrowings exposed to US$ Secured Overnight Financing Rate ("SOFR")	**222,982**	–
Borrowings exposed to RMB Loan Prime Rate	**922,499**	–
	20,366,083	19,053,634

Interest rate swaps are used to manage the variability in future interest cash flows of bank borrowings, arising due to changes in market interest rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for bank borrowings on the basis of their contractual terms and other relevant factors, including estimates of prepayments. The cash flows are used to determine the effectiveness and ineffectiveness.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk *(continued)*

(b) Cash flow and fair value interest rate risk (continued)

As at 31 December 2021, the Group had 31 outstanding floating-to-fixed interest rate swaps (2020: 26 swaps) to manage its unmatched interest rates exposure. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts.For the remaining unhedged exposure, the Group closely monitors the interest rate exposure and will consider hedging the exposure where necessary and appropriate.

	As at 31 December			
	2021		2020	
	Notional amount HK$'000	Carrying Value HK$'000	Notional amount HK$'000	Carrying Value HK$'000
Interest rate swaps				
Exposed to US$ LIBOR	6,639,160	(132,923)	6,726,294	(336,640)
Exposed to US$ SOFR	227,484	(1,769)	–	–
	6,866,644	(134,692)	6,726,294	(336,640)

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

	Year ended 31 December	
	2021	2020
Interest rate swaps		
Carrying amount, net (HK$'000)	(134,692)	(336,640)
Notional amount (HK$'000)	6,866,644	6,726,294
Maturity date	2022 – 2025	2021 – 2025
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January (HK$'000)	203,237	(214,948)
Change in value of hedged item used to determine hedge effectiveness (HK$'000)	(201,002)	210,914
Weighted average hedged rate for the year	1.9%	2.1%

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 31 December 2021 and 2020. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit before tax by approximately HK$2,663,000 (2020: decreased/increased the Group's profit before tax by approximately HK$6,215,000); and would also have increased/decreased the Group's reserves by approximately HK$39,317,000 (2020: HK$91,127,000), because of the impact of cash flow hedge interest derivatives.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk *(continued)*

(b) Cash flow and fair value interest rate risk (continued)

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

As at 31 December 2021, the bank borrowings and interest rate swaps relating to hedge accounting as below referenced to US$ LIBORs will be affected by the IBOR reforms.

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY LIBOR settings and the one-week and two-month US$ LIBOR settings had discontinued after 31 December 2021. The remaining US$ LIBOR settings will discontinue after 30 June 2023. The detailed transition plan of interest benchmark rate is still under negotiation. There is currently uncertainty around the timing and precise nature of these change. Please refer to Note 4.2(d) for the detailed information.

The Group has applied both the first set of amendments ("Phase 1") and the second set of amendments ("Phase 2") to HKFRS 9 and HKAS 39 applicable to hedge accounting, which has no material impact to the Group. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

Such reform has no impact on the Group's risk management strategy. The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to processes, risk management procedures and valuation models that may arise as a consequence of the reform.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheet date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service, loans to associates and joint ventures, and other financial assets.

Credit risk on aircraft lease service
The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as their shareholders' support. The Group also obtained deposits from the lessees (Note 21). All these strengthen the control and management of credit risk.

(a) Probability of default
Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate. In addition, the Group may request for a security deposit or security deposit letter of credit which it may apply towards the payment or discharge of any obligation owed by the lessee.

Late payment risk – in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which it may apply towards the payment or discharge of any obligation owed by the lessee.

(b) Risk limit control and mitigation policies
The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

(c) Impairment allowance policies
The Group applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for lease receivables. To measure the expected credit losses, the relevant receivables are grouped based on shared credit risk characteristics such as financial performance and stability, future growth, default history and other relevant factors.

The loss allowances of credit risk are estimated according to net exposure analysis and assumptions about risk of default and expected loss rates. The net exposure is determined based on the finance lease receivable or operating lease receivable balance, net of the unguaranteed residual value in the case of a finance lease, and other cash collaterals such as security deposits over the contractual term. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk (continued)

Credit risk on aircraft lease service (continued)

(c) Impairment allowance policies *(continued)*

The Group assesses the business performance and credit risks of the airline companies on a regular basis. Due to the COVID-19 pandemic, some of the airline customers have curtailed their commercial operations, which could result in lease defaults. The Group have agreed with some of the lessees to defer upcoming rent obligations. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management provided expected credit loss of HK$10,118,000 (2020: HK$7,069,000) for finance lease receivables (Note 7) and HK$174,313,000 (2020: HK$75,795,000) for operating lease receivables (Note 9) as at 31 December 2021.

Credit risk exposure on operating leases receivables:

	As at 31 December			
	2021		2020	
	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	362,027	173,964	249,550	43,402
Europe	22,259	333	51,214	10,751
Americas	169,484	16	75,913	21,642
	553,770	174,313	376,677	75,795

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

	As at 31 December			
	2021		2020	
	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	4,020,082	10,118	3,849,388	7,069

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

Credit risk on aircraft lease service (continued)

(d) Concentration of credit risk

During the year ended 31 December 2021, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 7, Note 9 and Note 22 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables and operating lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

Credit risk on loans to associates and joint ventures and other financial assets

The Group is also exposed to credit risk associated with loans and loan commitments, and financial guarantees to associates and joint ventures. Please refer to Note 4.1(e), Note 6, Note 34 and Note 35 for details.

In addition, the Group is exposed to credit risk associated with cash in bank and derivative financial assets. Management considers that these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or due to be settled within twelve months from the balance sheet date:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Current assets		
Loans to associates and joint ventures	**6,763**	6,311
Finance lease receivables – net	**143,753**	139,305
Financial asset at fair value through profit or loss	**114,827**	136,393
Derivative financial assets	**19,428**	–
Aircraft components trading assets	**10,136**	19,486
Prepayments and other assets	**1,742,647**	476,055
Assets classified as held for sale	**675,569**	–
Restricted cash	**127,918**	142,413
Cash and cash equivalents	**4,776,389**	4,877,557
	7,617,430	5,797,520
Current liabilities		
Deferred income tax liabilities	**173,938**	146,794
Borrowings	**9,499,333**	8,216,812
Medium-term notes	**979,816**	391,941
Bonds and debentures	**4,039,787**	3,807,197
Derivative financial liabilities	**94,688**	137,197
Income tax payables	**40,274**	24,897
Interest payables	**210,268**	276,113
Other liabilities and accruals	**1,807,538**	1,735,259
	16,845,642	14,736,210
Net current liabilities	**(9,228,212)**	(8,938,690)

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

As at 31 December 2021, borrowings of HK$9.5 billion under current liabilities mainly comprised of borrowings of HK$4.4 billion from aircraft acquisition financing ("aircraft loans"), HK$2.5 billion from PDP financing and HK$2.6 billion from other unsecured bank borrowings. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 10). The repayment of above aircraft loans will be partially funded by the collection of operating lease receivables of HK$2.8 billion (Note 35(e)) (which has not been included under current assets above) that is expected to be received from airlines in the next twelve months from 31 December 2021. Repayment of PDP loans and other financing is expected to be funded by existing loan facilities and/or new aircraft loans when aircraft is delivered based on industry practice and prior experience.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3Liquidity risk *(continued)*

Besides, the Group will consider to raise funds through working capital and PDP financing, aircraft loans, debt financing, and the asset-light strategy for disposal of aircraft. In light of the above and other relevant factors as stated in Note 2.1(a), the Group expects to have sufficient working capital to finance its operations, to meet its financial obligations, including the net current liabilities as of 31 December 2021 and those capital commitments in the next twelve months from 31 December 2021.

The following table shows the remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date of the Group's financial liabilities as well as loan commitments and short-term lease commitments, based on contractual undiscounted cash flows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2021					
Financial liabilities					
Borrowings	10,532,530	6,658,598	13,145,607	6,293,755	36,630,490
Medium-term notes	1,029,321	–	–	–	1,029,321
Bonds and debentures	4,339,945	160,765	3,162,647	–	7,663,357
Other liabilities and accruals (i)	1,111,437	40,109	134,251	53,015	1,338,812
Derivative financial instruments	94,777	42,349	6,625	–	143,751
Off-balance sheet – short term lease commitments (Note 35)	570	–	–	–	570

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2020					
Financial liabilities					
Borrowings	9,030,156	4,328,600	9,084,684	7,855,971	30,299,411
Medium-term notes	448,175	989,972	–	–	1,438,147
Bonds and debentures	4,244,713	3,661,950	1,994,424	–	9,901,087
Other liabilities and accruals (i)	1,081,955	144,373	81,664	146,714	1,454,706
Derivate financial instruments	137,355	107,594	111,712	–	356,661
Off-balance sheet – loan commitments (Note 35)	115,163	14,040	–	–	129,203
Off-balance sheet – short term lease commitments (Note 35)	87	–	–	–	87

(i) For the purpose of liquidity risk analysis, tax payables, operating lease rentals received in advance, bonuses, directors' fee payables and other non-financial liabilities included in other liabilities and accruals are not included.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4 Disposal of finance lease receivables

Certain wholly-owned subsidiaries of the Group (collectively "the CALC SPCs") signed contracts with trust plans or banks, pursuant to which, the CALC SPCs transferred to the trust plans or asset-backed securities programme their future lease payments arising from finance leases under their separate aircraft leasing agreements with airline companies.

The trust plans or asset-backed securities programme also appointed the CALC SPCs as the service agent to collect the lease rentals from the airline companies. The services to be provided mainly include maintaining relationship with the airline companies, collecting of rental on behalf the trust plan. CALC SPCs recognised service fee income over the lease servicing period. For the year ended 31 December 2021, service fee income of HK$1,272,000 (2020: HK$1,210,000) was included in Group's other operating income.

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

The trust plans or asset-backed securities programme are unconsolidated structured entities and the Group has no control over the trust plans or asset-backed securities programme. The following table shows the total assets size of the above mentioned unconsolidated structured entities and the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities:

	Size HK$'000	The trust plan Funding provided by the Group (Note (i)) HK$'000	Group's maximum exposure (Note (ii)) HK$'000
As at 31 December 2021	**10,824,526**	**3,728**	**122,290**
As at 31 December 2020	10,762,609	3,622	121,593

Note:

(i) The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of HK$3,728,000 (2020: HK$3,622,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2021 (Note 11).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4 Disposal of finance lease receivables *(continued)*

Note: *(continued)*

(ii) The Group will convert the US$ lease rentals received on behalf of one of the trust plans during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement includes a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000 (equivalent to approximately HK$122,290,000). As at 31 December 2021, the fair value of this currency swap contract amounted to HK$10,622,000 (2020: HK$16,927,000) and the fair value loss of HK$6,382,000 (2020: HK$2,035,000) was recognised in "other gains or losses" for the year ended 31 December 2021 (Note 20(a)).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plans or asset-backed securities programme as at 31 December 2021. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2021.

The Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, asset-liability ratio, which is calculated as total liabilities divided by total assets and interest-bearing debts to equity ratio, which is calculated as interest-bearing debts included in total liabilities divided by total equity. The ratios are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Interest-bearing debts included in total liabilities	**40,480,384**	37,156,101
Total liabilities	**44,011,864**	40,976,750
Total assets	**50,029,119**	46,392,519
Total equity	**6,017,255**	5,415,769
Gearing ratio	**80.9%**	80.1%
Asset-liability ratio	**88.0%**	88.3%
Interest-bearing debts to equity ratio	**6.7:1**	6.9:1

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Group estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Financial assets and financial liabilities measured at fair values

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2021				
Assets				
Interest rate swaps	–	3,590	–	3,590
Currency swaps and forward contracts	–	111,347	–	111,347
Financial asset at fair value through profit or loss	–	–	750,841	750,841
	–	114,937	750,841	865,778
Liability				
Interest rate swaps	–	143,226	–	143,226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities measured at fair values *(continued)*

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2020				
Assets				
Currency swaps and forward contracts	–	17,720	–	17,720
Financial asset at fair value through profit or loss	–	–	797,888	797,888
	–	17,720	797,888	815,608
Liability				
Interest rate swaps	–	355,566	–	355,566

The fair values of the interest rate swaps for hedging and the currency swap and currency forwards are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, US$/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

The fair value of the financial asset at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, risk-adjusted discount rate, and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy. The Group accessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease or increase HK$9,000,000 (2020: HK$17,000,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase or decrease the fair value by HK$182,000,000 and HK$185,000,000 (2020: HK$125,000,000 and HK$159,000,000) respectively.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities measured at fair values *(continued)*

The following table presents the change in level 3 instrument for the year ended 31 December 2021.

	Financial asset at fair value through profit or loss HK$'000
As at 1 January 2021	**797,888**
Additional investment to financial asset at fair value through profit or loss	**8,833**
Proceeds from financial asset at fair value through profit or loss	**(3,938)**
Disposal of financial asset at fair value through profit or loss	**(95,685)**
Fair value gains on the financial asset at fair value through profit or loss	**39,041**
Currency translation difference	**4,702**
As at 31 December 2021	**750,841**

	Financial asset at fair value through profit or loss HK$'000
As at 1 January 2020	752,913
Additional investment to financial asset at fair value through profit or loss	41,814
Proceeds from financial asset at fair value through profit or loss	(32,423)
Fair value gains on the financial asset at fair value through profit or loss	38,960
Currency translation difference	(3,376)
As at 31 December 2020	797,888

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and bank balances, other receivables, loans to associates and joint ventures, interest payables and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year or with floating rate, are not sensitive to changes in inputs to valuation techniques.

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

	As at 31 December 2021		As at 31 December 2020	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables (excluding the unguaranteed residual values)	4,020,082	4,305,034	3,849,388	4,208,436
Borrowings	32,477,860	32,893,234	26,763,014	26,690,742
Medium-term notes	979,816	1,005,829	1,338,308	1,370,678
Bonds and debentures	7,022,708	6,349,849	9,054,779	8,511,404

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

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

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Income taxes and deferred tax

The Group is subject to taxation in multiple jurisdictions and, in many cases, the ultimate tax treatment is not determined until concluded with the relevant tax authority. Consequently, the directors are required to exercise significant judgement in determining the appropriate amount of tax provisions based on the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of lease terms. Since the settlement of the Group's tax position is subject to future negotiation with various tax authorities, the calculation of the provision is subject to inherent uncertainty. Please refer to Note 16 and Note 29 for the detailed information of deferred tax liabilities and income taxes.

(b) Estimation of unguaranteed residual value on leased assets

Unguaranteed residual value is a portion of the residual value of a leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor. The unguaranteed residual value of the aircraft at the inception of the lease is based on management's estimates with reference to valuation reports issued by independent valuers. Please refer to Note 7 for the unguaranteed residual values recognised at the end of each reporting period.

The estimation of unguaranteed residual value at the inception of the leases impacts the determination of unearned finance income. Subsequent to initial recognition, estimated unguaranteed residual values are reviewed regularly. If there is a reduction in the estimated unguaranteed residual value, the income allocation over the remaining lease term will be revised and the reduction in respect of net present value of unguaranteed residual value will be adjusted immediately in profit or loss. The directors of the Company are of the opinion that there had been no impairment in the carrying amount of the unguaranteed residual value as at 31 December 2021.

The residual value of each aircraft is estimated by management and reasonably supported by an aircraft industry publication providing aircraft valuation for general reference. The unguaranteed residual values of the aircraft under the 49 (2020: 49) finance leases as at 31 December 2021 were approximately HK$5,243,225,000 (2020: HK$5,213,233,000). A 5% decrease in the expected unguaranteed residual value from the management's current estimates would result in a decrease in profit before income tax for the year ended 31 December 2021 by approximately HK$9,902,000 (2020: HK$9,763,000).

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(c) *Impairment of non-financial assets*

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Factors that may contribute to impairment of aircraft include, but are not limited to, unfavorable airline industry trends affecting the residual values of certain aircraft types, high fuel prices and development of more fuel-efficient aircraft shortening the useful lives of certain aircraft, and new technological developments. The Group obtains fair values of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in a similar condition and industry trends. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft based on the key assumptions mainly including lease rents of current leases; subsequent re-lease rates based on current marketing information and residual values, and discounted at a rate commensurate with the associated risk to calculate the present value.

(d) *Impairment of finance lease receivables and operating lease receivables*

The Group calculates expected credit losses through estimating the risk exposure of default and expected credit loss rate. The expected credit loss rate is determined based on estimation of probability of default and loss given default. In determining the expected credit loss rate, the Group considers the Group's past history, existing market conditions as well as forward looking estimates. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses. Please refer to Note 7 and Note 9(b) for detailed information.

(e) *Impairment of investments in and loans to associates and joint ventures*

The Group assesses whether there are any indicators of impairment for investments in associates and joint ventures at the end of each reporting period. Investments in associates and joint ventures are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in associates or joint ventures exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose a discount rate commensurate with the associated risk in order to calculate the present values of those cash flows.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(e) ***Impairment of investments in and loans to associates and joint ventures*** *(continued)*

The Group evaluates expected credit losses of loans to associates and joint ventures at the end of each reporting period. Management considers a number of factors in expected credit loss assessment including but not limited to associates and joint ventures' current and expected financial positions, business environment and industry performance, current and forward-looking economic factors, collection history and past experience. For loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, the expected credit loss is likely to be immaterial. If the borrower could not repay the loan if demanded at the reporting date, the Group considers the expected manner of recovery, including a 'repay over time' strategy or a fire sale of less liquid assets, to measure expected credit losses.

4.2 Critical judgements in applying the Group's accounting policies

(a) ***Classification of leases***

The Group has entered into certain aircraft leases whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased aircraft to the lessees, as the present values of the minimum lease payments (which include lease payments and residual values guaranteed by third parties) of the lease amount to at least substantially all of the fair values of the leased assets at the inception of the leases. Accordingly, the Group has excluded the aircraft from its consolidated balance sheet and has instead, recognised finance lease receivables (Note 7). Otherwise the Group includes the aircraft under operating lease in property, plant and equipment. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

(b) ***Disposal of finance lease receivables***

The Group considers that the trust plans or asset-backed securities programme as described in Note 3.1.4 are structured entities which are run according to predetermined criteria that are part of its initial design.

The Group has assessed that it does not control the trust plans or asset-backed securities programme as the Group does not have the current ability to direct the relevant activities of the trust plans or asset-backed securities programme. Accordingly, the trust plans or asset-backed securities programme are not consolidated by the Group. The determination of whether there are controls over the trust plans or asset-backed securities programme depends on an assessment of the relevant arrangements relating to the trust plans or asset-backed securities programme and this has involved critical judgements by management. For further details about these unconsolidated structured entities, see Note 3.1.4.

The directors assessed the Group has transferred substantially all the risks and rewards related to the lease receivables to the trust plans or asset-backed securities programme, and thus the corresponding finance lease receivables were derecognised.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Group's accounting policies *(continued)*

(c) Consolidation assessment of CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively as "CAG Group")

In June 2018, the Group and some mezzanine financiers jointly established CAG Group at a shareholding ratio of 20% and 80% respectively, which is principally engaged in lease-attached aircraft portfolio investment. The Group provides aircraft and lease management service to CAG Group.

The directors have assessed and concluded that the Group does not control CAG Group but has a significant influence over CAG Group. The determination of the Group's level of involvement with another entity will require exercise of judgement under certain circumstances. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group also considers, in particular, whether it obtains benefits from its power to control the entity. As such, the classification of the entity as a subsidiary, a joint venture, a joint operation, an associate or an equity investment requires the application of judgement through the analysis of various factors, such as whether CAG Group is a structured entities, the percentage of ownership interest held in the entity, CAG Group's purpose and design, CAG Group's relevant activities, the decision-making authority about its relevant activities, whether the rights of the Group give it current ability to direct CAG Group's relevant activities, the Group's exposure or rights to variable returns from its involvement with CAG Group and the ability to use its power over CAG Group to affect the amount of the Group's returns. This assessment has involved critical judgement by management.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Group's accounting policies *(continued)*

(d) Interest rate benchmark reform

To transition existing contracts and agreements that reference US$ LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition due to IBOR reforms.

Group treasury is managing the Group's US$ LIBOR transition plan, which includes amendments to the contractual terms of the US$ LIBOR-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

The Group has incorporated the following assumptions when applying the hedging accounting:

- When considering the 'highly probable' requirement, the Group has assumed that the US$ LIBOR interest rate on which the Group's hedged borrowing is based does not change as a result of IBOR reform.

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the US$ LIBOR interest rate on which the cash flows of the hedged borrowing and the interest rate swap that hedges it are based is not altered by IBOR reform.

- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

In calculating the change in fair value attributable to the hedged risk of floating-rate borrowing, the Group has made the following assumptions that reflect its current expectations:

- The floating-rate borrowing will move to SOFR before 30 June 2023 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument.

- No other changes to the terms of the floating-rate borrowing are anticipated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Aircraft and engine HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Office building HK$'000	Right-of-use assets HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2020							
Cost	20,930,322	4,872	15,945	45,360	53,566	15,150	21,065,215
Accumulated depreciation	(1,414,503)	(4,779)	(8,726)	(1,723)	(19,786)	(4,214)	(1,453,731)
Net book amount	19,515,819	93	7,219	43,637	33,780	10,936	19,611,484
Year ended 31 December 2020							
Opening net book amount	19,515,819	93	7,219	43,637	33,780	10,936	19,611,484
Additions	4,193,189	4,807	–	–	25,551	395	4,223,942
Transfer from finance lease receivables	572,064	–	–	–	–	–	572,064
Depreciation	(835,222)	(584)	(3,371)	(904)	(17,558)	(1,710)	(859,349)
Disposals/write off	(5,008,729)	(42)	–	–	(1,226)	(23)	(5,010,020)
Currency translation difference	(88,702)	(1)	(14)	(194)	1,434	(3)	(87,480)
Closing net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
As at 31 December 2020							
Cost	20,269,024	8,570	15,789	45,158	54,209	15,509	20,408,259
Accumulated depreciation	(1,920,605)	(4,297)	(11,955)	(2,619)	(12,228)	(5,914)	(1,957,618)
Net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Year ended 31 December 2021							
Opening net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Additions	9,004,473	–	6,732	–	2,599	452	9,014,256
Depreciation	(800,574)	(1,602)	(2,542)	(906)	(13,333)	(1,706)	(820,663)
Assets classified as held for sale	(2,043,006)	–	–	–	–	–	(2,043,006)
Disposals/write off	(1,492,876)	–	–	–	–	(32)	(1,492,908)
Currency translation difference	134,727	–	32	242	438	1	135,440
Closing net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
As at 31 December 2021							
Cost	25,566,589	8,617	22,615	45,418	54,314	15,936	25,713,489
Accumulated depreciation	(2,415,426)	(5,946)	(14,559)	(3,543)	(22,629)	(7,626)	(2,469,729)
Net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760

Lease rental income amounting to HK$1,959,809,000 relating to the leasing of aircraft and engine for the year ended 31 December 2021 are included in operating lease income in the consolidated statement of income (2020: HK$1,945,545,000).

As at 31 December 2021, the net book value of aircraft amounted to HK$22,854,960,000 (2020: HK$18,180,560,000).

As at 31 December 2021, the net book value of aircraft amounting to HK$17,914,127,000 (2020: HK$12,858,739,000) were pledged as collateral for bank and other borrowings for aircraft acquisition financing and borrowings from trust plans (Note 17).

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	As at 31 December 2021 HK$'000	2020 HK$'000
Investments in and loans to associates and joint ventures – carrying amount after share of losses	**1,421,777**	1,251,441
Expected credit loss on loans to associates and joint ventures	**(148,427)**	(116,537)
	1,273,350	1,134,904

As at 31 December 2021, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Nature of relationship	Measurement method
Aircraft Recycling International Limited ("ARI") (a, Note 8)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG (Notes 4.2(c) and 8)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	PRC	Line maintenance, base maintenance, technical training.	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") (c)	PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)") (c)	PRC	Aircraft leasing	49%	Joint venture	Equity
PT Transnusa Aviation Mandiri ("TAM") (d)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity

(a) ARI is an investment holding company and its subsidiaries (collectively as "ARI Group") have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 31 December 2021, the net liabilities of ARI was HK$390,909,000 (2020: net liabilities of HK$352,195,000), and as a result, the Group's equity interests in ARI was reduced to zero (2020: Zero). No further losses were recorded unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate. As at 31 December 2021, the Group's outstanding balance of advance to ARI amounted to HK$618,000 (2020: Nil). As at 31 December 2021, the Group's carrying amount of outstanding loans to ARI amounted to HK$1,162,453,000 (2020: HK$1,059,703,000). For details, please refer to Note 34(b)(ii).

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 31 December 2021, the Group's outstanding balance of advance to FLARI amounted to HK$24,376,000 (2020: Nil). As at 31 December 2021, the Group's outstanding loans balance receivable from FLARI amounted to HK$4,809,000 (2020: HK$6,311,000). For details, please refer to Note 34(b)(iii).

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

(c) HNCA One (Tianjin) and HNCA Two (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 31 December 2021, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK$37,063,000 (2020: HK$34,467,000) and HK$37,014,000 (2020: HK$34,423,000), respectively. For details, please refer to Note 34(e).

As the result of HNCA One (Tianjin) and HNCA Two (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin) and HNCA Two (Tianjin) are disclosed.

(d) CALC IDN Limited ("CALC IDN"), is a wholly-owned subsidiary of the Company, which holds approximately 72.82% of the share capital in Linkasia Airlines Group Limited ("Linkasia Airlines") (formerly known as "Aviation Synergy Ltd"), which was owned as to 14.13% by Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) and 13.05% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive director and deputy chief executive officer of the Company).

Linkasia Airlines indirectly (i) holds 49% equity interest in TAM and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in TAM. The principal activity of TAM is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, TAM is jointly controlled by the Group and other investor.

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(d) *(continued)*

An analysis of the movements of investment in and loan to TAM is as follows:

	2021 HK$'000	2020 HK$'000
As at 1 January	**–**	–
Add: Investment in TAM	**–**	98,868
Add: Loans to TAM	**6,995**	106,469
Total	**6,995**	205,337
Less: Share of losses and provisions on interest in TAM	**–**	(205,424)
Add: Currency translation difference	**22**	87
As at 31 December	**7,017**	–

As at 31 December 2021, the Group held rental deposit of US$900,000 (equivalent to HK$7,017,000) from TAM (2020: Nil) in relation to an operating lease of one aircraft, please refer to Note 34(j).

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

Save as those disclosed elsewhere in other notes, the above transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

Besides the contingent liabilities disclosed in Note 35(a), there are no other contingent liabilities relating to the Group's interests in associates and joint ventures.

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December 2021 HK$'000	2020 HK$'000
Lease payments receivables		
– Not later than 1 year	**128,815**	129,578
– Later than 1 year but not later than 2 years	**126,887**	128,181
– Later than 2 years but not later than 3 years	**204,456**	126,328
– Later than 3 years but not later than 4 years	**1,085,977**	203,191
– Later than 4 years but not later than 5 years	**1,844,533**	1,079,669
– Later than 5 years	**2,198,585**	4,019,729
Total	**5,589,253**	5,686,676
Less: Unearned finance lease income relating to lease payment receivables	**(1,569,171)**	(1,837,288)
Present value of lease payment receivables	**4,020,082**	3,849,388
Add: Present value of unguaranteed residual value	**3,704,444**	3,421,378
Net investment in the lease	**7,724,526**	7,270,766
Less: Accumulated expected credit losses allowance	**(10,118)**	(7,069)
Finance lease receivables – net	**7,714,408**	7,263,697

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

	As at 31 December 2021 HK$'000	%	2020 HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**5,665,273**	**73%**	5,332,181	73%
Others	**2,049,135**	**27%**	1,931,516	27%
Finance lease receivables – net	**7,714,408**	**100%**	7,263,697	100%

8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Long-term investments – CAG (a)	**750,841**	701,959
Long-term investments – ARG (b)	**–**	95,929
	750,841	797,888

(a) CAG uses the fund injected through a performance-linked shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 20% to 80%, together with a shareholding between the Group and other investors at the same ratio. Pursuant to shareholders' agreement and shareholders' loan agreement, all investors of CAG committed to invest in CAG through shareholders' loan according to the mezzanine financing proportion.

(b) ARG Cayman 1 Limited ("ARG") is a subsidiary of ARI. Pursuant to the share purchase agreements and assignment agreements dated 13 July 2021, entered between the Group and Everbright Absolute Return Fund ("EAR Fund") and China Chengtong Investment Company Limited ("CCIC"), the Group agreed to sell and EAR Fund and CCIC agreed to purchase 13 ordinary shares (representing 1.3% of the entire issued shares of ARG) and 65 ordinary shares (representing 6.5% of the entire issued shares of ARG), respectively and the Group agreed to assign and EAR Fund and CCIC agreed to take the assigned shareholder loan amounted to US$2,052,000 (equivalent to approximately HK$15,949,000) and US$10,259,000 (equivalent to approximately HK$79,736,000), respectively in accordance with the assignment agreements. The above transactions were completed on 19 July 2021. The Group no longer holds any investments in ARG.

9 PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	**8,806,714**	11,857,594
Operating lease receivables (b)	**553,770**	376,677
Interest capitalised (Note 25(a))	**741,742**	804,675
Deposits paid	**32,865**	49,399
Prepayments and amounts due from related parties (Note 34(g))	**269,612**	311,860
Deductible in-put value-added taxes	**115,493**	–
Receivables arising from aircraft transactions (c)	**773,338**	–
Others (d)	**113,321**	94,430
	11,406,855	13,494,635
Less: Expected credit losses allowance (b)	**(174,313)**	(75,795)
	11,232,542	13,418,840

9 PREPAYMENTS AND OTHER ASSETS *(continued)*

(a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S ("Airbus") for the purchase of 100 aircraft. In December 2017 and January 2018, the Group entered into supplementary agreement with Airbus for the purchase of additional 65 aircraft. In January 2020, the Group entered into supplemental agreement to the aircraft purchase agreements in December 2014 to purchase additional 40 aircraft from Airbus.

In June 2017, the Group entered into aircraft purchase agreement (the "2017 Aircraft Purchase Agreement") with The Boeing Company ("Boeing") for the purchase of 50 aircraft. In December 2018, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement to purchase additional 50 aircraft from Boeing. In November 2019, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement and 2018 Aircraft Purchase Agreement with Boeing to adjust its order from 100 aircraft to 92 aircraft. In March 2021, the Group entered into the agreement with Boeing to adjust its order from 92 aircraft to 66 aircraft and to reschedule the delivery of certain aircraft.

Prepayments were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft will be delivered in stages by 2027.

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

	Current/ Deferral HK$'000	Less than 30 days past due HK$'000	30 to 90 days past due HK$'000	More than 90 days past due HK$'000	Total HK$'000
As at 31 December 2021 Gross carrying amount	**191,743**	**50,130**	**65,161**	**246,736**	**553,770**
As at 31 December 2020 Gross carrying amount	163,370	15,128	70,529	127,650	376,677

As at 31 December 2021, the expected credit losses amounted to HK$174,313,000 (2020: HK$75,795,000) and the net operating lease receivables amounted to HK$379,457,000 (2020: HK$300,882,000).

(c) The receivables arising from aircraft transactions as at 31 December 2021 was fully settled in January 2022.

(d) The "Others" above were mainly deferred expenses and prepayments to third parties.

10 ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2021, the Group has signed letter of intent or sale and purchase agreements for the disposal of several lease-attached aircraft. These aircraft intended to be disposed were consequently classified as held for sale. During the year ended 31 December 2021, the Group reclassified property, plant and equipment to assets classified as held for sale with the carrying amount of HK$2,043,006,000 (2020: Nil), of which HK$1,367,437,000 (2020: Nil) was disposed. As at 31 December 2021, the carrying amount of assets classified as held for sale was HK$675,569,000 (2020: Nil) and the carrying amount of borrowings related to the assets held for sale was HK$505,689,000 (2020: Nil). The borrowings related to the assets held for sale will be repaid before the disposal of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

11 RESTRICTED CASH

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Pledged for bank borrowings for aircraft acquisition financing	**46,498**	51,495
Pledged for long-term borrowings (Note 17)	**44,133**	43,879
Pledged for interest rate swap contracts (Note 20(c))	**142,828**	312,790
Pledged for a currency swap contract (Note 20(a))	**3,728**	3,622
	237,187	411,786

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
US$	**200,073**	369,662
RMB	**37,114**	42,124
	237,187	411,786

The average effective interest rate as at 31 December 2021 was 0.12% (2020: 0.77%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Cash at bank and on hand	4,776,389	4,877,557

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
US$	3,864,967	4,258,528
RMB	889,682	595,809
HK$	16,281	18,231
EUR	4,745	4,271
Other currencies	714	718
	4,776,389	4,877,557

The average effective interest rate as at 31 December 2021 was 0.13% (2020: 0.76%).

13 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK$
Issued:			
As at 1 January 2020	HK$0.1	677,269,380	67,726,938
Buy-back of shares (a)	HK$0.1	(3,000,000)	(300,000)
Payment of scrip dividend (Note 31)	HK$0.1	45,735,457	4,573,546
As at 31 December 2020 and 1 January 2021	HK$0.1	720,004,837	72,000,484
Buy-back of shares (a)	HK$0.1	(2,519,500)	(251,950)
Payment of scrip dividend (Note 31)	HK$0.1	30,134,400	3,013,440
As at 31 December 2021	HK$0.1	747,619,737	74,761,974

(a) The Company acquired 6,604,000 (2020: 3,000,000) of its own shares through purchases on the Stock Exchange and 2,519,500 (2020: 3,000,000) of those purchased shares were subsequently cancelled during the year ended 31 December 2021. The total amount paid to acquire the shares was HK$38,471,000 (2020: HK$19,172,000), including transaction costs.

14 RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$000	Treasury shares HK$000	Share-based payments HK$'000	Hedging reserves HK$'000	Currency translation differences HK$'000	Total HK$'000
Balance as at 1 January 2020	1,092,091	623,720	(39)	–	23,746	(120,641)	(59,405)	1,559,472
Buy-back of shares (Note 13(a))	(18,803)	–	(69)	–	–	–	–	(18,872)
Cash flow hedges (Note 20)	–	–	–	–	–	(203,011)	–	(203,011)
Currency translation differences	–	–	–	–	–	–	(37,848)	(37,848)
Share option scheme (a):								
– Value of services	–	–	–	–	330	–	–	330
– Share options lapsed	–	–	–	–	(23,746)	–	–	(23,746)
Scrip dividends	309,153	–	–	–	–	–	–	309,153
Balance as at 31 December 2020	1,382,441	623,720	(108)	–	330	(323,652)	(97,253)	1,585,478

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$000	Treasury shares HK$000	Share-based payments HK$'000	Hedging reserves HK$'000	Currency translation differences HK$'000	Total HK$'000
Balance as at 1 January 2021	1,382,441	623,720	(108)	–	330	(323,652)	(97,253)	1,585,478
Buy-back of shares (Note 13(a))	(15,777)	–	(58)	(22,385)	–	–	–	(38,220)
Cash flow hedges (Note 20)	–	–	–	–	–	195,810	–	195,810
Currency translation differences	–	–	–	–	–	–	71,237	71,237
Scrip dividends	173,545	–	–	–	–	–	–	173,545
Balance as at 31 December 2021	1,540,209	623,720	(166)	(22,385)	330	(127,842)	(26,016)	1,987,850

(a) On 22 July 2016 and 2 January 2020, the Company adopted a share option scheme (2016 Post-IPO Share Option Scheme) and (2020 Post-IPO Share Option Scheme), respectively for the purpose of recognizing the contribution participants including certain directors of the Company and selected employees of the Group in relation to the growth of the Group.

Movement of outstanding share options granted by the Group on 22 July 2016 (2016 Post-IPO Share Option Scheme) and 2 January 2020 (2020 Post-IPO Share Option Scheme) is as follows:

	Number of share options
As at 1 January 2020	14,974,000
Granted (i)	10,000,000
Lapsed	(14,974,000)
As at 31 December 2020, 1 January 2021 and 31 December 2021	10,000,000

(i) The value of the options granted in the total amount of HK$330,000 on 2 January 2020.

As at 31 December 2021 and 2020, there was no outstanding share options of 2016 Post-IPO Share Option Scheme. For share options outstanding as at 31 December 2021, the adjusted exercise price per share of 2020 Post-IPO Share Option Scheme was HK$8.13 (2020: HK$8.46).

14 RESERVES *(continued)*

(a) *(continued)*

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the year ended 31 December 2021 and 2020 are as follows:

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Directors and employees	**–**	330

15 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Perpetual capital securities (a)	**1,474,620**	1,548,332
Other non-controlling interests of ordinary shares	**(27,598)**	(25,601)
	1,447,022	1,522,731

(a) Perpetual capital securities

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

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

	HK$'000
As at 1 January 2020	–
Issuance of perpetual capital securities	1,545,501
Profit for the year	2,831
As at 31 December 2020	1,548,332
As at 1 January 2021	**1,548,332**
Profit for the year	**102,530**
Dividend distributed to perpetual capital securities	**(176,242)**
As at 31 December 2021	**1,474,620**

16 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Deferred tax liabilities:		
– To be settled within 12 months	**173,938**	146,794
– To be settled after 12 months	**724,302**	641,922
	898,240	788,716

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

	Accelerated depreciation of leased assets HK$'000
Deferred tax liabilities	
As at 1 January 2020	746,374
Charged to profit or loss (Note 29)	40,461
Currency translation difference	1,881
As at 31 December 2020	788,716
As at 1 January 2021	**788,716**
Charged to profit or loss (Note 29)	**111,472**
Currency translation difference	**(1,948)**
As at 31 December 2021	**898,240**

As at 31 December 2021, certain subsidiaries of the Group had unused tax losses of approximately HK$1,188,657,000 (2020: HK$998,924,000) available to offset against future profits, for which deferred tax asset of HK$195,865,000 (2020: HK$154,527,000) had not been recognised as their future realisation is uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 DEFERRED INCOME TAX LIABILITIES *(continued)*

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Year		
2022	**12,655**	18,350
2023	**62,165**	62,165
2024	**91,383**	91,383
2025	**129,165**	129,165
2026	**158,633**	–
No expiry date	**734,656**	697,861
	1,188,657	998,924

In accordance with the corporate income tax laws in the People's Republic of China ("PRC"), a 5% or 10% withholding tax is levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. No deferred tax liability has been provided by the Group on the retained earnings of approximately HK$1,593,028,000 as at 31 December 2021 (2020: HK$909,324,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

17 BORROWINGS

	As at 31 December 2021 HK$'000	2020 HK$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	15,514,817	10,541,963
PDP financing (b)	6,303,373	8,456,588
Other unsecured bank borrowings (c)	5,600,145	2,595,060
	27,418,335	21,593,611
Long-term borrowings		
Borrowings from trust plans (d)	4,689,311	4,818,500
Other borrowings (e)	370,214	350,903
	5,059,525	5,169,403
	32,477,860	26,763,014

Bank borrowings

(a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 31 December 2021, certain bank borrowings were secured by, in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain companies of the Group, and pledge of deposits amounting to HK$46,498,000 (2020: HK$45,380,000).

(b) As at 31 December 2021, PDP financing of HK$5,929,576,000 (2020: HK$8,085,286,000) was unsecured and guaranteed by the Company. Remaining PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, and guarantees from certain companies of the Group.

(c) As at 31 December 2021, the Group had aggregate unsecured bank borrowings of HK$4,586,834,000 (2020: HK$2,595,060,000) which were guaranteed by certain companies of the Group.

The bank and other borrowings are repayable as follows:

	As at 31 December 2021 HK$'000	2020 HK$'000
Within 1 year	9,352,026	8,075,496
Between 1 and 2 years	5,471,783	3,472,990
Between 2 and 5 years	8,515,064	6,177,909
Over 5 years	4,079,462	3,867,216
	27,418,335	21,593,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 BORROWINGS *(continued)*

The exposure of bank and other borrowings to interest rate changes at the end of balance sheet date are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Fixed-interest rate	**7,052,252**	2,539,977
Floating-interest rate	**20,366,083**	19,053,634
	27,418,335	21,593,611

The average effective interest rate as at 31 December 2021 of bank and other borrowings was 2.96% (2020: 3.34%). The carrying amounts of borrowings are principally denominated in US$.

The Group has the following undrawn borrowings facilities:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Expiring within one year	**335,275**	821,326
Expiring beyond one year	**2,781,717**	1,901,206
	3,116,992	2,722,532

Long-term borrowings

(d) As at 31 December 2021, 46 borrowings (2020: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposal of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (2020: 3.5% to 7.8%) per annum for remaining terms of two to eight years (2020: three to nine years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$44,133,000 (2020: HK$43,879,000).

(e) As at 31 December 2021, four borrowings (2020: four borrowings) were obtained through a structured financing arrangement for four aircraft (2020: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2020: 3.9% to 5.7%) per annum for their remaining terms of three to four years (2020: four to five years) and are guaranteed by the Company.

18 MEDIUM-TERM NOTES

In November 2016, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB330 million due in 2021, bearing coupon interest at 4.19% per annum. These medium-term notes had been fully repaid on maturity.

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

As at 31 December 2021, after deducting the issuing cost, the total carrying amount of these notes was HK$979,816,000 (2020: HK$1,338,308,000).

19 BONDS AND DEBENTURES

In August 2016, the Group issued five-year US$300 million senior unsecured bonds due in 2021, bearing coupon interest at 4.9% per annum, payable semi-annually. These bonds above were listed on the Stock Exchange and are guaranteed by the Company. These bonds had been fully repaid on maturity.

In March 2017, the Group issued senior unsecured bonds in an aggregate principal amount of US$500 million, of which US$300 million are five-year bonds due in 2022 and US$200 million are seven-year bonds due in 2024. The bonds bear coupon interest at 4.7% and 5.5% per annum, respectively, payable semi-annually. These bonds above were listed on the Stock Exchange and are guaranteed by the Company.

In June 2019, one of the wholly owned subsidiaries in the PRC issued three-year RMB1.0 billion unsecured bonds due in 2022, bearing coupon rate of 5.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

In March 2020, one of the wholly owned subsidiaries in the PRC issued one-year RMB1.0 billion unsecured debentures at the coupon rate of 3.65% per annum and were listed on the Inter-Bank Bond Market of China. These debentures had been fully repaid on maturity.

In June 2020, one of the wholly owned subsidiaries in the PRC issued one-year RMB300 million unsecured debentures at the coupon rate of 4% per annum and were listed on the Inter-Bank Bond Market of China. These debentures had been fully repaid on maturity.

In November 2020, the Group entered into a subscription agreement with an independent third party in relation to the issuance of five-year US$70 million senior unsecured bonds, of which US$35 million are issued in November 2020 and due in 2025 and US$35 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

In July 2021, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.98%.

In August 2021, the Group issued three-year RMB100 million unsecured bonds due in 2024, bearing coupon rate of 4.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

19 BONDS AND DEBENTURES *(continued)*

In December 2021, the Group issued three-year US$100 million unsecured guaranteed notes in a principal amount of US$100 million due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Company and were listed on the Stock Exchange.

During the year ended 31 December 2021, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US$122,306,000 (2020: US$6,992,000). The principal amount of bonds was US$122,997,000 (2020: US$7,200,000). A net gain of US$555,000 (equivalent to approximately HK$4,314,000) (2020: US$190,000 (equivalent to approximately HK$1,474,000)) was recognised after deducting the transaction cost.

As at 31 December 2021, the total carrying amount of these bonds was HK$7,022,708,000 (2020: HK$9,054,779,000).

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Derivative financial assets		
– Currency swap (a)	**10,622**	16,927
– Currency forward contracts (b)	**100,725**	793
– Interest rate swaps (c)	**3,590**	–
	114,937	17,720
Derivative financial liabilities		
– Interest rate swaps (c)	**143,226**	355,566

(a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000 (equivalent to approximately HK$122,290,000). As at 31 December 2021, the fair value of this currency swap contract amounted to HK$10,622,000 (2020: HK$16,927,000) and the fair value loss of HK$6,382,000 (2020: HK$2,035,000) was recognised in "other gains or losses" for the year ended 31 December 2021. As at 31 December 2021, this arrangement was secured by a pledged deposit of HK$3,728,000 (2020: HK$3,622,000).

(b) As at 31 December 2021, the Group had 21 outstanding currency forward contracts with notional amount of RMB2,400,000,000 (equivalent to approximately HK$2,942,880,000) (2020: four outstanding currency forward contracts with notional amount of RMB400,000,000 (equivalent to approximately HK$475,040,000)) which will expire at various dates from 20 December 2022 to 18 September 2023 (2020: 20 December 2022 to 30 December 2022, to mitigate RMB exchange rate risks. These forward contracts did not satisfy the requirements for hedge accounting, the fair value changes of which were recognised in other gains or losses.

20 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

(c) As at 31 December 2021, the Group had 35 outstanding interest rate swap contracts (2020: 31 contracts) which will expire at various dates from 21 March 2022 to 24 December 2025 (2020: 25 April 2021 to 3 April 2025), to exchange floating interest rates into fixed interest rates in a range of 0.4% to 2.6% (2020: 0.9% to 2.6%). As at 31 December 2021, these arrangements were secured by margin deposits of HK$142,828,000 (2020: HK$312,790,000).

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

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Recognised in other comprehensive income		
Change in fair value of interest rate swaps	**62,823**	(308,809)
Reclassified from other comprehensive income to profit or loss in respect of:		
– Hedged items that affected profit or loss	**135,223**	90,897
– Hedge ineffectiveness	**(2,236)**	14,901
	195,810	(203,011)
Recognised in other gains/(losses) of profit or loss		
Fair value gains/(losses) on interest rate swaps	**16,281**	(21,300)
Fair value gains on currency forward contracts	**99,610**	793
Unrealised losses on currency swap	**(6,382)**	(2,035)
	109,509	(22,542)

21 OTHER LIABILITIES AND ACCRUALS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Deposits and fund received for lease and aircraft projects	**1,419,777**	1,571,029
Consultant and insurance premium payable	**91,921**	104,232
Value-added tax and other taxes	**278,520**	295,154
Operating lease rentals received in advance	**151,298**	75,272
Amounts due to related parties (Note 34(h))	**1,442**	16
Amount due to non-controlling interest of a subsidiary (Note 34(i))	**25,455**	76,164
Dividend payable to perpetual capital securities holder (Note15(a))	**89,007**	–
Lease liabilities	**34,736**	45,252
Others (including salary and bonus payable)	**147,316**	208,238
	2,239,472	2,375,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2021, the Group was engaged in a single business segment, the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

	Year ended 31 December			
	2021		2020	
	HK$'000	%	HK$'000	%
Categorised by customer in terms of lease income:				
Airline Company – A	332,076	13%	422,568	17%
Airline Company – B	314,070	13%	339,192	14%
Airline Company – C	234,003	9%	192,545	8%
Airline Company – D	163,036	7%	162,690	6%
Airline Company – E	127,209	5%	67,878	3%
Others	1,330,049	53%	1,301,915	52%
Total finance and operating lease income	2,500,443	100%	2,486,788	100%

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Aircraft transactions (a)	297,128	514,275
Aircraft components trading (b)	4,613	–
	301,741	514,275

(a) Aircraft transactions

The net gain from aircraft transactions for the year ended 31 December 2020 included the gain from disposal of 18 aircraft, including four aircraft and related businesses to ARI Group (Note 34(b)(ii)), the disposal of two aircraft with related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin) (Note 34(f)), respectively, the disposal of seven aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (Note 34(a)(iii)) and the disposal of five aircraft to third parties.

The net gain from aircraft transactions for the year ended 31 December 2021 included the gain from disposal of nine aircraft, including the disposal of two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (Note 34(a)(iii)) and the disposal of seven aircraft to third parties.

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING *(continued)*

(b) Aircraft components trading

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Sales from aircraft components trading assets	**29,422**	–
Less: Cost of aircraft components trading assets	**(24,809)**	–
Profit from aircraft components trading assets	**4,613**	–

24 OTHER INCOME

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Government grants (a)	**215,467**	251,526
Interest income from loans to associates and joint ventures	**105,385**	92,852
Forfeiture of deposit received	**–**	84,627
Bank interest income	**8,186**	9,998
Asset management service fees income from CAG Group (Note 34(c))	**12,102**	12,212
Operating lease income on other assets from a related party (Note 34(a)(ii))	**–**	1,320
Incidental income and others (b)	**134,742**	32,184
	475,882	484,719

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

(b) Incidental income and others were mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases, proceed net gains from bonds repurchase, insurance compensation and government wage subsidies under a job support scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 INTEREST EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Interest expense on borrowings	988,332	1,056,338
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	135,223	90,897
Interest expense on medium-term notes	64,907	76,978
Interest expense on bonds and debentures	392,535	418,477
	1,580,997	1,642,690
Less: Interest capitalised on qualifying assets (a)	(369,743)	(313,908)
	1,211,254	1,328,782

(a) Interest expenses capitalised on qualifying assets represent the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

26 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Employee benefit expenses (Note 27)	144,660	135,692
Value-added tax and other taxes	18,897	28,769
Professional service expenses	64,896	52,760
Rental and utilities expenses	5,229	5,439
Office and meeting expenses	14,840	9,956
Travelling and training expenses	4,697	5,554
Auditor's remuneration		
– Audit service	4,326	4,176
– Non-audit service	2,241	585
Others	22,232	25,368
	282,018	268,299

27 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Wages, salaries and bonuses	129,281	122,317
Share-based compensation (Note 14(a))	–	330
Welfare, medical and other expenses	15,379	13,045
	144,660	135,692

28 OTHER GAINS/(LOSSES)

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Unrealised losses on currency swap	(6,382)	(2,035)
Currency exchange gains/(losses) in US$	(21,912)	28,831
Currency exchange losses in RMB	(113,060)	(306,508)
Fair value gains on currency forward contracts in RMB	99,610	793
Fair value gains/(losses) on interest rate swaps and futures	16,281	(66,791)
Fair value gains on financial asset at fair value through profit or loss	39,041	38,960
	13,578	(306,750)

29 INCOME TAX EXPENSES

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Current income tax:		
Mainland China, Hong Kong and others	93,464	124,597
Deferred income tax (Note 16)	111,472	40,461
	204,936	165,058

Mainland China

The subsidiaries incorporated in the Mainland China are subject to the PRC corporate income tax ("CIT") at 25% (2020: 25%), except for certain subsidiaries which are subject to the preferential tax treatments. The leasing income of the subsidiaries in Mainland China is subject to VAT at 13%.

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% on the estimated assessable profits.

Profit tax concessions have been announced to the corporations carrying on certain businesses in connection with aircraft. The taxable amount of rentals derived from leasing of an aircraft to Non-Hong Kong aircraft operator by a qualifying aircraft lessor is equal to 20% of the tax base. The qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers are subject to the half of the normal rate at 8.25%.

Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 INCOME TAX EXPENSES *(continued)*

Others *(continued)*

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first EUR200,000 of its taxable income and a rate of 25% over its taxable income in excess of EUR200,000.

The subsidiary incorporated in France is subject to income tax at 33.33%.

The subsidiary incorporated in Singapore is subject to income tax at 17%.

The subsidiary incorporated in Malta is subject to income tax at 35%.

The subsidiaries incorporated in Labuan are subject to income tax at 3%.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% during the year ended 31 December 2021. The difference is analysed as follows:

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Profit before income tax	**832,206**	433,001
Tax calculated at a tax rate of 25%	**208,052**	108,250
Effects of:		
– Different tax rates applicable to different subsidiaries of the Group	**(6,630)**	(16,490)
– Income not subject to tax	**(117,971)**	(101,183)
– Non-deductible expenses	**80,148**	154,543
– Utilisation of previously unrecognised tax losses	**(6,883)**	(23,375)
– Tax losses for which no deferred income tax assets were recognised	**48,220**	43,313
Tax charge	**204,936**	165,058

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2021 and 2020.

	Year ended 31 December	
	2021	2020
Profit attributable to shareholders of the Company (HK$'000)	**525,780**	334,143
Weighted average number of ordinary shares in issue (number of shares in thousands)	**728,291**	693,411
Basic earnings per share (HK$ per share)	**0.722**	0.482

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the financial period. For share options outstanding as at 31 December 2021 and 2020, as the exercise price per share is higher than average market price of ordinary shares, it is not assumed that the outstanding share options have been exercised in the calculation of the diluted losses per share for the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DIVIDENDS

A final dividend of HK$0.2 per ordinary share totalling HK$143.7 million for the year ended 31 December 2020 was paid by cash of HK$43.5 million and by share issuance of HK$100.2 million in July 2021. The payment of the final dividend was calculated based on 718,334,837 issued shares after deducting 1,670,000 issued shares which were acquired by the Company in 2021. The proposed final dividend payment was calculated based on 720,004,837 issued shares.

An interim dividend of HK$0.15 per ordinary share totalling HK$110.0 million was paid by cash of HK$33.7 million and by share issuance of HK$76.3 million in November 2021.

On 16 March 2022, the Board recommended a final dividend of HK$0.26 per ordinary share totalling HK$193.3 million and proposed a scrip dividend option to be offered, which is calculated based on 743,535,237 issued shares as at 16 March 2022. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2021, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2022.

	Year ended 31 December	
	2021 HK$'000	2020 HK$'000
Interim dividend paid of HK$0.15 (2020: HK$0.20) per ordinary share	110,032	141,194
Proposed final dividend of HK$0.26 (2020: HK$0.20) per ordinary share	193,319	144,001
Total	303,351	285,195

32 NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December	
	2021 HK$'000	2020 HK$'000
Cash and cash equivalents	4,776,389	4,877,557
Restricted cash	237,187	411,786
Borrowings	(32,477,860)	(26,763,014)
Medium-term notes	(979,816)	(1,338,308)
Bonds and debentures	(7,022,708)	(9,054,779)
Derivative financial instruments	(28,289)	(337,846)
Other liabilities and accruals – lease liabilities	(34,736)	(45,252)
Other liabilities and accruals – amount due to non-controlling interest of a subsidiary	(25,455)	(76,164)
Net debt	(35,555,288)	(32,326,020)

32 NET DEBT RECONCILIATION *(continued)*

			Liabilities from financing activities						
	Cash and cash equivalents HK$'000	Restricted cash HK$'000	Borrowings HK$'000	Lease liabilities HK$'000	Amount due to non-controlling interest of a subsidiary HK$'000	Medium-term notes HK$'000	Bonds and debentures HK$'000	Derivative financial instruments HK$'000	Total HK$'000
Net debt as at 1 January 2020	4,352,327	235,101	(26,881,194)	(36,862)	–	(1,636,499)	(7,245,367)	(103,273)	(31,315,767)
Cash flows	507,604	177,036	(81,907)	21,044	38,950	377,524	(1,641,821)	(74,896)	(676,466)
Acquisition – leases	–	–	–	(28,661)	–	–	–	–	(28,661)
Currency exchange adjustments	17,626	(351)	48,084	703	32	(79,333)	(156,196)	558	(168,877)
Other non-cash movements (a)	–	–	152,003	(1,476)	(115,146)	–	(11,395)	(160,235)	(136,249)
Net debt as at 31 December 2020	4,877,557	411,786	(26,763,014)	(45,252)	(76,164)	(1,338,308)	(9,054,779)	(337,846)	(32,326,020)
Net debt as at 1 January 2021	**4,877,557**	**411,786**	**(26,763,014)**	**(45,252)**	**(76,164)**	**(1,338,308)**	**(9,054,779)**	**(337,846)**	**(32,326,020)**
Cash flows	**(145,085)**	**(177,166)**	**(5,266,288)**	**15,714**	**38,612**	**397,650**	**2,143,180**	**139,127**	**(2,854,256)**
Acquisition – leases	**–**	**–**	**–**	**(2,599)**	**–**	**–**	**–**	**–**	**(2,599)**
Currency exchange adjustments	**43,917**	**2,567**	**(249,748)**	**(579)**	**(275)**	**(39,158)**	**(104,116)**	**(953)**	**(348,345)**
Other non-cash movements (a)	**–**	**–**	**(198,810)**	**(2,020)**	**12,372**	**–**	**(6,993)**	**171,383**	**(24,068)**
Net debt as at 31 December 2021	**4,776,389**	**237,187**	**(32,477,860)**	**(34,736)**	**(25,455)**	**(979,816)**	**(7,022,708)**	**(28,289)**	**(35,555,288)**

(a) Other non-cash movements mainly arising from disposal and acquisition of borrowings, capital injection in a non wholly owned subsidiary, fair value change of derivative financial instruments and amortisation of upfront fees and issuing cost of borrowings, medium-term notes and bonds and debentures.

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Year ended 31 December 2021

	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Housing allowance HK$'000	Share-based payments HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman, executive director							
Dr. Zhao Wei	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Executive directors							
Mr. Poon Ho Man	**–**	**1,748**	**7,516**	**–**	**–**	**18**	**9,282**
Ms. Liu Wanting	**–**	**3,024**	**10,516**	**–**	**–**	**18**	**13,558**
Non-executive directors							
Mr. Tang Chi Chun (i)	**196**	**35**	**–**	**–**	**–**	**–**	**231**
Mr. Wang Hongyang (ii)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	**380**	**85**	**–**	**–**	**–**	**–**	**465**
Mr. Nien Van Jin, Robert	**370**	**85**	**–**	**–**	**–**	**–**	**455**
Mr. Cheok Albert Saychuan	**400**	**85**	**–**	**–**	**–**	**–**	**485**
Dr. Tse Hiu Tung, Sheldon (iii)	**200**	**40**	**–**	**–**	**–**	**–**	**240**
	1,546	**5,102**	**18,032**	**–**	**–**	**36**	**24,716**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' emoluments *(continued)*

Year ended 31 December 2020

	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Housing allowance HK$'000	Share-based payments HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman, executive director							
Dr. Zhao Wei	–	–	–	–	330	–	330
Executive directors							
Mr. Poon Ho Man	–	1,748	4,551	–	–	18	6,317
Ms. Liu Wanting	–	3,024	4,251	–	–	18	7,293
Non-executive director							
Mr. Tang Chi Chun (i)	200	35	–	–	–	–	235
Independent non-executive directors							
Mr. Fan Yan Hok, Philip	200	250	–	–	–	–	450
Mr. Nien Van Jin, Robert	200	240	–	–	–	–	440
Mr. Cheok Albert Saychuan	200	252	–	–	–	–	452
Mr. Chow Kwong Fai, Edward (iv)	83	104	–	–	–	–	187
Dr. Tse Hiu Tung, Sheldon (iii)	57	5	–	–	–	–	62
	940	5,658	8,802	–	330	36	15,766

Note:

(i) Resigned on 24 December 2021

(ii) Appointed on 24 December 2021

(iii) Appointed on 18 September 2020

(iv) Passed away on 1 June 2020

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2021 in relation to their services to these companies.

No emoluments were paid to any directors in respect of accepting office as director and in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking for the year ended 31 December 2021 (2020: Nil).

33 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

During the year ended 31 December 2021, the five individuals whose emoluments were the highest in the Group include two directors and three individuals (2020: two directors and three individuals). The emoluments paid to the directors are reflected in the analysis presented above. For the year ended 31 December 2021, the emoluments paid to three (2020: three) remaining individuals are as follows:

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Basic salaries and allowances	**8,907**	8,736
Discretionary bonuses	**3,214**	1,597
Other benefits	**396**	333
	12,517	10,666

The emoluments of the above three (2020: three) individuals fell within the following bands:

	Year ended 31 December	
	2021	2020
HK$3,000,001 to HK$4,000,000	**1**	2
HK$4,000,001 to HK$5,000,000	**2**	1

During the years ended 31 December 2021 and 2020, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 14(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of CEL and CEL indirectly holds approximately 37.9% equity interest in the Company as at 31 December 2021.

(i) Deposit, loan and facilities services provided by CE Group

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group may provide deposit services to the Group through its associate, China Everbright Bank Company Limited ("CE Bank"). Pursuant to the loan services framework agreement, CE Group may provide secured loan services and guarantees to the Group through CE Bank and through the trustee of a trust plan of which CE Group is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group may assign the finance lease receivables to the trustee.

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Interest income from CE Group	**3,425**	3,889
Interest expenses to CE Group	**195,390**	237,658
Loans upfront and arrangement fee to CE Group	**1,278**	1,357
Transactions handling charges to CE Group	**4,395**	8,266

	As at 31 December	
	2021	2020
	HK$'million	HK$'million
Bank deposits placed in CE Group	**1,796.9**	2,472.5
Borrowings due to CE Group	**3,653.9**	4,964.5
Undrawn facilities provided by CE Group	**697.1**	737.6

(ii) Lease of other assets to CEL Management Services Limited ("CEL Management")

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Operating lease income on other assets earned from:		
CEL Management	**–**	1,320

34 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries *(continued)*

(iii) Disposals of aircraft to Everbright Financial Leasing Co., Ltd.

During the year ended 31 December 2021, the Group disposed two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (2020: the Group disposed seven aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd.). The total consideration from the disposals of aircraft is HK$783.6 million (2020: HK$2,501.6 million) and recorded net income from aircraft transactions in the consolidated statement of income.

(b) Transactions with ARI Group and FLARI

(i) Service provided by ARI Group

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Service fee charged by:		
ARI Group (Note)	**9,906**	45,272
FLARI	**–**	430

Note: The amount of 2020 included aircraft inspection, consultancy, aircraft technical related services charged by ARI Group amounting to RMB29,675,000 (equivalent to approximately HK$33,160,000), which related to the disposal of nine aircraft.

(ii) Transactions with ARI Group

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. On 15 October 2018, a supplemental agreement was entered into to revise the interest rate to 3% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited with effect from 28 November 2018. As at 31 December 2021, the outstanding shareholders' loan balances receivable from ARI was amounted to HK$1,162,453,000 (2020: HK$1,059,703,000) (Note 6) and the interest income for the year ended 31 December 2021 was HK$99,598,000 (2020: HK$92,608,000) (Note 24).

During the year ended 31 December 2021, the Group entered into a factoring arrangement with ARI Group, which is secured by the receivables from a subsidiary of ARI, to provide the advance of RMB1.0 million (approximately equivalent to HK$1.2 million), the proceeds is charged at 5% per annum and payable in arrears of three monthly intervals. As at 31 December 2021, the outstanding advance receivables from ARI Group was amounted to HK$618,000 (2020: Nil).

As at 31 December 2021, ARI Group held bonds issued by the Group with principal amount of US$3,200,000.

34 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with ARI Group and FLARI *(continued)*

(ii) Transactions with ARI Group (continued)

During the year ended 31 December 2021, the Group acquired four aircraft (with lease arrangements) from ARI Group with total consideration of RMB512.5 million (equivalent to approximately HK$628.4 million) (2020: The Group acquired three aircraft (with lease arrangements) from ARI Group with total consideration of US$97,800,000 (equivalent to approximately HK$758,996,000)).

During the year ended 31 December 2020, the Group entered into a letter of intent with ARI Group relating to the purchase of five engines, which would be delivered in 2021, with total consideration of US$55,000,000 (equivalent to approximately HK$426,388,000). During the year ended 31 December 2021, the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the above engines to be no later than 2022. As at 31 December 2021, the Group had placed interest-free deposit amounted to HK$234,796,000 (2020: HK$232,575,000).

During the year ended 31 December 2021, the Group entered into a letter of intent with ARI Group relating to the purchase of entire equity interest of Skylink 1-Aircraft Leasing Limited, a wholly-owned subsidiary in ARI Group, with total consideration of US$8,800,000 (equivalent to approximately HK$68,614,000). As at 31 December 2021, the Group had placed deposit amounted to US$4,400,000 (equivalent to approximately HK$34,307,000).

(iii) Transaction with FLARI

Pursuant to the shareholders' credit line agreement dated 30 October 2019, 25 August 2020 and 25 November 2020, the Group granted loans to FLARI, interest bearing at 6.6% per annum, 6.7% per annum and 6.7% per annum, respectively, which is calculated on quarterly basis on the actual amount of the shareholders' loan drawn down. As at 31 December 2021, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK$4,809,000 (2020: HK$6,311,000) (Note 6) and the interest income for the year ended 31 December 2021 was HK$415,000 (2020: HK$244,000).

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased items of plant and machinery and office equipment and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK$24,524,000) (2020: Nil), the proceeds is charged at 8% per annum and payable in arrears of three monthly intervals. As at 31 December 2021, the outstanding advance receivables from FLARI Group was amounted to HK$24,376,000 (2020: Nil).

34 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with CAG Group

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Fair value gains of long-term investments in CAG Group	**35,867**	33,095
Asset management service fees income from CAG Group	**12,102**	12,212

(d) Transaction with ARG and its subsidiaries (collectively as "ARG Group")

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Fair value gains of long-term debt investments in ARG Group	**3,174**	5,865

ARG is a subsidiary of ARI.

(e) Transaction with HNCA One (Tianjin) and HNCA Two (Tianjin)

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

As at 31 December 2021, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK$37,063,000 (2020: HK$34,467,000) (Note 6) and HK$37,014,000 (2020: HK$34,423,000) (Note 6), respectively, and the interest income for the year ended 31 December 2021 was HK$1,399,000 (2020: Nil) and HK$1,397,000 (2020: Nil), respectively.

(f) Disposal of aircraft and related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin) and ARI Group

During the year ended 31 December 2020, the Group disposed two aircraft and related businesses to HNCA One (Tianjin) and HNCA Two (Tianjin), and four aircraft and related business to ARI Group (including two aircraft disposed by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in the aircraft).

During the year ended 31 December 2020, the total consideration from aforementioned disposals was HK$1,132.9 million and recorded net income from aircraft transactions in the consolidated statement of income.

34 RELATED PARTY TRANSACTIONS *(continued)*

(g) Prepayments and amounts due from related parties

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Prepayments to ARI Group (Note 34(b)(ii))	**269,104**	232,575
Amounts due from ARI Group (i)	**502**	79,279
FPAM Group	**6**	6
	269,612	311,860

(i) Balance as at 31 December 2020 included dividend receivables from two wholly-owned subsidiaries of the Company amounted to HK$78,846,000. The entire equity interest of these wholly-owned subsidiaries of the Company were disposed to ARI Group during the year ended 31 December 2020. The Group received the settlement of this balance from ARI Group during the year ended 31 December 2021.

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

(h) Amounts due to related parties

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
ARI Group	**1,442**	16

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

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

As at 31 December 2021, the outstanding balance due to Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) was HK$25,455,000 (2020: HK$76,164,000). The amount was unsecured, interest-free and repayable on demand.

34 RELATED PARTY TRANSACTIONS *(continued)*

(j) Transaction with TAM

During the year ended 31 December 2021, the Group entered into an operating lease arrangement of one aircraft with TAM. The operating lease income earned during the year was HK$2,384,000 (2020: Nil).

(k) Key management compensation

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

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Director fee, salaries, bonus and other short-term employee benefits	**37,234**	26,102
Share-based payments	**–**	330
	37,234	26,432

35 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 31 December 2021, the Group provided guarantee to certain bank borrowings of associates and joint ventures amounting to HK$681,467,000 (2020: HK$729,000,000). These borrowings were secured by the related aircraft leased to airline companies in Mainland China under operating leases and certain portion of the guarantee was countered guaranteed by an investor of the joint ventures. The credit risk of the Group associated with the financial guarantee is limited.

(b) Capital commitments

Capital expenditures contracted but not provided for at the end of the reporting period are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft	**93,930,570**	98,048,611

The capital commitments were mainly related to acquisition of Airbus aircraft and Boeing aircraft in their order book, which will be delivered in stages by the end of 2027.

(c) Loan commitments

Loan commitments contracted but not provided for at the end of the reporting period are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Contracted but not provided for:		
Shareholder loan commitment to ARG	**–**	129,203

(d) Short term lease commitments – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Not later than 1 year	**570**	87

35 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(e) Operating lease arrangement – where the Group is the lessor

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Not later than 1 year	**2,772,322**	1,808,356
Later than 1 year but not later than 2 years	**2,790,358**	1,820,478
Later than 2 year but not later than 3 years	**2,628,356**	1,830,698
Later than 3 year but not later than 4 years	**2,346,342**	1,702,756
Later than 4 year but not later than 5 years	**1,873,918**	1,471,792
Later than 5 years	**6,537,183**	4,846,172
	18,948,479	13,480,252

The above commitment included amount of HK$465,592,000 (2020: Nil) related to assets classified as held for sale (Note 10).

The Group had future minimum lease receipts under non-cancellable operating leases or sub-leases in respect of office premises are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Not later than 1 year	**44**	190
Later than 1 year but not later than 2 years	**–**	48
	44	238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	5,446,158	2,364,862
Financial asset at fair value through profit or loss	15,495	–
Loans and interest receivables from subsidiaries	490,545	520,066
Amounts due from subsidiaries	995,317	1,598,706
Prepayments and other receivables	640	813
Cash and cash equivalents	648,368	3,722
Total assets	7,596,523	4,488,169
EQUITY		
Share capital	74,762	72,000
Reserves	2,214,004	2,078,679
Retained earnings	471,232	689,442
Total equity	2,759,998	2,840,121
LIABILITIES		
Amounts due to subsidiaries	2,536,959	693,200
Interest payables	9,855	11,057
Bank borrowings	1,735,992	672,297
Bonds and debentures	542,817	268,999
Other liabilities and accruals	10,902	2,495
Total liabilities	4,836,525	1,648,048
Total equity and liabilities	7,596,523	4,488,169

The balance sheet of the Company was approved by the Board of Directors on 16 March 2022 and was signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(a) Reserve movement of the Company

	Reserves HK$'000	Retained earnings HK$'000
Balance as at 1 January 2020	1,811,814	651,419
Comprehensive income		
Profit for the year	–	479,121
Total comprehensive income	–	479,121
Transactions with shareholders		
Buy-back of shares	(18,872)	–
Share option scheme:		
– Value of services	330	–
– Share options lapsed	(23,746)	23,746
Dividends	309,153	(464,844)
Total transactions with shareholders	266,865	(441,098)
Balance as at 31 December 2020	2,078,679	689,442
Balance as at 1 January 2021	**2,078,679**	**689,442**
Comprehensive income		
Profit for the year	**–**	**35,509**
Total comprehensive income	**–**	**35,509**
Transactions with shareholders		
Buy-back of shares	**(38,220)**	**–**
Dividends	**173,545**	**(253,719)**
Total transactions with shareholders	**135,325**	**(253,719)**
Balance as at 31 December 2021	**2,214,004**	**471,232**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES

As at 31 December 2021, the Company had direct or indirect interests in the following principal subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
Directly owned:					
China Aircraft Leasing Company Limited	British Virgin Islands ("BVI") 24 March 2006	US$348,029,000	100%	Investment/asset holding	Limited liability entity
Aircraft Recycling International Holdings Limited	BVI 24 February 2016	US$1	100%	Investment holding	Limited liability entity
CALC Bond 2 Limited	BVI 21 July 2016	US$1	100%	Investment holding	Limited liability entity
CALC Bond 3 Limited	BVI 17 February 2017	US$1	100%	Investment holding	Limited liability entity
CALC Bonds Limited	BVI 26 October 2017	US$1	100%	Investment holding	Limited liability entity
CALC Perpetual Bond Cayman 1 Limited	Cayman Islands 5 November 2020	US$1,001,841	100%	Investment holding	Limited liability entity
Indirectly owned:					
CALC 10-Aircraft Limited	Ireland 20 June 2012	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 11-Aircraft Limited	Ireland 10 December 2014	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 12-Aircraft Limited	Ireland 6 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 19-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 20-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 30-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 31-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 32-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 33-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC Bermuda Holdings Limited	Bermuda 16 May 2018	US$1	100%	Investment holding	Limited liability entity
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR2,000,000	100%	Provision of financing	Partnership

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC Global Leasing Limited	Ireland 18 December 2014	EUR1	100%	Investment holding	Limited liability entity
CALC Perpetual Bond Ireland 1 Limited	Ireland 23 September 2019	EUR1	100%	Provision of financing	Limited liability entity
CALC Perpetual Bond Malta 1 Limited	Malta 27 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
CALC PDP 3 Limited	BVI 15 May 2017	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 5 Limited	BVI 2 August 2018	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 8 Limited	Cayman Islands 12 June 2018	US$1	100%	Provision of financing	Limited liability entity
China Aircraft Assets Limited	Hong Kong 3 May 2013	HK$1	100%	Provision of financing	Limited liability entity
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HK$1	100%	Provision of management services	Limited liability entity
Sino Teamwork Limited	Hong Kong 9 January 2013	HK$1	100%	Provision of financing	Limited liability entity
ZF Ireland Aircraft 42 Limited	Ireland 22 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 45 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 46 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 49 Limited	Ireland 22 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 51 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 52 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 53 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 54 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 55 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 56 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 57 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
ZF Ireland Aircraft 69 Limited	Ireland 9 January 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 70 Limited	Ireland 9 January 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 71 Limited	Ireland 9 January 2018	EUR10	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 72 Limited	Ireland 23 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 73 Limited	Ireland 23 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 76 Limited	Ireland 20 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 83 Limited	Ireland 10 September 2018	EUR10	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 87 Limited	Ireland 10 September 2018	EUR100	100%	Aircraft leasing	Limited liability entity
ZF Oriental 3 Limited	Hong Kong 6 July 2017	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 4 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 5 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 6 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 13 Limited	Hong Kong 9 October 2019	HK$10	100%	Aircraft leasing	Limited liability entity
ZF Oriental Holdings 2 Limited	Hong Kong 29 March 2021	HK$10	100%	Provision of financing	Limited liability entity
ZF Oriental Assets Limited	Hong Kong 3 January 2019	HK$1	100%	Aircraft trading	Limited liability entity
CALC Aircraft Assets Limited	Labuan 18 November 2015	US$10,000	100%	Aircraft trading	Limited liability entity
CALC Aviation Assets Limited	Labuan 30 December 2015	US$100	100%	Aircraft leasing	Limited liability entity
CALC Aviation Capital Limited	Labuan 30 December 2015	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sebelas Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sembilan Limited	Labuan 12 July 2016	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sepuluh Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
ZF Finance Limited	Malta 11 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
Linkasia Airlines (formerly known as "Aviation Synergy Ltd")	Cayman Islands 3 August 2016	US$38,451,000	72.82%	Investment holding	Limited liability entity
中永順融資租賃(上海)有限公司 (China Aircraft Leasing Company Limited (Shanghai))	PRC 27 November 2013	US$150,000,000	100%	Investment holding	Limited liability entity
中永洪化融資租賃(上海)有限公司 (CALC Honghua Financial Leasing Limited)	PRC 31 March 2014	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧一飛機租賃(上海)有限公司 (Zhongyong Chongning 1 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛天復租賃(天津)有限公司 (CALC Tianfu Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛太和租賃(天津)有限公司 (CALC Taihe Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛文明租賃(天津)有限公司 (CALC Wenming Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛永淳租賃(上海)有限公司 (CALC Yong Chun Limited)	PRC 10 October 2012	RMB1,000,000	100%	Aircraft leasing	Limited liability entity
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	PRC 25 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建中租賃(天津)有限公司 (CALC Jianzhong Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	PRC 8 November 2011	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US$950,000,000	100%	Investment holding	Limited liability entity
中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛開禧租賃(天津)有限公司 (CALC Kaixi Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嘉定租賃(天津)有限公司 (CALC Jiading Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛中和融資租賃(天津)有限公司 (CALC Zhonghe Financial Leasing Limited)	PRC 8 August 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天壽租賃(天津)有限公司 (ZJ Tianshou Leasing (Tianjin) Co., Ltd.)	PRC 17 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛光啟租賃(天津)有限公司 (CALC Guangqi Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛大中租賃(天津)有限公司 (CALC Dazhong Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛景定租賃(天津)有限公司 (CALC Jingding Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機始興租賃(天津)有限公司 (ZJ Shixing Leasing (Tianjin) Co., Ltd.)	PRC 16 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機開明租賃(天津)有限公司 (ZJ Kaiming Leasing (Tianjin) Co., Ltd.)	PRC 16 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機明政租賃(天津)有限公司 (ZJ Mingzheng Leasing (Tianjin) Co., Ltd.)	PRC 17 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機進通租賃(天津)有限公司 (ZJ Jintong Leasing (Tianjin) Co., Ltd.)	PRC 18 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建隆租賃(天津)有限公司 (ZJ Jianlong Leasing (Tianjin) Co., Ltd.)	PRC 23 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機開寶租賃(天津)有限公司 (ZJ Kaibao Leasing (Tianjin) Co., Ltd.)	PRC 23 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機干德租賃(天津)有限公司 (ZJ Gande Leasing (Tianjin) Co., Ltd.)	PRC 24 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機治平租賃(天津)有限公司 (ZJ Zhiping Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大曆租賃(天津)有限公司 (ZJ Dali Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中機皇慶租賃(天津)有限公司 (ZJ Huangqing Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機證聖租賃(天津)有限公司 (ZJ Zhengsheng Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天慶租賃(天津)有限公司 (ZJ Tianqing Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機宣德租賃(天津)有限公司 (ZJ Xuande Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機延載租賃(天津)有限公司 (ZJ Yanzai Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機神功租賃(天津)有限公司 (ZJ Shengong Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建安飛機租賃(上海)有限公司 (ZJ Jianan Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永漢飛機租賃(上海)有限公司 (ZJ Yonghan Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永康飛機租賃(上海)有限公司 (ZJ Yongkang Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建寧飛機租賃(上海)有限公司 (ZJ Jianning Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建和飛機租賃(上海)有限公司 (ZJ Jianhe Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永壽飛機租賃(上海)有限公司 ZJ Yongshou Aircraft Leasing (Shanghai) Company Limited	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永興飛機租賃(上海)有限公司 (ZJ Yongxing Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機熹平飛機租賃(上海)有限公司 (ZJ Xiping Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中機初平飛機租賃(上海)有限公司 ZJ Chuping Aircraft Leasing (Shanghai) Company Limited	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機元嘉飛機租賃(上海)有限公司 (ZJ Yuanjia Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機興平飛機租賃(上海)有限公司 (ZJ Xingping Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機昭寧飛機租賃(上海)有限公司 (ZJ Zhaoning Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機至正租賃(天津)有限公司 (ZJ Zhizheng Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機至治租賃(天津)有限公司 (ZJ Zhizhi Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大觀租賃(天津)有限公司 (ZJ Daguan Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機慶元租賃(天津)有限公司 (ZJ Qingyuan Leasing (Tianjin) Co., Ltd.)	PRC 26 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛寶慶租賃(天津)有限公司 (CALC Baoqing Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛睿天成融資租賃(天津)有限公司 (CALC RuiTianCheng Financial Leasing Limited)	PRC 28 July 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

38 EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Pursuant to the announcement made on 18 February 2022, the Group successfully completed the issuance of RMB1.2 billion (approximately equivalent to HK$1.5 billion) private bonds with a term of 3 years at the coupon rate of 4.4% on 18 February 2022.

(b) While the industry is assessing the impact brought by the Russia-Ukraine situation, it is in common view that it would not affect the long-term growth of the aviation sector proven by its strong resilience to withstand shocks in history. Two of the Group's owned aircraft with the total carrying amount of HK$635.5 million are being leased to two Russian carriers (one to each). The relatively small exposure to Russia is further protected by the security deposit and maintenance reserves held by the Group under the two leases. The Group will continue to monitor and assess the situation as it evolves.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Aircraft Leasing Group Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 74 to 169, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Assessment on working capital sufficiency	
Refer to Note 2.1(a) to the consolidated financial statements. As at 31 December 2022, the Group's current liabilities exceeded its current assets by HK$12,676.7 million (Note 3.1.3). The Group had capital commitments amounting to HK$85,394.3 million (Note 36) mainly relating to aircraft purchase, of which HK$15,679.4 million was payable within one year. COVID-19 and responsive government actions have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, all of which had a contrary effect on the business operation and financial condition of the Group. The directors focus on the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The Group has prepared detailed cash flow forecasts. The Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 31 December 2022 and therefore continue as a going concern. The directors' forecasts are based on a number of assumptions including the aircraft delivery and leasing schedules, available financing resources that have been granted or will be granted and the amount of capital commitments. We focused on this matter because the preparation of cash flow forecasts requires the directors to make significant judgement on the assessment of the assumptions.	We obtained the Group's cash flow forecasts, which covered a period of not less than twelve months from 31 December 2022. We evaluated the key assumptions made in those cash flow forecasts, in particular the forecast aircraft delivery schedules, available financing resources and capital commitments. To test the aircraft delivery and leasing schedules, we examined aircraft purchase agreements entered into by the Group and aircraft manufacturers; and lease agreements or letters of intent entered into by the Group and airline companies. To test available financing resources, we obtained independent confirmations from relevant financial institutions, examined loan agreements or letters of intent issued by financial institutions during the year. We confirmed the Group's year end cash and cash equivalents, and borrowing balances by obtaining independent confirmations from the financial institutions. To test the amount of capital commitments, we examined aircraft purchase agreements entered into by the Group and aircraft manufacturers. We compared the actual outcome with the forecast for the year 2022 to evaluate management assessment made in prior year. We performed sensitivity analysis over key assumptions to ascertain the extent of adverse changes that would make the Group incapable of meeting its ongoing obligations as they fall due. We assessed the adequacy of the disclosures relating to the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. Based on the work performed, the directors' assumptions of the cash flow forecasts were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for tax positions	
Refer to Note 4.1(a) and Note 16 to the consolidated financial statements. As at 31 December 2022, current income tax liabilities were HK$45.9 million and deferred income tax liabilities were HK$1,057.1 million. We focused on this area because the Group is subject to taxation in multiple jurisdictions and, in many cases, the ultimate tax treatment cannot be determined until being concluded with the relevant tax authority. In addition, the directors are required to exercise significant judgement in determining the appropriate amount of deferred tax based on the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of the lease terms.	We assessed the inherent risk of material misstatement on provision for tax positions by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We examined the correspondences between the Group and the relevant tax authorities and between the Group and its external advisers. We made reference to the taxation laws of the relevant tax jurisdictions to evaluate the available evidence for assessing the provision made by the directors. We evaluated the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of the lease terms by checking the lease agreements and testing the calculation of depreciation and estimated realisable values. We tested mathematical accuracy of the directors' calculations of current and deferred tax provisions and evaluated whether the calculations were in line with the Group's tax policies and the tax rules and regulations in the respective jurisdictions, and had been applied consistently. Based on the work performed, the provision for tax positions were supported by available evidence.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Assessment of investment in CAG Group	
Refer to Note 4.2(c) to the consolidated financial statements. In June 2018, the Group and some mezzanine financiers jointly established CAG Group with a shareholding ratio of 20% and 80% respectively. CAG Group is principally engaged in lease-attached aircraft portfolio investment. The Group provides aircraft and lease management service to CAG Group. The management has assessed its investment in CAG Group on the basis of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from CAG Group. The Group has concluded that it does not control CAG Group. We focused on this matter because the assessment as to whether the Group has control of CAG Group requires the directors to make significant judgement.	We discussed with management and examined all the relevant documents entered into by the Group relating to the investment in CAG Group to update our understanding of the contractual rights and obligations of the transactions. We assessed the extent of the Group's power over CAG Group based on the consideration and assessment of the relevant factors including CAG Group's purpose and design, CAG Group's relevant activities, the decision-making authority about the relevant activities and whether the rights of the Group give it ability to direct the relevant activities based on the documents available and our understanding and knowledge of the industry. We evaluated the key assumptions used in the calculation of the variable returns from CAG Group, including the distribution and the interest from CAG Group pursuant to the shareholders' agreement and shareholder loan agreement and service fees income earned. We tested the mathematical accuracy of the model used in calculating the variable returns from CAG Group. In light of the above, we evaluated the ability of the Group to use its power over CAG Group to affect the amount of the Group's returns. Based on the work performed, we found the directors' assessments were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision of lease receivables	
Refer to Note 4.1(d), Note 7 and Note 9 to the consolidated financial statements. Due to the COVID-19, many of the airline customers have curtailed their commercial operations, which could result in lease defaults. As at 31 December 2022, the finance lease receivables and operating lease receivables are HK$8,183.9 million and HK$492.4 million respectively. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management made impairment provisions of finance lease receivables of HK$11.8 million (Note 7) and impairment provisions of operating lease receivables of HK$187.5 million (Note 9). The Group applied the simplified approach on measuring expected credit losses ("ECL") prescribed by HKFRS 9. The management categorised the lease receivables portfolio based on the lease classification and shared credit risk characteristics of airlines, and recognised provision for ECL based on assumptions about risk of default and loss given default, which include consideration of historical credit loss experience, current status and forward-looking information. We focused on this matter because the provision for ECL involves significant accounting estimations and judgements.	We assessed the inherent risk of material misstatement on provision for lease receivables by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We understood, evaluated and validated key controls over the internal credit rating assessment. We reviewed the modelling methodology for measurement of ECL, and assessed the reasonableness of the key parameters, judgements and assumptions in relation to the models. We assessed the forward-looking information management used to determine ECL, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios. We examined the calculation of ECL model, on a sample basis, to validate whether the ECL calculation reflected the modelling methodology documented by management. We assessed the adequacy of the disclosures relating to provision for lease receivables in the context of the HKFRS disclosure requirements. Based on the procedures performed, we considered that the risk assessment of provision for lease receivables remained appropriate and model, significant assumptions and data used by the directors in the assessment of provision for lease receivables were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chow Sai Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2023

CONSOLIDATED BALANCE SHEET

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

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

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

ZHANG Mingao
Director

POON Ho Man
Director

CONSOLIDATED STATEMENT OF INCOME

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Perpetual capital securities and other non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2021	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769
Comprehensive income						
Profit for the year	–	–	525,780	525,780	101,490	627,270
Other comprehensive income						
Cash flow hedges (Note 20)	–	195,810	–	195,810	–	195,810
Currency translation differences	–	71,237	–	71,237	(957)	70,280
Total comprehensive income	–	267,047	525,780	792,827	100,533	893,360
Transactions with shareholders and non-controlling interests						
Buy-back and cancellation of shares (Note 13(a))	(251)	(38,220)	–	(38,471)	–	(38,471)
Dividends	3,013	173,545	(253,719)	(77,161)	–	(77,161)
Dividend distributed to perpetual capital securities (Note 15)	–	–	–	–	(176,242)	(176,242)
Total transactions with shareholders and non-controlling interests	2,762	135,325	(253,719)	(115,632)	(176,242)	(291,874)
Balance as at 31 December 2021	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2022 HK$'000	2021 HK$'000
Cash flows from financing activities			
Proceeds from borrowings		**19,391,991**	19,613,538
Issue of bonds and debentures, net of transaction costs		**2,649,260**	2,370,300
Issue of medium-term notes, net of transaction costs		**1,834,982**	–
Repayments of borrowings		**(13,717,579)**	(14,347,250)
Repurchase and repayment of bonds and debentures, including transaction costs		**(4,041,541)**	(4,513,480)
Repayment of medium-term notes		**(956,560)**	(397,650)
Repayment of lease liabilities		**(14,141)**	(15,714)
Repayment of amount due to non-controlling interests		**–**	(38,612)
Interest paid in respect of derivative financial instruments		**(42,793)**	(139,127)
Interest paid in respect of borrowings, notes, bonds and debentures		**(1,787,297)**	(1,483,767)
(Increase)/decrease in deposits pledged in respect of borrowings		**(1,004,697)**	9,667
Decrease in deposits pledged in respect of derivative financial instruments		**121,828**	167,499
Buy-back of shares, including transaction costs		**–**	(38,471)
Dividends paid to holders of perpetual capital securities	15	**(124,359)**	(87,235)
Dividends paid to shareholders		**(300,816)**	(77,161)
Net cash flows generated from financing activities		**2,008,278**	1,022,537
Net decrease in cash and cash equivalents		**(1,172,400)**	(145,085)
Cash and cash equivalents at beginning of the year		**4,776,389**	4,877,557
Currency exchange difference on cash and cash equivalents		**(51,456)**	43,917
Cash and cash equivalents at end of the year		**3,552,533**	4,776,389

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands. The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Company and its subsidiaries (together, the "Group") have operations mainly in Mainland China and other countries or regions globally.

The consolidated financial statements for the year ended 31 December 2022 are presented in Hong Kong dollar ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- derivative financial instruments and financial assets at fair value through profit or loss - measured at fair value; and

- assets classified as held for sale - measured at the lower of carrying amount and fair value less costs to sell.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Going concern

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

During the years 2020 to 2022, COVID-19 and responsive travel restrictions imposed by the governments have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, which have a negative effect on the business operation and financial condition of certain airline customers of the Group. The Group experienced delay in lease payments from and adjusted the delivery schedules of new aircraft to a few airline customers during COVID-19. However, starting from late 2022, after experiencing the worst downturn in its history, the industry has turned the corner on the COVID-19 and the situation of the Group's airline customers is improving.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

The Group will need to secure a substantial amount of funds in the foreseeable future to finance the financial obligations and capital expenditures under contractual and other arrangements. The directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than twelve months from 31 December 2022. The directors have taken into account the following plans and measures for the purposes of their assessment:

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

  The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approvals from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience, latest delivery schedule and industry knowledge. Based on past experience, the directors are of the view that they are able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances. As at 31 December 2022, the Group had already obtained PDP financing facilities from banks to provide financing up to HK$2,493.9 million to satisfy the forecasted committed PDP payments in the next twelve months from 31 December 2022.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Going concern *(continued)*

– New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and the repayments of the PDP financing due upon delivery of aircraft. Such aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes finances the new aircraft with internal resources or short-term bridging financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the year ended 31 December 2022, the Group has obtained 42 aircraft project loan facilities of US$1,260.5 million (approximately equivalent to HK$9,841.7 million) from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time and has concluded four aircraft project loan facilities subsequent to 31 December 2022. Based on these aircraft project loan arrangements, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 31 December 2022.

– As at 31 December 2022, the Group had working capital loan and revolving loan facilities of HK$8,529.2 million out of which HK$6,535.8 million has been utilised. The directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK$1,993.4 million as and when required and will be able to renew substantially all the existing revolving facilities. The Group has also initiated the process to obtain new working capital loan and revolving loan facilities with certain banks and has concluded three new working capital loan and revolving loan facilities with facility amount of US$61.8 million (approximately equivalent to HK$482.5 million) subsequent to 31 December 2022.

– The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes, as well as other debt and capital financing. In particular, the Group has (i) obtained the official registration acceptance notification from the National Association of Financial Market Institutional Investors for issuance of super short-term debenture up to a principal amount of RMB3.0 billion in the PRC within two years from June 2021 and (ii) obtained the official registration acceptance notification from the China Securities Regulatory Commission for issuance of unsecured bonds up to a principal amount of RMB2.0 billion in the PRC within two years from October 2022. In February, April and October 2022, the Group completed the issuance of private bonds of RMB1.2 billion, medium-term notes of RMB1.5 billion and super short-term debentures of RMB1.0 billion in China. The Group will review the market conditions and consider issuing RMB super short-term debentures, RMB medium-term notes, RMB bonds and US$ bonds under the US$3.0 billion guaranteed MTN programmes if appropriate. Based on the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Going concern *(continued)*

– The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled certain aircraft to be disposed of in the next twelve months from 31 December 2022, of which, up to March 2023, the Group has signed letters of intent or sale and purchase agreements for the disposals of six aircraft. During the year ended 31 December 2022, the Group completed five aircraft disposals and received net proceeds from relevant disposals of HK$1,683.5 million. Based on the Group's experience in aircraft portfolio trading in previous years, the directors are confident that the scheduled disposals of aircraft will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 31 December 2022.

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, the cash flows generated from its business operations, continued availability of existing and new banking facilities, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments and the successful disposals of aircraft as planned, the Group has sufficient working capital for its present requirements in the next twelve months from 31 December 2022. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and hence prepared the consolidated financial statements on a going concern basis.

(b) New and amended standards adopted by the Group

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2023 and have not been early adopted in preparing the consolidated financial statements for the year ended 31 December 2022.

	Effective Date
Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates – Amendments to HKAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12	1 January 2023
HKFRS 17 Insurance Contracts	1 January 2023 (deferred from 1 January 2021)
Classification of Liabilities as Current or Non-current – Amendments to HKAS 1	1 January 2023 (deferred from 1 January 2022)
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	Applied when an entity applies "Classification of Liabilities as Current or Non-current – Amendments to HKAS 1"
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to HKFRS 10 and HKAS 28	N/A

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

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

A business is defined in HKFRS 3 as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income or generating other income from ordinary activities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(a) ***Consolidation*** *(continued)*

(i) Business combinations (continued)

The three components of a business are: inputs; processes; and outputs. An input is an economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it, such as non-current assets, intellectual property, the ability to access necessary materials or rights, employees and so on. A process is a system, standard, protocol, convention or rule that, when it is applied to an input or inputs creates outputs, or has the ability to contribute to the creation of outputs. Outputs are the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income (such as interest or dividends) or generate other income from ordinary activities. A business consists of inputs and processes applied to the inputs that have the ability to contribute to the creation of outputs.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss. Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

(a) ***Consolidation*** *(continued)*

(ii) *Changes in ownership interests in subsidiaries without change of control*

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

(iii) *Disposal of subsidiaries*

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

(b) ***Separate financial statements***

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

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

(c) ***Structured entities***

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates and joint ventures

Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Investments in associates and joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The equity-accounted investment includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an equity-accounted investment, any difference between the cost of the equity-accounted investment and the share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill. If the ownership interest in an equity-accounted investment is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the equity-accounted investment, including any other unsecured long-term receivables that, in substance, form part of the investor's net investment in the associate or joint ventures, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investment.

The Group determines at each reporting date whether there is any objective evidence that the equity-accounted investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

Profits and losses resulting from upstream and downstream transactions involving assets that do not constitute a business between the Group and its equity-accounted investments are recognised in the Group's financial statements only to the extent of unrelated investor's equity-accounted investments. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The profit or loss resulting from a downstream transaction involving assets that constitute a business, as defined in HKFRS 3, between the Group and its associate or joint venture is recognised in full in the consolidated financial statements. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. Gains or losses on dilution of equity-accounted investments are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);

(iii) all resulting foreign exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The estimated useful lives and estimated residual value rate are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate
Aircraft and engine	25 years from the date of manufacture	5 – 15%
Leasehold improvements	Shorter of lease term or 3 years	0%
Office equipment	2 to 5 years	5%
Office building	50 years	0%
Others	4 to 10 years	0%

The assets' residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Gains and losses on disposal of aircraft are recognised within net income from aircraft transactions and aircraft trading in the consolidated statement of income. Gains and losses on disposal of other property, plant and equipment are recognised within other operating income/expenses in the consolidated statement of income.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale.

2.9 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The debt instruments shall be classified as financial asset not at fair value through profit or loss ("FVPL") if the cash flow characteristics cannot pass the test on solely payments of principal and interest on the principal amount. Otherwise, the classification of debt instruments will depend on the business model provided the fair value option is not elected.

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

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

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

(b) Recognition and derecognition

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(c) Measurement

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

Debt instruments

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

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

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

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

Equity instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For operating lease receivables and finance lease receivables except for unguaranteed residual values for which impairment is subject to the requirements under HKAS 36, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the finance lease receivables.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The financial assets and financial liabilities of the Group that are subject to such enforceable master netting arrangements or similar agreements are not offset in accordance with HKFRSs.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of exposures to variability in cash flows (cash flow hedges) that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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

The fair values of derivative financial instruments designated in hedge relationships are disclosed in notes to the consolidated financial statements. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Derivative financial instruments and hedging activities *(continued)*

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in other gains, net in the consolidated statement of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the forecast transaction being hedged affects profit or loss (for example, when the interest payment that is hedged occurs). They are recorded in the expense lines in the consolidated statement of income in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any gain or loss on the hedging instrument that has been accumulated in equity from the period when the hedge was effective remains in equity. When the forecast transaction is ultimately recognised in profit or loss, the related accumulated hedge gain or loss in equity is reclassified to profit or loss. When a forecast transaction is no longer expected to occur, any accumulated hedge gain or loss in equity is immediately reclassified and included in other gains, net in the consolidated statement of income.

Derivatives that do not qualify for hedge accounting

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

2.12 Aircraft components trading assets

Aircraft components trading assets consist primarily of airframe parts. Aircraft components trading assets are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing the aircraft components trading assets to their present location and condition.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in liabilities, if any.

2.14 Share capital and treasury share

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are recognised in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to shareholders of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to shareholders of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Equity instruments

Financial instruments issued by the Group are classified as equity instruments when both of the following conditions are satisfied:

(a) The financial instruments have no contractual obligation to pay in cash or other financial assets to other parties nor to exchange financial assets or liabilities under potential adverse condition with other parties;

(b) The financial instruments should and can be settled via equity instruments of the Group. For non-derivative instruments, the instruments have no contractual obligation to be settled by delivering fixed number of equity instruments of the Group. For derivative instruments, they can only be settled through the exchange of fixed number of the Group's equity instruments with fixed amount of cash or other financial assets.

Perpetual capital securities issued by the subsidiaries of the Company with no contractual obligation to repay the principal or to pay any distribution are classified as perpetual capital securities in equity of the Group.

2.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value, and less any repaid principal is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and is included in the computation of the loan's effective interest rate. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Interests related to progress payments made in respect of aircraft in the process of construction on forward order are capitalised and such amounts are added to prepayments on aircraft. The amount of interest capitalised is the actual interest costs incurred on funding specific to the progress payments or the amount of interest costs which could have been avoided in the absence of such progress payments.

Other borrowing costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted before the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities or trustees. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities or trustees and are separate from those of the Group.

(c) Profit-sharing and bonus plan

The Group recognises a liability and an expense for bonuses and profit sharing, based on formulae that take into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares over which the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

In addition, in some circumstances employees or consultants may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Share-based payments *(continued)*

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

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the financial statements of the Company.

2.20 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.21 Leases

(a) *Where the Group is lessee*

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(a) ***Where the Group is lessee*** *(continued)*

- payments of penalties for terminating the lease, if the lease term reflects such penalties upon the Group exercising a purchase option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of office premises are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(b) Where the Group is lessor

Finance lease

A finance lease is a lease that the Group as the lessor uses to transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. The Group recognises assets held under a finance lease as finance lease receivable at an amount equal to net investment in the lease, which is the gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the leases is the sum of the lease payments receivable and any unguaranteed residual value accruing to the lessor. At the commencement of the lease term, the lease payments included in the measurement of the net investment in the lease mainly comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date: (a) fixed payments less any lease incentives payable; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

A lessor shall account for a modification to a finance lease as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows: (a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall: (i) account for the lease modification as a new lease from the effective date of the modification; and (ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. (b) otherwise, the lessor shall apply the requirements of HKFRS 9.

See Note 2.9 for accounting policies for derecognition and impairment of finance lease receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(b) ***Where the Group is lessor*** *(continued)*

Operating lease
A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

See Note 2.9 for accounting policies for impairment of operating lease receivables.

2.22 Revenue and income recognition

(a) ***Finance lease income***

The finance income under a finance lease is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Variable lease payments that do not depend on an index or a rate is recognised as income in the period in which the event or condition that triggers those payments occurs.

(b) ***Operating lease income***

The lease payments under operating lease are recognised as income on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate is recognised as income in the period in which the event or condition that triggers those payments occurs.

(c) ***Interest income***

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised within other income (Note 24).

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(d) ***Net income from aircraft components trading***

Net income from aircraft components trading originates primarily from the sale of engine and airframe parts. The sale is recognised when the relevant asset is delivered and the control of the relevant asset has been transferred to the buyer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue and income recognition *(continued)*

(e) Service income

Service income is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the consolidated statement of income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of income on a straight-line basis over the expected lives of the related assets.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are mainly given by the Company to banks, financial institutions and other bodies to support subsidiaries in securing loans, overdrafts and other banking facilities.

Where a financial guarantee in relation to borrowings or other payables of subsidiaries is provided for no compensation, its fair value is accounted for as an equity contribution and recognised as part of the cost of the investment in subsidiaries in the financial statements of the Company.

2.25 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

2.26 Segment information

The Group is mainly engaged in the provision of aircraft leasing services to global airline companies. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

3.1.1 Market risk

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other assets, financial liabilities including bank borrowings, medium-term notes, bonds and debentures, and other liabilities and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and certain borrowings used to finance the leases are denominated in US$, while some borrowings are denominated in RMB. Currency exchange risk may arise when the finance lease receivables, operating lease receivables and certain borrowings are denominated in different currencies. The management of the Group closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group uses the currency swap and currency forward contracts to hedge its exposure to currency exchange risk. The foreign currency swaps and foreign currency forward contracts do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains, net, please refer to Note 20 and Note 29.

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk *(continued)*

(a) *Currency exchange risk (continued)*

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

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US$ as at 31 December 2022 and 2021.

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

(b) *Cash flow and fair value interest rate risk*

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, long-term borrowings, bonds and debentures and medium-term notes at fixed rates expose the Group to fair value interest rate risk.

The Group's primary objective is to manage cash flow interest rate risk.

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank and other borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank and other borrowings do not match. The following table indicates the amount of bank and other borrowings exposed to interest rate risk as at 31 December 2022 and 2021.

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

Interest rate swaps are used to manage the variability in future interest cash flows of bank borrowings, arising due to changes in market interest rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for bank borrowings on the basis of their contractual terms and other relevant factors, including estimates of prepayments. The cash flows are used to determine the effectiveness and ineffectiveness.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk (continued)

(b) *Cash flow and fair value interest rate risk (continued)*

As at 31 December 2022, the Group had 27 outstanding floating-to-fixed interest rate swaps (2021: 31 swaps) to manage its unmatched interest rate risk exposure. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining unhedged exposure, the Group closely monitors the interest rate risk exposure trend and will consider hedging the exposure where necessary and appropriate.

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk (continued)

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

As at 31 December 2022, the bank borrowings and interest rate swaps relating to hedge accounting referenced to US$ LIBORs will be affected by the IBOR reforms described below.

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY LIBOR settings and the one-week and two-month US$ LIBOR settings had discontinued after 31 December 2021. The remaining US$ LIBOR settings will discontinue after 30 June 2023. The detailed transition plan of interest benchmark rate is still under negotiation. There is currently uncertainty around the timing and precise nature of these change. Please refer to Note 4.2(d) for the detailed information.

The Group has applied both the first set of amendments ("Phase 1") and the second set of amendments ('Phase 2') to HKFRS 9 and HKAS 39 applicable to hedge accounting, which has no material impact to the Group. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

Such reform has no impact on the Group's risk management strategy. The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to processes, risk management procedures and valuation models that may arise as a consequence of the reform.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheet date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service, loans to associates and joint ventures, and other financial assets.

Credit risk on aircraft lease service

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as their shareholders' support. The Group also obtained deposits from the lessees (Note 21). All these strengthen the control and management of credit risk.

(a) Probability of default

Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate. In addition, the Group may request for a security deposit or security deposit letter of credit which it may apply towards the payment or discharge of any obligation owed by the lessee.

Late payment risk – in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which it may apply towards the payment or discharge of any obligation owed by the lessee.

(b) Risk limit, control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

(c) Impairment allowance policies

The Group applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for lease receivables. To measure the expected credit losses, the relevant receivables are grouped based on shared credit risk characteristics such as financial performance and stability, future growth, default history and other relevant factors.

The loss allowances of credit risk are estimated according to net exposure analysis and assumptions about risk of default and expected loss rates. The net exposure is determined based on the finance lease receivable or operating lease receivable balance, net of the unguaranteed residual value in the case of a finance lease, and other cash collaterals such as security deposits over the contractual term. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

Credit risk on aircraft lease service (continued)

(c) Impairment allowance policies *(continued)*

The Group assesses the business performance and credit risks of the airline companies on a regular basis. Due to the COVID-19, some of the airline customers have curtailed their commercial operations, which could result in lease defaults. The Group has agreed with some of the lessees to defer upcoming rent obligations. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management provided expected credit loss of HK$11,841,000 (2021: HK$10,118,000) for finance lease receivables (Note 7) and HK$187,516,000 (2021: HK$174,313,000) for operating lease receivables (Note 9) as at 31 December 2022.

Credit risk exposure on operating leases receivables:

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

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

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

(d) Concentration of credit risk

During the year ended 31 December 2022, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 7, Note 9 and Note 22 for an analysis of lease receivables and lease income. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables and operating lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.2 Credit risk *(continued)*

Credit risk on loans to associates and joint ventures and other financial assets

The Group is also exposed to credit risk associated with loans and loan commitments, and financial guarantees to associates and joint ventures. Please refer to Note 4.1(e), Note 6, Note 35 and Note 36 for details.

In addition, the Group is exposed to credit risk associated with cash in banks and derivative financial assets. Management considers that these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations.

3.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or due to be settled within twelve months after the balance sheet date:

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk *(continued)*

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

As at 31 December 2022, borrowings of HK$15.7 billion under current liabilities mainly comprised of borrowings of HK$5.2 billion from aircraft acquisition financing ("aircraft loans"), HK$6.9 billion from PDP financing and HK$3.6 billion from other bank borrowings. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 10). The repayment of above aircraft loans will be partially funded by the collection of operating lease receivables of HK$3.4 billion (Note 36(d)) (which has not been included under current assets above) that is expected to be received from airlines in the next twelve months from 31 December 2022. Repayment of PDP loans and other financing is expected to be funded by existing loan facilities and/or new aircraft loans when aircraft is delivered based on industry practice and prior experience.

Besides, the Group will consider to raise funds through working capital and PDP financing, aircraft loans, debt financing, and the asset-light strategy for disposal of aircraft. In light of the above and other relevant factors as stated in Note 2.1(a), the Group expects to have sufficient working capital to finance its operations, to meet its financial obligations, including the net current liabilities as of 31 December 2022 and those capital commitments in the next twelve months from 31 December 2022.

The following table shows the remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date of the Group's financial liabilities as well as loan commitments and short-term lease commitments, based on contractual undiscounted cash flows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2022					
Financial liabilities					
Borrowings	17,884,645	8,935,989	11,726,670	6,188,859	44,736,163
Medium-term notes	76,430	76,430	1,774,880	–	1,927,740
Bonds and debentures	1,379,796	2,562,830	2,005,399	–	5,948,025
Other liabilities and accruals (i)	1,365,133	42,119	115,716	126,699	1,649,667
Derivative financial instruments	37,289	15,254	–	–	52,543
Off balance sheet short term lease commitments (Note 36)	103	–	–	–	103

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.3 Liquidity risk *(continued)*

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2021					
Financial liabilities					
Borrowings	10,532,530	6,658,598	13,145,607	6,293,755	36,630,490
Medium-term notes	1,029,321	–	–	–	1,029,321
Bonds and debentures	4,339,945	160,765	3,162,647	–	7,663,357
Other liabilities and accruals (i)	1,111,437	40,109	134,251	53,015	1,338,812
Derivative financial instruments	94,777	42,349	6,625	–	143,751
Off balance sheet short term lease commitments (Note 36)	570	–	–	–	570

(i) For the purpose of liquidity risk analysis, tax payables, operating lease rentals received in advance, bonuses, directors' fee payables and other non-financial liabilities included in other liabilities and accruals are not included.

3.1.4 Disposal of finance lease receivables

Certain wholly-owned subsidiaries of the Group (collectively "the CALC SPCs") signed contracts with trust plans or banks, pursuant to which, the CALC SPCs transferred to the trust plans or asset-backed securities programme their future lease payments arising from finance leases under their separate aircraft leasing agreements with airline companies.

The trust plans or asset-backed securities programme also appointed the CALC SPCs as the service agent to collect the lease rentals from the airline companies. The services to be provided mainly include maintaining relationship with the airline companies, collecting of rental on behalf the trust plan. CALC SPCs recognised service fee income over the lease servicing period. For the year ended 31 December 2022, service fee income of HK$1,344,000 (2021: HK$1,272,000) was included in Group's other operating income.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

3.1.4Disposal of finance lease receivables *(continued)*

The trust plans or asset-backed securities programme are unconsolidated structured entities and the Group has no control over the trust plans or asset-backed securities programme. The following table shows the total assets size of the above mentioned unconsolidated structured entities and the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities:

	Size HK$'000	The trust plan Funding provided by the Group (Note (i)) HK$'000	Group's maximum exposure (Note (ii)) HK$'000
As at 31 December 2022	**10,839,381**	**3,417**	**122,458**
As at 31 December 2021	10,824,526	3,728	122,290

Notes:

(i) The beneficiary of one of the trust plans has signed a currency swap arrangement with a bank to hedge its currency exposures arising from transfer of the lease rentals during the period from 27 February 2014 to 27 November 2023. The Group has placed a pledged deposit of HK$3,417,000 (2021: HK$3,728,000) to the bank in respect of this currency swap on behalf of the trust plan as at 31 December 2022 (Note 11).

(ii) The Group will convert the US$ lease rentals received on behalf of one of the trust plans during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement includes a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000 (equivalent to approximately HK$122,458,000). As at 31 December 2022, the fair value of this currency swap contract amounted to HK$9,468,000 (2021: HK$10,622,000) and the fair value loss of HK$1,172,000 (2021: HK$6,382,000) was recognised in "other gains, net" for the year ended 31 December 2022 (Note 20(a)).

Apart from that disclosed above, the Group did not provide financial or other support to the trust plans or asset-backed securities programme as at 31 December 2022. The Group has no current intentions to provide, or assist in the provision of, financial or other support in any future period.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2022.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

The Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, and asset-liability ratio, which is calculated as total liabilities divided by total assets and interest-bearing debts to equity ratio, which is calculated as interest-bearing debts included in total liabilities divided by total equity. The ratios are as follows:

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Interest-bearing debts included in total liabilities	**45,104,149**	40,480,384
Total liabilities	**49,075,863**	44,011,864
Total assets	**55,332,080**	50,029,119
Total equity	**6,256,217**	6,017,255
Gearing ratio	**81.5%**	80.9%
Asset-liability ratio	**88.7%**	88.0%
Interest-bearing debts to equity ratio	**7.2:1**	6.7:1

3.3 Fair value estimation of financial instruments

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Group estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation of financial instruments *(continued)*

Financial assets and financial liabilities measured at fair values

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

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2021				
Assets				
Interest rate swaps	–	3,590	–	3,590
Currency swap and forward contracts	–	111,347	–	111,347
Financial assets at fair value through profit or loss	–	–	750,841	750,841
	–	114,937	750,841	865,778
Liability				
Interest rate swaps	–	143,226	–	143,226

The fair values of the interest rate swaps for hedging and the currency swap and currency forward contracts are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, US$/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

The fair value of other financial assets at fair value through profit or loss, which are measured at level 3 within the fair value hierarchy, is also determined by making reference to discounted cash flow analysis. The significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, risk-adjusted discount rate, and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy. The Group accessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease or increase HK$5,000,000 (2021: HK$9,000,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase or decrease the fair value by HK$181,000,000 and HK$290,000,000 (2021: HK$182,000,000 and HK$185,000,000) respectively.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation of financial instruments *(continued)*

***Financial assets and financial liabilities measured at fair values** (continued)*

The following table presents the change in level 3 instrument for the year ended 31 December 2022.

	Financial assets at fair value through profit or loss HK$'000
As at 1 January 2022	**750,841**
Investment to financial assets at fair value through profit or loss	**30,696**
Proceeds from financial assets at fair value through profit or loss	**(53,907)**
Fair value gains on the financial assets at fair value through profit or loss	**37,418**
Currency translation difference	**989**
As at 31 December 2022	**766,037**

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation of financial instruments *(continued)*

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and cash equivalents, other receivables, loans to associates and joint ventures, interest payables and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year, are not sensitive to changes in inputs to valuation techniques.

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Income taxes and deferred tax

The Group is subject to taxation in multiple jurisdictions and, in many cases, the ultimate tax treatment is not determined until concluded with the relevant tax authority. Consequently, the directors are required to exercise significant judgement in determining the appropriate amount of tax provisions based on the key underlying assumptions, including the profit forecast and the estimated realisable values of the aircraft at the end of lease terms. Since the settlement of the Group's tax position is subject to future negotiation with various tax authorities, the calculation of the provision is subject to inherent uncertainty. Please refer to Note 16 and Note 30 for the detailed information of deferred tax liabilities and income taxes.

(b) Estimation of unguaranteed residual value on leased assets

Unguaranteed residual value is a portion of the residual value of a leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor. The unguaranteed residual value of the aircraft at the inception of the lease is based on management's estimates with reference to valuation reports issued by independent valuers. Please refer to Note 7 for the unguaranteed residual values recognised at the end of each reporting period.

The estimation of unguaranteed residual value at the inception of the leases impacts the determination of unearned finance income. Subsequent to initial recognition, estimated unguaranteed residual values are reviewed regularly. If there is a reduction in the estimated unguaranteed residual value, the income allocation over the remaining lease term will be revised and the reduction in respect of net present value of unguaranteed residual value will be adjusted immediately in profit or loss. The directors of the Company are of the opinion that there had been no impairment in the carrying amount of the unguaranteed residual value as at 31 December 2022.

The residual value of each aircraft is estimated by management and reasonably supported by an aircraft industry publication providing aircraft valuation for general reference. The unguaranteed residual values of the aircraft under the 49 (2021: 49) finance leases as at 31 December 2022 were approximately HK$5,204,735,000 (2021: HK$5,243,225,000). A 5% decrease in the expected unguaranteed residual value from the management's current estimates would result in a decrease in profit before income tax for the year ended 31 December 2022 by approximately HK$10,947,000 (2021: HK$9,902,000).

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(c) Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

Factors that may contribute to impairment of aircraft include, but are not limited to, unfavorable airline industry trends affecting the residual values of certain aircraft types, high fuel prices and development of more fuel-efficient aircraft shortening the useful lives of certain aircraft, and new technological developments. The Group obtains fair values of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in a similar condition and industry trends. When estimating the value in use of aircraft, the Group estimates expected future cash flows from the aircraft based on the key assumptions mainly including lease rents of current leases; subsequent re-lease rates based on current marketing information and residual values, and discounted at a rate commensurate with the associated risk to calculate the present value.

(d) Impairment of finance lease receivables and operating lease receivables

The Group calculates expected credit losses through estimating the risk exposure of default and expected credit loss rate. The expected credit loss rate is determined based on estimation of probability of default and loss given default. In determining the expected credit loss rate, the Group considers the Group's past history, existing market conditions as well as forward looking estimates. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses. Please refer to Note 7 and Note 9(b) for detailed information.

(e) Impairment of investments in and loans to associates and joint ventures

The Group assesses whether there are any indicators of impairment for investments in associates and joint ventures at the end of each reporting period. Investments in associates and joint ventures are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in associates or joint ventures exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose a discount rate commensurate with the associated risk in order to calculate the present values of those cash flows.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(e) Impairment of investments in and loans to associates and joint ventures (continued)

The Group evaluates expected credit losses of loans to associates and joint ventures at the end of each reporting period. Management considers a number of factors in expected credit loss assessment including but not limited to associates and joint ventures' current and expected financial positions, business environment and industry performance, current and forward-looking economic factors, collection history and past experience. For loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, the expected credit loss is likely to be immaterial. If the borrower could not repay the loan if demanded at the reporting date, the Group considers the expected manner of recovery, including a 'repay over time' strategy or a fire sale of less liquid assets, to measure expected credit losses.

4.2 Critical judgements in applying the Group's accounting policies

(a) Classification of leases

The Group has entered into certain aircraft leases whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased aircraft to the lessees, as the present values of the minimum lease payments (which include lease payments and residual values guaranteed by third parties) of the lease amount to at least substantially all of the fair values of the leased assets at the inception of the leases. Accordingly, the Group has excluded the aircraft from its consolidated balance sheet and has instead, recognised finance lease receivables (Note 7). Otherwise the Group includes the aircraft under operating lease in property, plant and equipment. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

(b) Disposal of finance lease receivables

The Group considers that the trust plans or asset-backed securities programme as described in Note 3.1.4 are structured entities which are run according to predetermined criteria that are part of its initial design.

The Group has assessed that it does not control the trust plans or asset-backed securities programme as the Group does not have the current ability to direct the relevant activities of the trust plans or asset-backed securities programme. Accordingly, the trust plans or asset-backed securities programme are not consolidated by the Group. The determination of whether there are controls over the trust plans or asset-backed securities programme depends on an assessment of the relevant arrangements relating to the trust plans or asset-backed securities programme and this has involved critical judgements by management. For further details about these unconsolidated structured entities, see Note 3.1.4.

The directors assessed the Group has transferred substantially all the risks and rewards related to the lease receivables to the trust plans or asset-backed securities programme, and thus the corresponding finance lease receivables were derecognised.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Group's accounting policies *(continued)*

(c) Consolidation assessment of CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively as "CAG Group")

In June 2018, the Group and some mezzanine financiers jointly established CAG Group at a shareholding ratio of 20% and 80% respectively, which is principally engaged in lease-attached aircraft portfolio investment. The Group provides aircraft and lease management service to CAG Group.

The directors have assessed and concluded that the Group does not control CAG Group but has a significant influence over CAG Group. The determination of the Group's level of involvement with another entity will require exercise of judgement under certain circumstances. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group also considers, in particular, whether it obtains benefits from its power to control the entity. As such, the classification of the entity as a subsidiary, a joint venture, a joint operation, an associate or an equity investment requires the application of judgement through the analysis of various factors, such as whether CAG Group is a structured entities, the percentage of ownership interest held in the entity, CAG Group's purpose and design, CAG Group's relevant activities, the decision-making authority about its relevant activities, whether the rights of the Group give it current ability to direct CAG Group's relevant activities, the Group's exposure or rights to variable returns from its involvement with CAG Group and the ability to use its power over CAG Group to affect the amount of the Group's returns. This assessment has involved critical judgement by management.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Group's accounting policies *(continued)*

(d) Interest rate benchmark reform

To transition existing contracts and agreements that reference US$ LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition due to IBOR reforms.

Group treasury is managing the Group's US$ LIBOR transition plan, which includes amendments to the contractual terms of the US$ LIBOR-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

The Group has incorporated the following assumptions when applying the hedging accounting:

- When considering the 'highly probable' requirement, the Group has assumed that the US$ LIBOR interest rate on which the Group's hedged borrowing is based does not change as a result of IBOR reform.

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the US$ LIBOR interest rate on which the cash flows of the hedged borrowing and the interest rate swap that hedges it are based is not altered by IBOR reform.

- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

In calculating the change in fair value attributable to the hedged risk of floating-rate borrowing, the Group has made the following assumptions that reflect its current expectations:

- The floating-rate borrowing will move to SOFR before 30 June 2023 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument.

- No other changes to the terms of the floating-rate borrowing are anticipated.

5 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Aircraft and engine HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Office building HK$'000	Right-of-use assets HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2022							
Opening net book amount	**23,151,163**	**2,671**	**8,056**	**41,875**	**31,685**	**8,310**	**23,243,760**
Additions	**9,270,857**	**–**	**5,399**	**–**	**9,178**	**1,280**	**9,286,714**
Depreciation and others	**(1,319,287)**	**(1,603)**	**(3,545)**	**(929)**	**(13,095)**	**(1,842)**	**(1,340,301)**
Assets classified as held for sale	**(764,966)**	**–**	**–**	**–**	**–**	**–**	**(764,966)**
Disposals	**(2,239,939)**	**–**	**–**	**–**	**–**	**–**	**(2,239,939)**
Write-off (Note 27)	**(565,631)**	**–**	**–**	**–**	**–**	**–**	**(565,631)**
Currency translation difference	**(264,119)**	**–**	**(21)**	**77**	**(1,202)**	**1**	**(265,264)**
Closing net book amount	**27,268,078**	**1,068**	**9,889**	**41,023**	**26,566**	**7,749**	**27,354,373**
As at 31 December 2022							
Cost	**31,442,978**	**8,549**	**28,870**	**45,480**	**57,507**	**17,218**	**31,600,602**
Accumulated depreciation and others	**(4,174,900)**	**(7,481)**	**(18,981)**	**(4,457)**	**(30,941)**	**(9,469)**	**(4,246,229)**
Net book amount	**27,268,078**	**1,068**	**9,889**	**41,023**	**26,566**	**7,749**	**27,354,373**

	Aircraft and engine HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Office building HK$'000	Right-of-use assets HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2021							
Cost	20,269,024	8,570	15,789	45,158	54,209	15,509	20,408,259
Accumulated depreciation and others	(1,920,605)	(4,297)	(11,955)	(2,619)	(12,228)	(5,914)	(1,957,618)
Net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Year ended 31 December 2021							
Opening net book amount	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Additions	9,004,473	–	6,732	–	2,599	452	9,014,256
Depreciation and others	(800,574)	(1,602)	(2,542)	(906)	(13,333)	(1,706)	(820,663)
Assets classified as held for sale	(2,043,006)	–	–	–	–	–	(2,043,006)
Disposals/write off	(1,492,876)	–	–	–	–	(32)	(1,492,908)
Currency translation difference	134,727	–	32	242	438	1	135,440
Closing net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
As at 31 December 2021							
Cost	25,566,589	8,617	22,615	45,418	54,314	15,936	25,713,489
Accumulated depreciation	(2,415,426)	(5,946)	(14,559)	(3,543)	(22,629)	(7,626)	(2,469,729)
Net book amount	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760

Lease rentals amounting to HK$2,967,565,000 relating to the lease of aircraft and engine for the year ended 31 December 2022 are included in operating lease income in the consolidated statement of income (2021: HK$1,959,809,000).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

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

As at 31 December 2022, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Nature of relationship	Measurement method
Aircraft Recycling International Limited ("ARI") (a)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG (Notes 4.2(c) and Note 8)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	The PRC	Line maintenance, base maintenance, technical training.	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)") (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
Feitian No.2 Leasing (Tianjin) Company Limited ("Feitian No.2 (Tianjin)") (c)	The PRC	Aircraft leasing	20%	Joint venture	Equity
PT Transnusa Aviation Mandiri ("TAM") (d)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity
PT Linkaviasi Asia Indonesia ("LAI") (e)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity

(a) ARI is an investment holding company and its subsidiaries (collectively as "ARI Group") have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 31 December 2022, the net liabilities of ARI was HK$513,823,000 (2021: net liabilities of HK$390,909,000), and as a result, the Group's equity interests in ARI was reduced to zero (2021: Zero). No further losses were recorded unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate. As at 31 December 2021, the Group's outstanding balance of advance to ARI amounted to HK$618,000. As at 31 December 2022, the Group's carrying amount of outstanding loans to ARI amounted to HK$1,181,449,000 (2021: HK$1,162,453,000). For details, please refer to Note 35(b)(ii).

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 31 December 2022, the Group's outstanding balance of advance to FLARI amounted to HK$12,551,000 (2021: HK$24,376,000). As at 31 December 2022, the Group's outstanding shareholders' loans balance receivable from FLARI amounted to HK$56,445,000 (2021: HK$4,809,000). For details, please refer to Note 35(b)(iii).

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

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

As the result of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are disclosed.

(d) CALC IDN Limited ("CALC IDN"), is a wholly-owned subsidiary of the Company, which holds approximately 72.82% of the share capital in Linkasia Airlines Group Limited ("Linkasia Airlines"). The remaining shares of Linkasia Airlines are owned as to 14.13% by Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) and 13.05% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive director and deputy chief executive officer of the Company).

Linkasia Airlines indirectly (i) holds 49% equity interest in TAM and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in TAM. The principal activity of TAM is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, TAM is jointly controlled by the Group and other investor.

6 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(d) *(continued)*

An analysis of the movements of investment in and loan to TAM is as follows:

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

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

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

(e) Linkasia Airlines indirectly (i) holds 49% equity interest in LAI and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in LAI. The principal activity of LAI is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, LAI is jointly controlled by the Group and other investor.

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

Save as those disclosed elsewhere in other notes, the above transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

Besides the contingent liabilities disclosed in Note 36(a), there are no other contingent liabilities relating to the Group's interests in associates and joint ventures.

7 FINANCE LEASE RECEIVABLES – NET

	As at 31 December 2022 HK$'000	2021 HK$'000
Lease payments receivables		
– Not later than 1 year	**108,711**	128,815
– Later than 1 year but not later than 2 years	**188,519**	126,887
– Later than 2 years but not later than 3 years	**1,072,186**	204,456
– Later than 3 years but not later than 4 years	**1,836,468**	1,085,977
– Later than 4 years but not later than 5 years	**1,511,864**	1,844,533
– Later than 5 years	**806,670**	2,198,585
Total	**5,524,418**	5,589,253
Less: Unearned finance lease income relating to lease payment receivables	**(1,319,554)**	(1,569,171)
Present value of lease payment receivables	**4,204,864**	4,020,082
Add: Present value of unguaranteed residual value	**3,979,063**	3,704,444
Net investment in leases	**8,183,927**	7,724,526
Less: Accumulated expected credit losses allowance	**(11,841)**	(10,118)
Finance lease receivables – net	**8,172,086**	7,714,408

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

(a) CAG uses the fund injected through a performance-linked shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 20% to 80%, together with a shareholding between the Group and other investors at the same ratio. Pursuant to shareholders' agreement and shareholders' loan agreement, all investors of CAG committed to invest in CAG through shareholders' loan according to the mezzanine financing proportion.

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

9 PREPAYMENTS AND OTHER ASSETS

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

9 PREPAYMENTS AND OTHER ASSETS *(continued)*

(a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S ("Airbus") for the purchase of 100 aircraft. In December 2017 and January 2018, the Group entered into supplementary agreement with Airbus for the purchase of additional 65 aircraft. In January 2020, the Group entered into supplemental agreement to the aircraft purchase agreements in December 2014 to purchase additional 40 aircraft from Airbus.

In June 2017, the Group entered into aircraft purchase agreement (the "2017 Aircraft Purchase Agreement") with The Boeing Company ("Boeing") for the purchase of 50 aircraft. In December 2018, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement to purchase additional 50 aircraft from Boeing. In November 2019, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement and 2018 Aircraft Purchase Agreement with Boeing to adjust its order from 100 aircraft to 92 aircraft. In March 2021, the Group entered into the agreement with Boeing to adjust its order from 92 aircraft to 66 aircraft and to reschedule the delivery of certain aircraft.

PDP were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft will be delivered in stages by 2027.

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

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

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

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

(c) The receivables arising from aircraft transactions as at 31 December 2021 was fully settled in January 2022.

(d) The "Others" above were mainly deferred expenses and prepayment to third parties.

10 ASSETS CLASSIFIED AS HELD FOR SALE

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

The carrying amount of borrowings related to the assets held for sale was HK$1,080,827,000 (2021: HK$505,689,000). The borrowings related to the assets held for sale will be repaid before the disposals of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

11 RESTRICTED CASH

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Pledged for bank borrowings for aircraft acquisition financing (Note 17(a))	**288,439**	46,498
Pledged for other bank borrowings (Note 17(c))	**757,357**	–
Pledged for long-term borrowings (Note 17(d))	**44,199**	44,133
Pledged for interest rate swap contracts (Note 20(c))	**21,546**	142,828
Pledged for a currency swap contract (Note 20(a))	**3,417**	3,728
	1,114,958	237,187

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

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

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

12 CASH AND CASH EQUIVALENTS

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

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

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

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

13 SHARE CAPITAL

Ordinary shares, issued and fully paid:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 RESERVES

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

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$000	Treasury shares HK$000	Share-based payments HK$'000	Hedging reserve HK$'000	Currency translation differences HK$'000	Total HK$'000
Balance as at 1 January 2021	1,382,441	623,720	(108)	–	330	(323,652)	(97,253)	1,585,478
Buy-back and cancellation of shares (Note 13(a))	(15,777)	–	(58)	(22,385)	–	–	–	(38,220)
Cash flow hedges (Note 20)	–	–	–	–	–	195,810	–	195,810
Currency translation differences	–	–	–	–	–	–	71,237	71,237
Scrip dividends	173,545	–	–	–	–	–	–	173,545
Balance as at 31 December 2021	1,540,209	623,720	(166)	(22,385)	330	(127,842)	(26,016)	1,987,850

(a) On 2 January 2020 and 6 April 2022, the Company granted 10,000,000 share options ("2020 Share Options") and 20,900,000 share options ("2022 Share Options"), respectively, under the share option scheme adopted by the Company for the purpose of recognising the contribution of participants, including certain directors of the Company and selected employees of the Group, in relation to the growth of the Group. None of the options have been exercised as at 31 December 2022.

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

14 RESERVES *(continued)*

(a) *(continued)*

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

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

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

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

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

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

15 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

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

15 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS *(continued)*

(a) Perpetual capital securities

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

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

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

	HK$'000
As at 1 January 2022	**1,474,620**
Profit for the year	**142,731**
As at 31 December 2022	**1,617,351**
As at 1 January 2021	1,548,332
Profit for the year	102,530
Dividend distributed to perpetual capital securities	(176,242)
As at 31 December 2021	1,474,620

16 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred income tax liabilities is as follows:

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

16 DEFERRED INCOME TAX LIABILITIES *(continued)*

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

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

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

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

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

In accordance with the corporate income tax laws in the People's Republic of China ("PRC"), a 5% or 10% withholding tax is levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. No deferred income tax liability has been provided by the Group on the retained earnings of approximately HK$1,583,148,000 as at 31 December 2022 (2021: HK$1,593,028,000), expected to be retained by the subsidiaries in the PRC and not to be remitted out of the PRC in the foreseeable future.

17 BORROWINGS

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

Bank and other borrowings

(a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating rates (including US$ LIBOR, US$ SOFR and RMB LPR). As at 31 December 2022, certain bank borrowings were secured by, in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain companies of the Group, and pledge of deposits amounting to HK$288,439,000 (2021: HK$46,498,000). As at 31 December 2022, bank and other borrowings of HK$1,938,212,000 (2021: HK$1,855,308,000) were unsecured.

(b) As at 31 December 2022, PDP financing of HK$7,180,254,000 was unsecured, of which HK$6,532,430,000 was guaranteed by the Company.

As at 31 December 2021, PDP financing of HK$373,797,000 was secured by certain rights and benefits in respect of the acquisition of the aircraft, and guarantees from certain companies of the Group. The PDP financing of HK$5,929,576,000 was unsecured and guaranteed by the Company.

(c) As at 31 December 2022, other bank borrowings of HK$753,678,000 (2021: Nil) were secured by pledged of deposits amounting to HK$757,357,000 (2021: Nil). The remaining unsecured other bank borrowings amounted to HK$6,067,502,000 (2021: HK$5,600,145,000), of which HK$4,073,926,000 (2021: HK$4,586,834,000) were guaranteed by the Company or certain companies of the Group.

The bank and other borrowings are repayable as follows:

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

17 BORROWINGS *(continued)*

The exposure of bank and other borrowings to interest rate changes at the end of balance sheet date are as follows:

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Fixed-interest rate	**7,134,151**	7,052,252
Floating-interest rate	**25,950,540**	20,366,083
	33,084,691	27,418,335

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

The Group has the following undrawn borrowings facilities:

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

Long-term borrowings

(d) As at 31 December 2022, 46 borrowings (2021: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposals of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (2021: 3.5% to 7.8%) per annum for remaining terms of one to seven years (2021: two to eight years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$44,199,000 (2021: HK$44,133,000).

(e) As at 31 December 2022, four borrowings (2021: four borrowings) were obtained through a structured financing arrangement for four aircraft (2021: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (2021: 3.9% to 5.7%) per annum for their remaining terms of two to three years (2021: three to four years) and are guaranteed by the Company.

18 MEDIUM-TERM NOTES

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

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

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

19 BONDS AND DEBENTURES

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

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

In June 2019, the Group issued three-year RMB1.0 billion unsecured bonds due in 2022, bearing coupon rate of 5.2% per annum. These bonds were listed on the Shanghai Stock Exchange. These bonds had been fully repaid on maturity.

In November 2020, the Group entered into a subscription agreement with an independent third party in relation to the issuance of five-year US$70.0 million senior unsecured bonds, of which US$35.0 million were issued in November 2020 and due in 2025 and US$35.0 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

In July 2021, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.98%. These debentures had been fully repaid on maturity.

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

In December 2021, the Group issued three-year US$100.0 million unsecured guaranteed notes due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Company and were listed on the Stock Exchange.

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

19 BONDS AND DEBENTURES *(continued)*

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

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

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

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

(a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000 (equivalent to approximately HK$122,458,000). As at 31 December 2022, the fair value of this currency swap contract amounted to HK$9,468,000 (2021: HK$10,622,000) and the fair value losses of HK$1,172,000 (2021: HK$6,382,000) was recognised in "Other gains, net (Note 29)" for the year ended 31 December 2022. As at 31 December 2022, this arrangement was secured by a pledged deposit of HK$3,417,000 (2021: HK$3,728,000).

(b) As at 31 December 2022, the Group had 22 outstanding currency forward contracts with notional amount of RMB2,300,000,000 (equivalent to approximately HK$2,604,290,000) (2021: 21 outstanding currency forward contracts with notional amount of RMB2,400,000,000 (equivalent to approximately HK$2,942,880,000)) which will expire at various dates from 30 January 2023 to 15 March 2024 (2021: 20 December 2022 to 18 September 2023), to mitigate RMB exchange rate risks. These forward contracts did not satisfy the requirements for hedge accounting, the fair value changes of which were recognised in other gains, net.

20 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

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

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

21 OTHER LIABILITIES AND ACCRUALS

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

22 LEASE INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2022, the Group was engaged in the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

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

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

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

(a) Aircraft transactions

The net gain from aircraft transactions for the year ended 31 December 2021 included the gain from disposal of nine aircraft, including the disposal of two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (Note 35(a)(ii)) and the disposal of seven aircraft to third parties.

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

23 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING *(continued)*

(b) Aircraft components trading

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

24 OTHER INCOME

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

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

(b) Incidental income and others were mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases, net gains from bonds repurchase, compensation and government wage subsidies under a job support scheme.

25 INTEREST EXPENSES

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

(a) Interest expenses capitalised on qualifying assets represent the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

26 OTHER OPERATING EXPENSE

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

27 NET WRITE-OFF OF TWO AIRCRAFT REMAINED IN RUSSIA

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

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

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

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

28 EMPLOYEE BENEFIT EXPENSES

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

29 OTHER GAINS, NET

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

30 INCOME TAX EXPENSES

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

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25% (2021: 25%), except for certain subsidiaries which are subject to the preferential tax treatments. The leasing income of the subsidiaries in Mainland China is subject to VAT at 13%.

Hong Kong

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

Profit tax concessions have been announced to the corporations carrying on business as aircraft lessors and aircraft lease managers which satisfy relevant conditions. The taxable amount of rentals derived from leasing of an aircraft to an aircraft operator by a qualifying aircraft lessor is equal to 20% of the tax base. The qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers are subject to the half of the normal rate at 8.25%.

Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

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

30 INCOME TAX EXPENSES *(continued)*

Others *(continued)*

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

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

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

The subsidiaries incorporated in Malta are subject to income tax at rates of up to 35%.

The subsidiaries incorporated in Labuan are subject to income tax at 3%.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% during the year ended 31 December 2022. The difference is analysed as follows:

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

31 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2022 and 2021.

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

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the financial period. For share options outstanding as at 31 December 2022 and 2021, as the exercise price per share is higher than average market price of ordinary shares, it is not assumed that the outstanding share options have been exercised in the calculation of the diluted earnings per share for the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 DIVIDENDS

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

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

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

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

33 NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Cash and cash equivalents	**3,552,533**	4,776,389
Restricted cash	**1,114,958**	237,187
Borrowings	**(38,001,150)**	(32,477,860)
Medium-term notes	**(1,696,509)**	(979,816)
Bonds and debentures	**(5,406,490)**	(7,022,708)
Derivative financial instruments	**168,856**	(28,289)
Other liabilities and accruals – lease liabilities	**(28,907)**	(34,736)
Other liabilities and accruals – amount due to non-controlling interest of a subsidiary	**(17,149)**	(25,455)
Net debt	**(40,313,858)**	(35,555,288)

33 NET DEBT RECONCILIATION *(continued)*

	Cash and cash equivalents HK$'000	Restricted cash HK$'000	Borrowings HK$'000	Lease liabilities HK$'000	Amount due to non-controlling interest of a subsidiary HK$'000	Medium-term notes HK$'000	Bonds and debentures HK$'000	Derivative financial instruments HK$'000	Total HK$'000
			Liabilities from financing activities						
Net debt as at 1 January 2022	**4,776,389**	**237,187**	**(32,477,860)**	**(34,736)**	**(25,455)**	**(979,816)**	**(7,022,708)**	**(28,289)**	**(35,555,288)**
Cash flows	**(1,172,400)**	**882,869**	**(5,674,412)**	**14,141**	**–**	**(878,422)**	**1,392,281**	**(42,793)**	**(5,478,736)**
Acquisition – leases	**–**	**–**	**–**	**(9,178)**	**–**	**–**	**–**	**–**	**(9,178)**
Currency exchange adjustments	**(51,456)**	**(5,098)**	**255,989**	**1,408**	**(59)**	**161,729**	**226,599**	**(607)**	**588,505**
Other non-cash movements (a)	**–**	**–**	**(104,867)**	**(542)**	**8,365**	**–**	**(2,662)**	**240,545**	**140,839**
Net debt as at 31 December 2022	**3,552,533**	**1,114,958**	**(38,001,150)**	**(28,907)**	**(17,149)**	**(1,696,509)**	**(5,406,490)**	**168,856**	**(40,313,858)**
Net debt as at 1 January 2021	4,877,557	411,786	(26,763,014)	(45,252)	(76,164)	(1,338,308)	(9,054,779)	(337,846)	(32,326,020)
Cash flows	(145,085)	(177,166)	(5,266,288)	15,714	38,612	397,650	2,143,180	139,127	(2,854,256)
Acquisition – leases	–	–	–	(2,599)	–	–	–	–	(2,599)
Currency exchange adjustments	43,917	2,567	(249,748)	(579)	(275)	(39,158)	(104,116)	(953)	(348,345)
Other non-cash movements (a)	–	–	(198,810)	(2,020)	12,372	–	(6,993)	171,383	(24,068)
Net debt as at 31 December 2021	4,776,389	237,187	(32,477,860)	(34,736)	(25,455)	(979,816)	(7,022,708)	(28,289)	(35,555,288)

(a) Other non-cash movements mainly arising from disposal and acquisition of borrowings, capital injection in a non wholly owned subsidiary, fair value change of derivative financial instruments and amortisation of upfront fees and issuing cost of borrowings, medium-term notes and bonds and debentures.

34 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Year ended 31 December 2022

	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Housing allowance HK$'000	Share-based payments HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman, executive director							
Mr. ZHANG Mingao (i)	–	–	–	–	–	–	–
Dr. ZHAO Wei (ii)	–	–	–	–	–	–	–
Executive directors							
Mr. POON Ho Man	–	1,801	4,536	–	–	18	6,355
Ms. LIU Wanting	–	3,114	4,647	–	795	18	8,574
Non-executive directors							
Mr. WANG Hongyang (iii)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. FAN Yan Hok, Philip	380	70	–	–	–	–	450
Mr. NIEN Van Jin, Robert (iv)	146	30	–	–	–	–	176
Mr. CHEOK Albert Saychuan	400	70	–	–	–	–	470
Dr. TSE Hiu Tung, Sheldon	303	50	–	–	–	–	353
	1,229	5,135	9,183	–	795	36	16,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' emoluments *(continued)*

Year ended 31 December 2021

	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Housing allowance HK$'000	Share-based payments HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman, executive director							
Dr. ZHAO Wei (ii)	–	–	–	–	–	–	–
Executive directors							
Mr. POON Ho Man	–	1,748	7,516	–	–	18	9,282
Ms. LIU Wanting	–	3,024	10,516	–	–	18	13,558
Non-executive directors							
Mr. WANG Hongyang (iii)	–	–	–	–	–	–	–
Mr. TANG Chi Chun (v)	196	35	–	–	–	–	231
Independent non-executive directors							
Mr. FAN Yan Hok, Philip	380	85	–	–	–	–	465
Mr. NIEN Van Jin, Robert (iv)	370	85	–	–	–	–	455
Mr. CHEOK Albert Saychuan	400	85	–	–	–	–	485
Dr. TSE Hiu Tung, Sheldon	200	40	–	–	–	–	240
	1,546	5,102	18,032	–	–	36	24,716

Notes:

(i) Appointed on 14 October 2022

(ii) Resigned on 14 October 2022

(iii) Appointed on 24 December 2021

(iv) Retired on 23 May 2022

(v) Resigned on 24 December 2021

Certain directors also received emoluments from China Everbright Limited ("CEL") and certain related parties of the Group for the year ended 31 December 2022 in relation to their services to these companies.

No emoluments were paid to any directors in respect of accepting office as director and in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking for the year ended 31 December 2022 (2021: Nil).

34 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

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

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

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

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

During the years ended 31 December 2022 and 2021, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.

35 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 14(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of CEL and CEL indirectly holds approximately 38.12% equity interest in the Company as at 31 December 2022.

(i) Deposit, loan and facilities services provided by CE Group

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group may provide deposit services to the Group through its associate, China Everbright Bank Company Limited ("CE Bank"). Pursuant to the loan services framework agreement, CE Group may provide secured loan services and guarantees to the Group through CE Bank and through the trustee of a trust plan of which CE Group is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group may assign the finance lease receivables to the trustee.

	Year ended 31 December	
	2022	2021
	HK$'000	HK$'000
Interest income from CE Group	**4,845**	3,425
Interest expenses to CE Group	**241,220**	195,390
Loans upfront and arrangement fee to CE Group	**7,121**	1,278
Transactions handling charges to CE Group	**6,171**	4,395

	As at 31 December	
	2022	2021
	HK$'million	HK$'million
Bank deposits placed in CE Group	**676.2**	1,796.9
Borrowings due to CE Group	**4,238.2**	3,653.9
Undrawn facilities provided by CE Group	**1,380.6**	697.1

35 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries *(continued)*

(ii) Disposals of aircraft to Everbright Financial Leasing Co., Ltd.

During the year ended 31 December 2021, the Group disposed of two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. The total consideration from the disposals of aircraft was HK$783.6 million and recorded net income from aircraft transactions in the consolidated statement of income.

(b) Transactions with ARI Group and FLARI

(i) Service provided by ARI Group

	Year ended 31 December	
	2022	2021
	HK$'000	HK$'000
Service fee charged by:		
ARI Group	**8,837**	9,906

(ii) Transactions with ARI Group

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. On 15 October 2018, a supplemental agreement was entered into to revise the interest rate to 3% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited with effect from 28 November 2018. As at 31 December 2022, the outstanding shareholders' loan balances receivable from ARI was amounted to HK$1,181,449,000 (2021: HK$1,162,453,000) (Note 6) and the interest income for the year ended 31 December 2022 was HK$94,220,000 (2021: HK$99,598,000).

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

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

35 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with ARI Group and FLARI *(continued)*

(ii) Transactions with ARI Group (continued)

During the year ended 31 December 2021, the Group acquired four aircraft (with lease arrangements) from ARI Group with total consideration of RMB512.5 million (equivalent to approximately HK$628.4 million).

During the year ended 31 December 2020, the Group entered into a letter of intent with ARI Group relating to the purchase of five engines, which would be delivered in 2021, with total consideration of US$55,000,000 (equivalent to approximately HK$426,388,000). During the year ended 31 December 2021, the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the above engines to be no later than 2022. During the year ended 31 December 2022, ARI Group delivered one engine to the Group and the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the remaining four engines to be no later than 2023. As at 31 December 2022, the Group had placed interest-free deposit amounting to HK$189,808,000 (2021: HK$234,796,000).

During the year ended 31 December 2021, the Group entered into a letter of intent with ARI Group relating to the purchase of entire equity interest of Skylink 1-Aircraft Leasing Limited, a wholly-owned subsidiary in ARI Group, with total consideration of US$8,800,000 (equivalent to approximately HK$68,614,000). As at 31 December 2021, the Group had placed deposit amounted to US$4,400,000 (equivalent to approximately HK$34,307,000). During the year ended 31 December 2022, the Group settled the remaining consideration and the transaction was completed.

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

(iii) Transaction with FLARI

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

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased items of plant and machinery and office equipment and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK$24,524,000)), the proceeds is bearing interest at 8% per annum and payable in arrears of three monthly intervals. As at 31 December 2022, the outstanding advance receivables from FLARI Group was amounted to HK$12,551,000 (2021: HK$24,376,000) and the interest income for the year ended 31 December 2022 was HK$1,325,000 (2021: HK$1,033,000).

35 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with CAG Group

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

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

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

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

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

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

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

(f) Prepayments and amounts due from related parties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS *(continued)*

(g) Amounts due to related parties

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

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

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

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

(i) Transaction with TAM

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

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

(j) Key management compensation

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

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

36 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

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

(b) Capital commitments

Capital expenditures contracted but not provided for at the end of the reporting period are as follows:

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Contracted but not provided for:		
Purchase of aircraft (i)	**85,359,348**	93,930,570
Investment – aircraft modification (Note 8(b))	**34,984**	–
	85,394,332	93,930,570

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

(c) Short term lease arrangement – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Not later than 1 year	**103**	570

36 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(d) Operating lease arrangement – where the Group is the lessor

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

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

The above commitment included amount of HK$1,021,163,000 (2021: HK$465,592,000 related to assets classified as held for sale (Note 10).

The Group had future minimum lease receipts under non-cancellable operating leases or sub-leases in respect of office premises are as follows:

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Not later than 1 year	48	44

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

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

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

ZHANG Mingao
Director

POON Ho Man
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(a) Reserve movement of the Company

	Reserves HK$'000	Retained earnings HK$'000
Balance as at 1 January 2022	**2,214,004**	**471,232**
Comprehensive income		
Profit for the year	**–**	**70,222**
Total comprehensive income	**–**	**70,222**
Transactions with shareholders		
Dividends	**4,074**	**(304,972)**
Cancellation of shares	**495**	**–**
Share option scheme:		
– Value of services	**3,000**	**–**
Total transactions with shareholders	**7,569**	**(304,972)**
Balance as at 31 December 2022	**2,221,573**	**236,482**
Balance as at 1 January 2021	2,078,679	689,442
Comprehensive income		
Profit for the year	–	35,509
Total comprehensive income	–	35,509
Transactions with shareholders		
Buy-back and cancellation of shares	(38,220)	–
Dividends	173,545	(253,719)
Total transactions with shareholders	135,325	(253,719)
Balance as at 31 December 2021	2,214,004	471,232

38 SUBSIDIARIES

As at 31 December 2022, the Company had direct or indirect interests in the following principal subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
Directly owned:					
China Aircraft Leasing Company Limited	British Virgin Islands ("BVI") 24 March 2006	US$584,000,000	100%	Investment/asset holding	Limited liability entity
Aircraft Recycling International Holdings Limited	BVI 24 February 2016	US$1	100%	Investment holding	Limited liability entity
CALC Bond 3 Limited	BVI 17 February 2017	US$1	100%	Investment holding	Limited liability entity
CALC Bonds Limited	BVI 26 October 2017	US$1	100%	Investment holding	Limited liability entity
CALC Perpetual Bond Cayman 1 Limited	Cayman Islands 5 November 2020	US$1,001,841	100%	Investment holding	Limited liability entity
Indirectly owned:					
CALC 10-Aircraft Limited	Ireland 20 June 2012	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 11-Aircraft Limited	Ireland 10 December 2014	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 12-Aircraft Limited	Ireland 6 February 2015	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 19-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 20-Aircraft Limited	Ireland 10 June 2015	EUR100	100%	Aircraft leasing	Limited liability entity
CALC 30-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 31-Aircraft Limited	Ireland 10 October 2016	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 32-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC 33-Aircraft Limited	Ireland 10 April 2017	EUR1	100%	Aircraft leasing	Limited liability entity
CALC Bermuda Holdings Limited	Bermuda 16 May 2018	US$1	100%	Investment holding	Limited liability entity
CALC Finance Cooperatief U.A.	Netherlands 28 August 2012	EUR2,000,000	100%	Provision of financing	Partnership
CALC Global Leasing Limited	Ireland 18 December 2014	EUR1	100%	Investment holding	Limited liability entity
CALC Perpetual Bond Ireland 1 Limited	Ireland 23 September 2019	EUR1	100%	Provision of financing	Limited liability entity
CALC Perpetual Bond Malta 1 Limited	Malta 27 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC PDP 3 Limited	BVI 15 May 2017	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 5 Limited	BVI 2 August 2018	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 8 Limited	Cayman Islands 12 June 2018	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 9 Limited	Cayman Islands 12 June 2018	US$1	100%	Provision of financing	Limited liability entity
CALC PDP 10 Limited	Cayman Islands 15 December 2021	US$10,000,000	100%	Provision of financing	Limited liability entity
China Aircraft Assets Limited	Hong Kong 3 May 2013	HK$1	100%	Provision of financing	Limited liability entity
China Aircraft CALC Management Limited	Hong Kong 17 October 2012	HK$1	100%	Provision of management services	Limited liability entity
Sino Teamwork Limited	Hong Kong 9 January 2013	HK$1	100%	Provision of financing	Limited liability entity
ZF Ireland Aircraft 42 Limited	Ireland 22 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 45 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 46 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 49 Limited	Ireland 22 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 51 Limited	Ireland 21 June 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 52 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 53 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 54 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 55 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 56 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 57 Limited	Ireland 17 November 2017	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 69 Limited	Ireland 9 January 2018	EUR1	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
ZF Ireland Aircraft 70 Limited	Ireland 9 January 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 71 Limited	Ireland 9 January 2018	EUR10	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 72 Limited	Ireland 23 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 73 Limited	Ireland 23 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 74 Limited	Ireland 20 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 76 Limited	Ireland 20 July 2018	EUR1	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 83 Limited	Ireland 10 September 2018	EUR10	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 87 Limited	Ireland 10 September 2018	EUR100	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 98 Limited	Ireland 23 September 2019	EUR100	100%	Aircraft leasing	Limited liability entity
ZF Ireland Aircraft 99 Limited	Ireland 23 September 2019	EUR100	100%	Aircraft leasing	Limited liability entity
ZF Oriental 3 Limited	Hong Kong 6 July 2017	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 4 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 5 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 6 Limited	Hong Kong 27 November 2018	HK$1	100%	Aircraft leasing	Limited liability entity
ZF Oriental 13 Limited	Hong Kong 9 October 2019	HK$10	100%	Aircraft leasing	Limited liability entity
ZF Oriental Holdings 2 Limited	Hong Kong 29 March 2021	HK$10	100%	Provision of financing	Limited liability entity
ZF Oriental Assets Limited	Hong Kong 3 January 2019	HK$1	100%	Aircraft trading	Limited liability entity
CALC Aircraft Assets Limited	Labuan 18 November 2015	US$10,000	100%	Aircraft trading	Limited liability entity
CALC Aviation Assets Limited	Labuan 30 December 2015	US$100	100%	Aircraft leasing	Limited liability entity
CALC Aviation Capital Limited	Labuan 30 December 2015	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sebelas Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
CALC Sembilan Limited	Labuan 12 July 2016	US$100	100%	Aircraft leasing	Limited liability entity
CALC Sepuluh Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity
CALC Enam Limited	Labuan 7 November 2014	US$10,000	100%	Aircraft leasing	Limited liability entity
CALC Dua Belas Limited	Labuan 22 April 2021	US$100	100%	Aircraft leasing	Limited liability entity
ZF Finance Limited	Malta 11 November 2020	EUR1,200	100%	Provision of financing	Limited liability entity
Linkasia Airlines Group Limited	Cayman Islands 3 August 2016	US$38,451,000	72.82%	Investment holding	Limited liability entity
中永順融資租賃(上海)有限公司 (China Aircraft Leasing Company Limited (Shanghai))	PRC 27 November 2013	US$174,000,000	100%	Investment holding	Limited liability entity
中永崇寧一飛機租賃(上海)有限公司 (Zhongyong Chongning 1 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧二飛機租賃(上海)有限公司 (Zhongyong Chongning 2 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧三飛機租賃(上海)有限公司 (Zhongyong Chongning 3 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永崇寧四飛機租賃(上海)有限公司 (Zhongyong Chongning 4 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
建昭一號租賃(天津)有限公司 (Jianzhao 1 Leasing (Tianjin) Co. Ltd.)	PRC 3 November 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建昭二號租賃(天津)有限公司 (Jianzhao 2 Leasing (Tianjin) Co. Ltd.)	PRC 3 November 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建昭三號租賃(天津)有限公司 (Jianzhao 3 Leasing (Tianjin) Co. Ltd.)	PRC 3 November 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中永熙雍一飛機租賃(上海)有限公司 (Zhongyong Xiyong 1 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永熙雍二飛機租賃(上海)有限公司 (Zhongyong Xiyong 2 Aircraft Leasing (Shanghai) Company Limited)	PRC 19 October 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中永熙雍七飛機租賃(上海)有限公司 (Zhongyong Xiyong 7 Aircraft Leasing (Shanghai) Company Limited)	PRC 20 October 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中龍元康租賃(天津)有限公司 (China Aero II Leasing (Tianjin) Company Limited)	PRC 12 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛干寧租賃(天津)有限公司 (CALC Ganning Limited)	PRC 15 August 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛天复租賃(天津)有限公司 (CALC Tianfu Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛文明租賃(天津)有限公司 (CALC Wenming Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛永淳租賃(上海)有限公司 (CALC Yong Chun Limited)	PRC 10 October 2012	RMB1,000,000	100%	Aircraft leasing	Limited liability entity
中飛長慶租賃(天津)有限公司 (CALC Changqing Limited)	PRC 25 June 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建中租賃(天津)有限公司 (CALC Jianzhong Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛建元租賃(天津)有限公司 (CALC Jianyuan Limited)	PRC 8 November 2011	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛租融資租賃有限公司 (China Asset Leasing Company Limited)	PRC 13 December 2010	US$1,000,000,000	100%	Investment holding	Limited liability entity
中飛開成租賃(天津)有限公司 (CALC Kaicheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳五號租賃(天津)有限公司 (Jianfeng 5 Leasing (Tianjin) Co. Ltd.)	PRC 14 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳六號租賃(天津)有限公司 (Jianfeng 6 Leasing (Tianjin) Co. Ltd.)	PRC 16 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
建鳳七號租賃(天津)有限公司 (Jianfeng 7 Leasing (Tianjin) Co. Ltd.)	PRC 16 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳八號租賃(天津)有限公司 (Jianfeng 8 Leasing (Tianjin) Co. Ltd.)	PRC 13 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳九號租賃(天津)有限公司 (Jianfeng 9 Leasing (Tianjin) Co. Ltd.)	PRC 16 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
建鳳十號租賃(天津)有限公司 (Jianfeng 10 Leasing (Tianjin) Co. Ltd.)	PRC 12 March 2020	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機崇禎租賃(天津)有限公司 (ZJ Chongzhen Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機會昌租賃(天津)有限公司 (ZJ Huichang Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機靖康租賃(天津)有限公司 (ZJ Jingkang Leasing (Tianjin) Co.,Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機弘治租賃(天津)有限公司 (ZJ Hongzhi Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛開禧租賃(天津)有限公司 (CALC Kaixi Limited)	PRC 19 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嗣聖租賃(天津)有限公司 (CALC Sisheng Limited)	PRC 4 December 2013	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛嘉定租賃(天津)有限公司 (CALC Jiading Limited)	PRC 20 January 2015	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛儀鳳租賃(天津)有限公司 (CALC Yifeng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛咸亨租賃(天津)有限公司 (CALC Xianheng Limited)	PRC 3 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛顯慶租賃(天津)有限公司 (CALC Xianqing Limited)	PRC 1 February 2012	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天壽租賃(天津)有限公司 (ZJ Tianshou Leasing (Tianjin) Co., Ltd.)	PRC 17 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中飛光啟租賃(天津)有限公司 (CALC Guangqi Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛大中租賃(天津)有限公司 (CALC Dazhong Company Limited)	PRC 8 October 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機明政租賃(天津)有限公司 (ZJ Mingzheng Leasing (Tianjin) Co., Ltd.)	PRC 17 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機進通租賃(天津)有限公司 (ZJ Jintong Leasing (Tianjin) Co., Ltd.)	PRC 18 August 2017	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機開寶租賃(天津)有限公司 (ZJ Kaibao Leasing (Tianjin) Co., Ltd.)	PRC 23 April 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機治平租賃(天津)有限公司 (ZJ Zhiping Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大曆租賃(天津)有限公司 (ZJ Dali Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機皇慶租賃(天津)有限公司 (ZJ Huangqing Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機證聖租賃(天津)有限公司 (ZJ Zhengsheng Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機天慶租賃(天津)有限公司 (ZJ Tianqing Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機宣德租賃(天津)有限公司 (ZJ Xuande Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機延載租賃(天津)有限公司 (ZJ Yanzai Leasing (Tianjin) Co., Ltd.)	PRC 28 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機神功租賃(天津)有限公司 (ZJ Shengong Leasing (Tianjin) Co., Ltd.)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建安飛機租賃(上海)有限公司 (ZJ Jianan Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永漢飛機租賃(上海)有限公司 (ZJ Yonghan Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中機永康飛機租賃(上海)有限公司 (ZJ Yongkang Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建寧飛機租賃(上海)有限公司 (ZJ Jianning Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機建和飛機租賃(上海)有限公司 (ZJ Jianhe Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永壽飛機租賃(上海)有限公司 (ZJ Yongshou Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機永興飛機租賃(上海)有限公司 (ZJ Yongxing Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機熹平飛機租賃(上海)有限公司 (ZJ Xiping Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機初平飛機租賃(上海)有限公司 ZJ Chuping Aircraft Leasing (Shanghai) Company Limited	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機元嘉飛機租賃(上海)有限公司 (ZJ Yuanjia Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機興平飛機租賃(上海)有限公司 (ZJ Xingping Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機昭寧飛機租賃(上海)有限公司 ZJ Zhaoning Aircraft Leasing (Shanghai) Company Limited)	PRC 14 July 2021	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機至正租賃(天津)有限公司 (ZJ Zhizheng Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機至治租賃(天津)有限公司 (ZJ Zhizhi Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity
中機大觀租賃(天津)有限公司 (ZJ Daguan Leasing (Tianjin) Company Limited)	PRC 29 June 2018	RMB100,000	100%	Aircraft leasing	Limited liability entity

38 SUBSIDIARIES *(continued)*

Company name	Country/place and date of incorporation/ establishment	Issued and paid-up capital	Equity interest held by the Group	Principal activities	Type of legal entity
中飛睿天成融資租賃(天津)有限公司 (CALC RuiTianCheng Financial Leasing Limited)	PRC 28 July 2016	RMB100,000	100%	Aircraft leasing	Limited liability entity

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 36 to 86, which comprises the interim consolidated balance sheet of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2023 and the interim consolidated statement of income, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 August 2023

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INTERIM CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2023 HK$'000**	Audited As at 31 December 2022 HK$'000
ASSETS			
Property, plant and equipment and right-of-use assets	6	**31,341,659**	27,354,373
Investments in and loans to associates and joint ventures	7	**1,113,427**	1,354,410
Finance lease receivables – net	8	**8,474,952**	8,172,086
Financial assets at fair value through profit or loss	9	**866,025**	769,462
Derivative financial assets	19	**116,411**	221,399
Prepayments and other assets	10	**13,376,592**	11,362,415
Assets classified as held for sale	11	**1,691,878**	1,425,199
Aircraft components trading assets		**1,965**	5,245
Restricted cash		**784,709**	1,114,958
Cash and cash equivalents		**5,417,966**	3,552,533
Total assets		**63,185,584**	55,332,080
EQUITY			
Share capital	12	**74,436**	74,436
Reserves	13	**2,293,296**	2,314,613
Retained earnings		**2,365,765**	2,276,247
Equity attributable to shareholders of the Company		**4,733,497**	4,665,296
Perpetual capital securities and other non-controlling interests	14	**1,530,503**	1,590,921
Total equity		**6,264,000**	6,256,217
LIABILITIES			
Deferred income tax liabilities	15	**1,111,540**	1,057,059
Borrowings	16	**43,916,287**	38,001,150
Medium-term notes	17	**1,618,998**	1,696,509
Bonds and debentures	18	**6,917,832**	5,406,490
Derivative financial liabilities	19	**175,791**	52,543
Income tax payables		**66,468**	45,850
Interest payables		**282,763**	297,689
Other liabilities and accruals	20	**2,831,905**	2,518,573
Total liabilities		**56,921,584**	49,075,863
Total equity and liabilities		**63,185,584**	55,332,080

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information was approved by the Board of Directors on 22 August 2023 and was signed on its behalf.

ZHANG Mingao
Director

POON Ho Man
Director

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited Six months ended 30 June 2023 HK$'000	2022 HK$'000
Total revenue			
Lease income			
Finance lease income		**296,555**	284,403
Operating lease income		**1,759,898**	1,369,364
	21	**2,056,453**	1,653,767
Other operating income			
Net income from aircraft transactions and aircraft components trading	22	**44,695**	66,492
Other income	23	**225,109**	170,532
		2,326,257	1,890,791
Expenses			
Interest expenses	24	**(1,075,871)**	(757,857)
Depreciation	6	**(748,034)**	(590,692)
Expected credit losses		**(51,782)**	(51,834)
Other operating expenses	25	**(147,825)**	(140,600)
		(2,023,512)	(1,540,983)
Net write-off of two aircraft remained in Russia	26	**–**	(439,029)
Share of results from associates and joint ventures		**(1,267)**	1,800
Other gains, net	27	**159,257**	118,363
Profit before income tax		**460,735**	30,942
Income tax expenses	28	**(153,833)**	(101,381)
Profit/(Loss) for the period		**306,902**	(70,439)
Profit/(Loss) attributable to			
Shareholders of the Company		**201,171**	(130,160)
Holders of perpetual capital securities and other non-controlling interests		**105,731**	59,721
		306,902	(70,439)
Earnings/(Losses) per share for profit/(loss) attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings/(losses) per share	30(a)	**0.270**	(0.175)
– Diluted earnings/(losses) per share	30(b)	**0.270**	(0.175)

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June **2023** **HK$'000**	 2022 HK$'000
Profit/(Loss) for the period		**306,902**	(70,439)
Other comprehensive (loss)/income for the period:			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	19	**(78,659)**	249,339
Currency translation differences		**56,672**	53,042
		(21,987)	302,381
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences attributable to non-controlling interests		**729**	(279)
Total other comprehensive (loss)/income for the period, net of tax		**(21,258)**	302,102
Total comprehensive income for the period		**285,644**	231,663
Total comprehensive income for the period attributable to			
Shareholders of the Company		**179,184**	172,221
Holders of perpetual capital securities and other non-controlling interests		**106,460**	59,442
		285,644	231,663

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to shareholders of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Perpetual capital securities and other non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2023	**74,436**	**2,314,613**	**2,276,247**	**4,665,296**	**1,590,921**	**6,256,217**
Comprehensive income						
Profit for the period	**–**	**–**	**201,171**	**201,171**	**105,731**	**306,902**
Other comprehensive (loss)/income						
Cash flow hedges (Note 19)	**–**	**(78,659)**	**–**	**(78,659)**	**–**	**(78,659)**
Currency translation differences	**–**	**56,672**	**–**	**56,672**	**729**	**57,401**
Total comprehensive (loss)/income	**–**	**(21,987)**	**201,171**	**179,184**	**106,460**	**285,644**
Transaction with shareholders and non-controlling interests						
Dividends (Note 29)	**–**	**–**	**(111,653)**	**(111,653)**	**–**	**(111,653)**
Dividends distributed to perpetual capital securities (Note 14(a))	**–**	**–**	**–**	**–**	**(166,878)**	**(166,878)**
Share option scheme:						
– Value of services (Note 13)	**–**	**1,126**	**–**	**1,126**	**–**	**1,126**
– Share options lapsed (Note 13)	**–**	**(456)**	**–**	**(456)**	**–**	**(456)**
Total transactions with shareholders and non-controlling interests	**–**	**670**	**(111,653)**	**(110,983)**	**(166,878)**	**(277,861)**
Balance as at 30 June 2023	**74,436**	**2,293,296**	**2,365,765**	**4,733,497**	**1,530,503**	**6,264,000**
Balance as at 1 January 2022	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255
Comprehensive income						
(Loss)/Profit for the period	–	–	(130,160)	(130,160)	59,721	(70,439)
Other comprehensive income/(loss)						
Cash flow hedges (Note 19)	–	249,339	–	249,339	–	249,339
Currency translation differences	–	53,042	–	53,042	(279)	52,763
Total comprehensive income/(loss)	–	302,381	(130,160)	172,221	59,442	231,663
Transaction with shareholders and non-controlling interests						
Dividends	–	–	(193,319)	(193,319)	–	(193,319)
Dividends distributed to perpetual capital securities (Note 14(a))	–	–	–	–	(15,727)	(15,727)
Cancellation of shares (Note 12)	(408)	495	–	87	–	87
Share option scheme:						
– Value of services (Note 13)	–	1,500	–	1,500	–	1,500
Total transactions with shareholders and non-controlling interests	(408)	1,995	(193,319)	(191,732)	(15,727)	(207,459)
Balance as at 30 June 2022	74,354	2,292,226	2,184,142	4,550,722	1,490,737	6,041,459

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June **2023** **HK$'000**	 2022 HK$'000
Cash flows from operating activities			
Profit before income tax		**460,735**	30,942
Adjustments for:			
– Depreciation	6	**748,034**	590,692
– Net income from aircraft transactions	22	**(38,615)**	(64,756)
– Expected credit losses		**51,782**	51,834
– Net write-off of two aircraft remained in Russia	26	**–**	439,029
– Interest expenses	24	**1,075,871**	757,857
– Share-based payments		**670**	1,500
– Unrealised currency exchange gains		**(184,295)**	(193,958)
– Fair value changes attributable to interest rate and fair value changes on currency swap and currency forward contracts	19	**88,768**	80,189
– Share of results from associates and joint ventures		**1,267**	(1,800)
– Interest income	23	**(89,159)**	(57,121)
– Fair value gains on financial assets at fair value through profit or loss	27	**(21,393)**	(18,364)
		2,093,665	1,616,044
Changes in working capital:			
– Finance lease receivables – net		**(273,901)**	(221,569)
– Prepayments and other assets		**(50,775)**	(100,899)
– Aircraft components trading assets		**3,280**	4,049
– Other liabilities and accruals		**(1,586)**	224,623
Cash generated from operations		**1,770,683**	1,522,248
Income taxes paid		**(77,937)**	(62,689)
Net cash flows generated from operating activities		**1,692,746**	1,459,559
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,493,510)**	(1,468,604)
Proceeds from disposal of aircraft		**486,485**	1,111,281
Pre-Delivery Payments ("PDP") and prepayments paid for acquisition of aircraft		**(4,556,868)**	(5,128,287)
PDP refunded for acquisition of aircraft		**902,152**	947,304
Interest received		**97,305**	61,192
Investment in financial assets at fair value through profit or loss		**(55,144)**	(3,136)
Proceeds from distribution of financial assets at fair value through profit or loss		**–**	28,698
Investment in associates and joint ventures		**–**	(5,057)
Payments relating to loans to associates and joint ventures		**(63,213)**	(141,044)
Repayments of loans to associates and joint ventures		**259,790**	22,473
Net cash flows used in investing activities		**(6,423,003)**	(4,575,180)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June 2023 HK$'000	2022 HK$'000
Cash flows from financing activities		
Proceeds from borrowings	**12,917,456**	10,847,022
Issue of notes, bonds and debentures, net of transaction costs	**1,693,328**	3,308,567
Repayments of borrowings	**(6,875,404)**	(6,238,678)
Repurchase and repayment of bonds and debentures, including transaction costs	**–**	(4,041,501)
Repayment of lease liabilities	**(7,643)**	(7,499)
Proceeds from disposal of derivative financial instruments	**60,481**	–
Interest received/(paid) in respect of derivative financial instruments	**47,715**	(54,458)
Interest paid in respect of borrowings, notes and bonds and debentures	**(1,410,193)**	(777,307)
Pledge of deposits placed in respect of borrowings	**(598,414)**	(263,977)
Pledge of deposits withdrawn in respect of borrowings	**1,022,116**	18,748
Pledge of deposits placed in respect of derivative financial instruments	**(131,417)**	(11,307)
Pledge of deposits withdrawn in respect of derivative financial instruments	**17,003**	149,787
Net cash flows generated from financing activities	**6,735,028**	2,929,397
Net increase/(decrease) in cash and cash equivalents	**2,004,771**	(186,224)
Cash and cash equivalents at beginning of the period	**3,552,533**	4,776,389
Currency exchange difference on cash and cash equivalents	**(139,338)**	(54,256)
Cash and cash equivalents at end of the period	**5,417,966**	4,535,909

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands. The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Company and its subsidiaries (together, "the Group") have operations mainly in Mainland China and other countries or regions globally.

The interim condensed consolidated financial information for the six months ended 30 June 2023 ("Interim Financial Information") is presented in Hong Kong Dollar ("HK$"), unless otherwise stated.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". The Interim Financial Information should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2022 annual report of the Company.

Going concern

As at 30 June 2023, the Group's current liabilities exceeded its current assets by HK$16,188.8 million. The Group had total capital commitments of HK$78,826.1 million as at 30 June 2023, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years until the end of 2027. Out of the total capital commitments, HK$15,884.1 million is forecasted to be incurred and payable within one year based on the current delivery schedules and forecasted delivery schedules with the Original Equipment Manufacturers ("OEMs"). The Group will satisfy these capital commitments through the Group's internal resources, available and additional banking facilities and aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 30 June 2023, the Group had cash and bank balances of HK$6,202.7 million and undrawn borrowing facilities of HK$3,990.3 million. The total balance of cash and bank balances with undrawn borrowing facilities was HK$10,193.0 million.

The Group will need to secure a substantial amount of funds in the foreseeable future to finance the financial obligations and capital expenditures under contractual and other arrangements. The directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than twelve months from 30 June 2023. The directors have taken into account the following plans and measures for the purposes of their assessment:

– According to the relevant aircraft purchase agreements, the scheduled payment of Pre-Delivery Payments ("PDP") for the next twelve months from 30 June 2023 amounts to HK$7,591.2 million.

  The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approvals from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience, latest delivery schedule and industry knowledge.

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

On 14 August 2023, the Company (through a wholly-owned subsidiary of the Company, i.e. the Novator) entered into the Novation Agreement with the Novatee pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "Novation Arrangement"). To facilitate and as part of the Novation Arrangement, another subsidiary of the Company (i.e. the Seller) entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. It is estimated that completion of the Novation Arrangement will take place on or about 30 August 2023. Please refer to the announcement of the Company dated 14 August 2023 for details. With the completion of the Novation Arrangement, the scheduled payment of PDP and aircraft delivery will be significantly reduced. The proceeds from the Novation Arrangement will be used to repay various financing maturing in the next twelve months from 30 June 2023.

In addition, three PDP facilities are set to expire and the utilised facility drawdowns of HK$6,222.8 million will need to be repaid in the next twelve months from 30 June 2023.

For the scheduled payment of PDP and repayment of utilised facility drawdowns under the facilities expiring in the next twelve months from 30 June 2023, significant portion will be repaid by the proceeds from the Novation Arrangement and the PDP facilities to be released when PDP financing is repaid. The Group has initiated the process to obtain new PDP loan facilities with various onshore and offshore banks and financial institutions. In particular, up to August 2023, approval is already obtained from a mandated lead arranging bank for a new syndicated facility. With the recovery of aviation industry, the directors believe that certain lenders of our existing PDP syndication are interested in participating in a new PDP syndication and given the Group's past experience in renewing PDP facilities, the directors are confident that the Group will be able to obtain new PDP facilities in the next twelve months from 30 June 2023. With such new facilities, internal resources and/or facilities obtained from other financing channels of the Group, the Group will be able to satisfy payments of the committed PDP and repayment of PDP facilities at maturity in the next twelve months from 30 June 2023.

– The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful in adjusting the delivery schedules in the past. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs may accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances. Based on its experience, the directors are confident that it would be able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances, and obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next twelve months from 30 June 2023 as and when needed.

– New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and, the repayments of the PDP financing which is usually due upon delivery of aircraft. New aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes finances the new aircraft with internal resources or short-term bridging financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the six months ended 30 June 2023, the Group has obtained 30 aircraft project loan facilities of HK$7,578.1 million from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time subsequent to 30 June 2023. Based on these aircraft project loan arrangements, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 30 June 2023. With the completion of the Novation Arrangement, the aircraft delivery and the relevant aircraft project loans will be significantly reduced.

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

- As at 30 June 2023, the Group had working capital loan and revolving loan facilities of HK$7,502.6 million out of which HK$6,229.3 million has been utilised. Based on the previous experience, the directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK$1,273.3 million as and when required and will be able to renew substantially all the existing revolving facilities.

- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes and so on. In particular, the Group has obtained approval from the China Securities Regulatory Commission for issuance of unsecured bonds with a principal amount of RMB2.0 billion or less in the PRC within a two-year period from October 2022. In June 2023, the Group completed the issuance of three-year corporate bonds of RMB1.5 billion in the PRC. The Group will continue to review the market conditions and may issue RMB super short-term debentures, RMB medium-term notes and RMB bonds when needed. Based on the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.

- The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled to dispose certain aircraft in the next twelve months from 30 June 2023. As of 22 August 2023, the Group has signed sale and purchase agreements or letters of intent for the disposals of 12 aircraft. Based on the Group's past experience in aircraft portfolio trading, the directors are confident that the scheduled disposals of aircraft will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 30 June 2023.

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, the cash flows generated from its business operations, continued availability of existing and new banking facilities, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments, the successful disposals of aircraft as planned and the completion of the Novation Arrangement, the Group has sufficient working capital for its present requirements in the next twelve months from 30 June 2023. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and hence prepared the consolidated financial statements on a going concern basis.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's consolidated financial statements for the year ended 31 December 2022.

New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2023:

Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2
Definition of Accounting Estimates – Amendments to HKAS 8
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12

Management's preliminary assessment is that the application of the above standards, interpretations and amendments will not have a material impact on the Group.

4 ESTIMATES

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's consolidated financial statements for the year ended 31 December 2022.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2022.

There have been no significant changes in the risk management department or in any risk management policies since 31 December 2022.

5.1.1 Market risk

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other assets, financial liabilities including bank borrowings, medium-term notes, bonds and debentures and other liabilities and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and certain borrowings used to finance the leases are denominated in US$, while some borrowings are denominated in RMB. Currency exchange risk may arise when the finance lease receivables, operating lease receivables and certain borrowings are denominated in different currencies. The management of the Group closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group uses the currency forward contracts to hedge its exposure to currency exchange risk. The foreign currency forward contracts do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains, net, please refer to Note 27.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

***5.1.1 Market risk** (continued)*

(a) Currency exchange risk (continued)

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

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Cash and cash equivalents	**1,900,890**	649,087
Other financial assets	**822,448**	205,287
Total financial assets	**2,723,338**	854,374
Bank borrowings	**(2,331,374)**	(784,207)
Medium-term notes	**(1,618,998)**	(1,696,509)
Bonds and debentures	**(4,096,207)**	(2,598,653)
Other financial liabilities	**(721,486)**	(478,734)
Total financial liabilities	**(8,768,065)**	(5,558,103)
Notional amount of currency forward contracts	**2,862,795**	2,604,290
Net exposure	**(3,181,932)**	(2,099,439)

As at 30 June 2023, the Group had one outstanding currency swap contract with notional principal of US$15,684,000 (equivalent to approximately HK$122,898,000) (31 December 2022: US$15,684,000 (equivalent to approximately HK$122,458,000)). For details, please refer to Note 19.

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US$ for six months ended 30 June in 2023 and 2022:

	Unaudited Six months ended 30 June	
	2023 HK$'000	2022 HK$'000
Profit before tax		
– 5% appreciation of RMB against US$	**(164,286)**	(76,147)
– 5% depreciation of RMB against US$	**164,286**	76,147

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.1 Market risk (continued)

(b) *Cash flow and fair value interest rate risk*

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, long-term borrowings, bonds and debentures and medium-term notes at fixed rates expose the Group to fair value interest rate risk.

The Group's primary objective is to manage cash flow interest rate risk.

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank and other borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank and other borrowings do not match. The following table indicates the amount of bank and other borrowings exposed to interest rate risk as at 30 June 2023 and 31 December 2022.

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Borrowings exposed to US$ London Interbank Offered Rate ("LIBOR")	**8,321,559**	16,319,859
Borrowings exposed to US$ Secured Overnight Financing Rate ("SOFR")	**18,036,700**	5,962,198
Borrowings exposed to RMB Loan Prime Rate ("LPR")	**4,646,193**	3,668,483
	31,004,452	25,950,540

Interest rate swaps are used to manage the variability in future interest cash flows of bank borrowings, arising due to changes in market interest rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for bank borrowings on the basis of their contractual terms and other relevant factors, including estimates of prepayments. The cash flows are used to determine the effectiveness and ineffectiveness.

As at 30 June 2023, the Group had 19 outstanding floating-to-fixed interest rate swaps (31 December 2022: 27 swaps) to manage its unmatched interest rate risk exposure. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining unhedged exposure, the Group closely monitors the interest rate exposure trend and will consider hedging the exposure where necessary and appropriate.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk (continued)

	Unaudited		Audited	
	As at 30 June 2023		As at 31 December 2022	
	Notional amount HK$'000	**Carrying Value HK$'000**	Notional amount HK$'000	Carrying Value HK$'000
Interest rate swaps				
Exposed to US$ LIBOR	**–**	**–**	5,277,723	202,272
Exposed to US$ SOFR	**3,208,767**	**100,392**	169,198	9,283
	3,208,767	**100,392**	5,446,921	211,555

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2023. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax for the six months ended 30 June 2023 by approximately HK$33,418,000 (six months ended 30 June 2022: decreased/increased by HK$14,417,000); and would also have increased/decreased the Group's reserves by approximately HK$4,999,000 (31 December 2022: increased/decreased by HK$37,481,000) because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

Financial instruments impacted by LIBOR reform

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY LIBOR settings and the one-week and two-month US$ LIBOR settings had discontinued after 31 December 2021 and the remaining US$ LIBOR settings had discontinued after 30 June 2023.

During the six-month period ended 30 June 2023, the transition of all legacy contracts of interest rate swaps and the majority of legacy contracts of bank borrowings linked to US$ LIBORs was undertaken successfully. The transition of remaining bank borrowing contracts linked to US$ LIBORs are expected to complete before the end of third quarter in 2023.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.1 Market risk *(continued)*

(b) *Cash flow and fair value interest rate risk (continued)*

Financial instruments impacted by LIBOR reform (continued)

The Group has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to HKFRS 9 and HKAS 39 applicable to hedge accounting, which has no material impact to the Group. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

5.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheet date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service, loans to associates and joint ventures, and other financial assets.

Credit risk on aircraft leasing service

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as their shareholders' support. The Group also obtained deposits from the lessees (Note 20). All these strengthen the control and management of credit risk.

(a) Probability of default

Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate. In addition, the Group may request for a security deposit or security deposit letter of credit which it may apply towards the payment or discharge of any obligation owed by the lessee.

Late payment risk - in the event of late payment, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which it may apply towards the payment or discharge of any obligation owed by the lessee.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.2 Credit risk *(continued)*

Credit risk on aircraft leasing service (continued)

(b) Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

(c) Impairment allowance policies

The Group applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for lease receivables. To measure the expected credit losses, the relevant receivables are grouped based on shared credit risk characteristics such as financial performance and stability, future growth, default history and other relevant factors.

The loss allowances of credit risk are estimated according to net exposure analysis and assumptions about risk of default and expected loss rates. The net exposure is determined based on the finance lease receivable or operating lease receivable balance, net of the unguaranteed residual value in the case of a finance lease, and other cash collaterals such as security deposits over the contractual term. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Group assesses the business performance and credit risks of the airline companies on a regular basis. In view of the economic conditions, the operation of airlines and the collection history of the receivable due from them, management provided expected credit loss of HK$12,285,000 (31 December 2022: HK$11,841,000) for finance lease receivables (Note 8) and HK$224,560,000 (31 December 2022: HK$187,516,000) for operating lease receivables (Note 10) as at 30 June 2023.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

***5.1.2 Credit risk** (continued)*

Credit risk on aircraft leasing service (continued)

(c) Impairment allowance policies *(continued)*

Credit risk exposure on operating leases receivables:

	Unaudited As at 30 June 2023		Audited As at 31 December 2022	
	Gross carrying amount HK$'000	**Expected credit losses allowance HK$'000**	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	**278,484**	**118,302**	280,316	133,293
Europe	**29,390**	**29,390**	29,808	22,778
America	**169,010**	**76,868**	182,301	31,445
	476,884	**224,560**	492,425	187,516

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

	Unaudited As at 30 June 2023		Audited As at 31 December 2022	
	Gross carrying amount HK$'000	**Expected credit losses allowance HK$'000**	Gross carrying amount HK$'000	Expected credit losses allowance HK$'000
Asia	**4,357,202**	**12,285**	4,204,864	11,841

(d) Concentration of credit risk

During six months ended 30 June 2023, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 8, Note 10 and Note 21 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables and operating lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased assets.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.2 ***Credit risk*** *(continued)*

Credit risk on loans to associates and joint ventures and other financial assets

The Group is also exposed to credit risk associated with loans and loan commitments, and financial guarantees to associates and joint ventures.

The Group assesses whether there are any indicators of impairment for investments in associates and joint ventures at the end of each reporting period. Investments in associates and joint ventures are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in associates or joint ventures exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose a discount rate commensurate with the associated risk in order to calculate the present values of those cash flows.

The Group evaluates expected credit losses of loans to associates and joint ventures at the end of each reporting period. Management considers a number of factors in expected credit loss assessment including but not limited to associates and joint ventures' current and expected financial positions, business environment and industry performance, current and forward-looking economic factors, collection history and past experience. For loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, the expected credit loss is likely to be immaterial. If the borrower could not repay the loan if demanded at the reporting date, the Group considers the expected manner of recovery, including a 'repay over time' strategy or a fire sale of less liquid assets, to measure expected credit losses. Please refer to Note 7 and Note 31 for details.

In addition, the Group is exposed to credit risk associated with cash in banks and derivative financial assets. Management considers that these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or due to be settled within twelve months after the balance sheet date:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Current assets		
Loans to associates and joint ventures	**39,350**	16,552
Financial assets at fair value through profit or loss	**86,575**	126,022
Finance lease receivables – net	**444,693**	241,394
Derivative financial assets	**93,117**	145,658
Aircraft components trading assets	**1,965**	5,245
Prepayments and other assets	**539,077**	532,810
Assets classified as held for sale	**1,691,878**	1,425,199
Restricted cash	**546,277**	770,161
Cash and cash equivalents	**5,417,966**	3,552,533
	8,860,898	6,815,574
Current liabilities		
Deferred income tax liabilities	**197,668**	199,545
Borrowings	**19,380,904**	15,698,907
Bonds and debentures	**2,642,534**	1,131,071
Derivative financial liabilities	**61,930**	37,289
Income tax payables	**66,468**	45,850
Interest payables	**282,763**	297,689
Other liabilities and accruals	**2,417,475**	2,081,901
	25,049,742	19,492,252
Net current liabilities	**(16,188,844)**	(12,676,678)

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

As at 30 June 2023, borrowings of HK$19.4 billion (31 December 2022: HK$15.7 billion) under current liabilities mainly comprised of borrowings of HK$6.3 billion (31 December 2022: HK$5.2 billion) from aircraft acquisition financing ("aircraft loans"), HK$8.9 billion (31 December 2022: HK$6.9 billion) from PDP financing, and HK$4.2 billion (31 December 2022: HK$3.6 billion) from other bank borrowings. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 11). The repayment of above aircraft loans will be partially funded by the collection of operating lease receivables of HK$3.6 billion (31 December 2022: HK$3.4 billion) (Note 32(d)) (which has not been included under current assets above) that is expected to be received from airlines in the next twelve months from 30 June 2023. Repayment of PDP loans and other financing is expected to be funded by existing loan facilities and/or new aircraft loans when aircraft is delivered, as well as proceeds from the Novation Arrangement.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six months ended 30 June 2023.

The Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, and asset-liability ratio, which is calculated as total liabilities divided by total assets and interest-bearing debts to equity ratio, which is calculated as interest-bearing debts included in total liabilities divided by total equity. The ratios are as follows:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Interest-bearing debts included in total liabilities	**52,453,117**	45,104,149
Total liabilities	**56,921,584**	49,075,863
Total assets	**63,185,584**	55,332,080
Total equity	**6,264,000**	6,256,217
Gearing ratio	**83.0%**	81.5%
Asset-liability ratio	**90.1%**	88.7%
Interest-bearing debts to equity ratio	**8.4:1**	7.2:1

5.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Group estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities, which already incorporate the market's assumptions with respect to changes in economic climate such as rising interest rates and inflation, as well as changes due to Environmental, Social and Governance ("ESG") risk (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs), which is the case for unlisted equity securities and instruments where ESG risk gives rise to a significant unobservable adjustment (level 3).

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Fair value estimation *(continued)*

Financial assets and financial liabilities measured at fair values

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 30 June 2023 – unaudited				
Assets				
Interest rate swaps	**–**	**100,392**	**–**	**100,392**
Currency swap	**–**	**16,019**	**–**	**16,019**
Financial assets at fair value through profit or loss	**1,093**	**–**	**864,932**	**866,025**
	1,093	**116,411**	**864,932**	**982,436**
Liabilities				
Currency forward contracts	**–**	**175,791**	**–**	**175,791**
As at 31 December 2022 – audited				
Assets				
Interest rate swaps	–	211,555	–	211,555
Currency swap and forward contracts	–	9,844	–	9,844
Financial assets at fair value through profit or loss	3,425	–	766,037	769,462
	3,425	221,399	766,037	990,861
Liabilities				
Currency forward contracts	–	52,543	–	52,543

The fair values of the interest rate swaps for hedging and the currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, US$/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

The fair value of the financial assets at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, risk-adjusted discount rate, and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy. The Group accessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease HK$4,800,000 (31 December 2022: HK$5,184,000) or increase HK$4,874,000 (31 December 2022: HK$5,282,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase the fair value by HK$168,078,000 (31 December 2022: HK$180,977,000) or decrease the fair value by HK$399,239,000 (31 December 2022: HK$289,674,000), respectively.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Fair value estimation *(continued)*

Financial assets and financial liabilities measured at fair values *(continued)*

The following table presents the change in level 3 instrument for the six months ended 30 June 2023.

	Financial assets at fair value through profit or loss HK$'000
As at 1 January 2023	**766,037**
Increase in financial assets at fair value through profit or loss	**72,423**
Fair value gains on the financial assets at fair value through profit or loss	**23,744**
Currency translation difference	**2,728**
As at 30 June 2023	**864,932**

	Financial assets at fair value through profit or loss HK$'000
As at 1 January 2022	750,841
Investment in financial assets at fair value through profit or loss	3,136
Proceeds from financial assets at fair value through profit or loss	(28,698)
Fair value gains on the financial assets at fair value through profit or loss	18,364
Currency translation difference	4,728
As at 30 June 2022	748,371

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Fair value estimation *(continued)*

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and cash equivalents, other receivables, loans to associates and joint ventures, interest payables and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year, are not sensitive to changes in inputs to valuation techniques.

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

	Unaudited As at 30 June 2023		Audited As at 31 December 2022	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables (excluding the unguaranteed residual values)	**4,357,202**	**5,192,257**	4,204,864	4,532,366
Borrowings	**43,916,287**	**44,116,202**	38,001,150	39,109,293
Medium-term notes	**1,618,998**	**1,676,202**	1,696,509	1,782,517
Bonds and debentures	**6,917,832**	**7,206,341**	5,406,490	5,647,484

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Unaudited						
	Aircraft and engine HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Office building HK$'000	Right-of-use assets HK$'000	Others HK$'000	Total HK$'000
Net book value as at 1 January 2023	**27,268,078**	**1,068**	**9,889**	**41,023**	**26,566**	**7,749**	**27,354,373**
Additions	**5,558,116**	**1,296**	**268**	**–**	**–**	**–**	**5,559,680**
Assets classified as held for sale	**(261,630)**	**–**	**–**	**–**	**–**	**–**	**(261,630)**
Disposals	**(438,215)**	**–**	**–**	**–**	**–**	**–**	**(438,215)**
Depreciation	**(736,594)**	**(992)**	**(1,864)**	**(457)**	**(7,204)**	**(923)**	**(748,034)**
Currency translation difference	**(125,191)**	**(14)**	**398**	**148**	**147**	**(3)**	**(124,515)**
Net book value as at 30 June 2023	**31,264,564**	**1,358**	**8,691**	**40,714**	**19,509**	**6,823**	**31,341,659**
Net book value as at 1 January 2022	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
Additions	2,849,292	–	4,255	–	3,314	–	2,856,861
Assets classified as held for sale	(1,752,350)	–	–	–	–	–	(1,752,350)
Disposals	(910,192)	–	–	–	–	–	(910,192)
Write-off (Note 26)	(565,631)	–	–	–	–	–	(565,631)
Depreciation	(580,402)	(802)	(1,633)	(473)	(6,562)	(820)	(590,692)
Currency translation difference	(40,810)	–	29	281	(742)	4	(41,238)
Net book value as at 30 June 2022	22,151,070	1,869	10,707	41,683	27,695	7,494	22,240,518

Lease rentals amounting to HK$1,759,898,000 relating to the lease of aircraft and engine for the six months ended 30 June 2023 are included in "operating lease income" in the consolidated statement of income (six months ended 30 June 2022: HK$1,369,364,000).

As at 30 June 2023, the net book value of aircraft amounted to HK$30,809,949,000 (31 December 2022: HK$26,797,986,000).

As at 30 June 2023, the net book value of aircraft under operating leases amounting to HK$23,406,063,000 (31 December 2022: HK$22,213,195,000) were pledged as collateral for bank and other borrowings for aircraft acquisition financing and borrowings from trust plans (Note 16).

7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Investments in and loans to associates and joint ventures – carrying amount after share of results	**1,328,070**	1,552,837
Expected credit loss on loans to associates and joint ventures	**(214,643)**	(198,427)
	1,113,427	1,354,410

As at 30 June 2023, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Nature of relationship	Measurement method
Aircraft Recycling International Limited ("ARI") (a)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG Bermuda 1 Limited ("CAG") (Note 9)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd ("FLARI") (b)	The PRC	Line maintenance, base maintenance, technical training	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)") (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
Feitian No.2 Leasing (Tianjin) Company Limited ("Feitian No.2 (Tianjin)") (c)	The PRC	Aircraft leasing	20%	Joint venture	Equity
PT Transnusa Aviation Mandiri ("TAM") (d)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity
PT Linkaviasi Asia Indonesia ("LAI") (e)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity

(a) ARI is an investment holding company and its subsidiaries (collectively as "ARI Group") have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 30 June 2023, the net liabilities of ARI were HK$562,423,000 (31 December 2022: net liabilities of HK$513,823,000), and as a result, the Group's equity interests in ARI was reduced to zero (31 December 2022: Zero). No further losses were recorded unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate. As at 30 June 2023, the Group's carrying amount of outstanding loans to ARI amounted to HK$907,773,000 (31 December 2022: HK$1,181,449,000). For details, please refer to Note 31(b)(ii).

7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 31 December 2022, the Group's outstanding balance of advance to FLARI amounted to HK$12,551,000. As at 30 June 2023, the Group's outstanding loan balance receivable from FLARI amounted to HK$122,674,000 (31 December 2022: HK$56,445,000). For details, please refer to Note 31(b)(iii).

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

(c) HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 30 June 2023, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK$34,687,000 (31 December 2022: HK$35,558,000) and HK$34,642,000 (31 December 2022: HK$35,511,000), respectively. For details, please refer to Note 31(d).

As the result of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are disclosed.

(d) CALC IDN Limited ("CALC IDN"), a wholly-owned subsidiary of the Company, holds approximately 72.82% of the share capital in Linkasia Airlines Group Limited ("Linkasia Airlines"). The remaining shares of Linkasia Airlines are owned as to 14.13% by Equal Honour Equity Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) and 13.05% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive director and deputy chief executive officer of the Company).

Linkasia Airlines indirectly (i) holds 49% equity interest in TAM and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in TAM. The principal activity of TAM is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, TAM is jointly controlled by the Group and other investor.

As at 30 June 2023, the Group held rental deposit of US$2,611,000 (equivalent to approximately HK$20,458,000) from TAM (31 December 2022: US$1,932,000 (equivalent to approximately HK$15,085,000)) in relation to four leased aircraft (31 December 2022: three leased aircraft), please refer to Note 31(i).

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

7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES *(continued)*

(e) Linkasia Airlines indirectly (i) holds 49% equity interest in LAI and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in LAI. The principal activity of LAI is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, LAI is jointly controlled by the Group and other investor.

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

Save as those disclosed elsewhere in other notes, the above transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

Besides the contingent liabilities disclosed in Note 32(a), there are no other contingent liabilities relating to the Group's interests in associates and joint ventures.

8 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Lease payments receivables		
– Not later than one year	**190,176**	108,711
– Later than one year but not later than two years	**229,918**	188,519
– Later than two years but not later than three years	**1,673,788**	1,072,186
– Later than three years but not later than four years	**1,692,625**	1,836,468
– Later than four years but not later than five years	**1,135,156**	1,511,864
– Later than five years	**571,172**	806,670
Total	**5,492,835**	5,524,418
Less: Unearned finance lease income relating to lease payment receivables	**(1,135,633)**	(1,319,554)
Present value of lease payment receivables	**4,357,202**	4,204,864
Add: Present value of unguaranteed residual value	**4,130,035**	3,979,063
Net investment in leases	**8,487,237**	8,183,927
Less: Accumulated expected credit losses allowance	**(12,285)**	(11,841)
Finance lease receivables – net	**8,474,952**	8,172,086

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8 FINANCE LEASE RECEIVABLES – NET *(continued)*

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

	Unaudited As at 30 June 2023 HK$'000	**%**	Audited As at 31 December 2022 HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**6,009,174**	**71%**	5,811,896	71%
Others	**2,465,778**	**29%**	2,360,190	29%
Finance lease receivables – net	**8,474,952**	**100%**	8,172,086	100%

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Long-term investments – CAG (Note (a))	**738,076**	735,429
Long-term investments – Feitian No.2 (Tianjin) (Note (b))	**37,141**	–
Investment - Aircraft modification (Note (c))	**86,575**	27,479
Others	**4,233**	6,554
	866,025	769,462

Notes:

(a) CAG uses the fund injected through a performance-linked shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 20% to 80%, together with a shareholding between the Group and other investors at the same ratio. Pursuant to shareholders' agreement and shareholders' loan agreement, all investors of CAG committed to invest in CAG through shareholders' loan according to the mezzanine financing proportion.

(b) The Group entered into shareholder's loan agreements and subordinated fee agreements with Feitian No.2 (Tianjin). Pursuant to the shareholder's loan agreements and subordinated fee agreements, the Group injected RMB34,065,000 (equivalent to approximately HK$36,800,000) into Feitian No.2 (Tianjin) as at June 2023.

(c) The Group entered into several cooperation agreements with ARI Group for investment projects to modify airliner into cargo. As stipulated in the cooperation agreements, the Group's committed investment is approximately US$10.0 million (equivalent to approximately HK$78.4 million). As the owner of the aircraft, ARI Group is responsible for the sale of the aircraft following the modification into cargo. After the Group and ARI Group have recovered their investment in the project, the remaining sale proceeds will be distributed between the Group and ARI Group, with the Group's sharing ranging from 10%-60%.

10 PREPAYMENTS AND OTHER ASSETS

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	**11,521,239**	9,559,283
Operating lease receivables (b)	**476,884**	492,425
Interest capitalised	**999,577**	886,147
Deposits paid	**36,677**	28,380
Prepayments and amounts due from related parties (Note 31(f))	**320,524**	319,386
Deductible in-put value-added taxes	**60,068**	68,745
Others (c)	**186,183**	195,565
	13,601,152	11,549,931
Less: Accumulated expected credit losses allowance (b)	**(224,560)**	(187,516)
	13,376,592	11,362,415

(a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S ("Airbus") for the purchase of 100 aircraft. In December 2017 and January 2018, the Group entered into supplementary agreement with Airbus for the purchase of additional 65 aircraft. In January 2020, the Group entered into supplemental agreement to the aircraft purchase agreements in December 2014 to purchase additional 40 aircraft from Airbus.

In June 2017, the Group entered into aircraft purchase agreement (the "2017 Aircraft Purchase Agreement") with The Boeing Company ("Boeing") for the purchase of 50 aircraft. In December 2018, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement to purchase additional 50 aircraft from Boeing. In November 2019, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement and 2018 Aircraft Purchase Agreement with Boeing to adjust its order from 100 aircraft to 92 aircraft. In March 2021, the Group entered into the agreement with Boeing to adjust its order from 92 aircraft to 66 aircraft and to reschedule the delivery of certain aircraft.

PDP were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft will be delivered in stages by 2027.

10 PREPAYMENTS AND OTHER ASSETS *(continued)*

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

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

	Unaudited As at 30 June 2023 HK$'000	**%**	Audited As at 31 December 2022 HK$'000	%
Current/deferral	**168,241**	**35%**	253,239	52%
Less than 30 days past due	**5,682**	**1%**	5,403	1%
30 to 90 days past due	**24,140**	**5%**	16,672	3%
More than 90 days past due	**278,821**	**59%**	217,111	44%
Total	**476,884**	**100%**	492,425	100%

As at 30 June 2023, the expected credit losses allowance amounted to HK$224,560,000 (31 December 2022: HK$187,516,000) and the net operating lease receivables (after expected credit losses allowance) amounted to HK$252,324,000 (31 December 2022: HK$304,909,000).

(c) The "Others" above were mainly deferred expenses and prepayment to third parties.

11 ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended 30 June 2023, the Group had signed letters of intent or sale and purchase agreement for the disposals of several lease-attached aircraft. These aircraft intended to be disposed of were consequently classified as held for sale. As at 30 June 2023, net book value of assets classified as held for sale was HK$1,691,878,000 (31 December 2022: HK$1,425,199,000). The fair value of the assets classified as held for sale was determined by reference to independent aircraft valuation reports provided by external appraisers, which are estimated mainly based on the lease term, aircraft type, age, and the airframe and engine configuration of the aircraft. This is a level 3 measurement as per the fair value hierarchy.

The carrying amount of borrowings related to the assets held for sale was HK$1,054,949,000 (31 December 2022: HK$1,080,827,000). The borrowings related to the assets held for sale will be repaid before the disposals of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

12 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK$
Issued:			
As at 1 January 2023 and 30 June 2023	HK$0.1	744,355,352	74,435,536
As at 1 January 2022	HK$0.1	747,619,737	74,761,974
Cancellation of shares (a)	HK$0.1	(4,084,500)	(408,450)
As at 30 June 2022	HK$0.1	743,535,237	74,353,524

(a) During the year ended 31 December 2021, the Company acquired 4,084,500 of its own shares through purchases on the Stock Exchange and these purchased shares were subsequently cancelled during the six months ended 30 June 2022.

13 RESERVES

	Unaudited							
	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Treasury shares HK$'000	Share-based payments HK$'000	Hedging reserves HK$'000	Currency translation differences HK$'000	Total HK$'000
Balance as at 1 January 2023	**1,522,393**	**623,720**	**(166)**	**–**	**3,330**	**197,342**	**(32,006)**	**2,314,613**
Cash flow hedges (Note 19)	**–**	**–**	**–**	**–**	**–**	**(78,659)**	**–**	**(78,659)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**56,672**	**56,672**
Share option scheme:								
– Value of services (a)	**–**	**–**	**–**	**–**	**1,126**	**–**	**–**	**1,126**
– Share options lapsed (a)	**–**	**–**	**–**	**–**	**(456)**	**–**	**–**	**(456)**
Balance as at 30 June 2023	**1,522,393**	**623,720**	**(166)**	**–**	**4,000**	**118,683**	**24,666**	**2,293,296**
Balance as at 1 January 2022	1,540,209	623,720	(166)	(22,385)	330	(127,842)	(26,016)	1,987,850
Cancellation of shares	(21,890)	–	–	22,385	–	–	–	495
Cash flow hedges (Note 19)	–	–	–	–	–	249,339	–	249,339
Currency translation differences	–	–	–	–	–	–	53,042	53,042
Share option scheme:								
– Value of services (a)	–	–	–	–	1,500	–	–	1,500
Balance as at 30 June 2022	1,518,319	623,720	(166)	–	1,830	121,497	27,026	2,292,226

(a) On 2 January 2020 and 6 April 2022, the Company granted 10,000,000 share options ("2020 Share Options") and 20,900,000 share options ("2022 Share Options"), respectively, under the share option scheme adopted by the Company for the purpose of recognising the contribution participants including certain directors of the Company and selected employees of the Group in relation to the growth of the Group. None of the options have been exercised as at 30 June 2023.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13 RESERVES *(continued)*

(a) *(continued)*

Movement of outstanding share options during the six months ended 30 June 2023 and 2022 is as follows:

	Number of share options
As at 1 January 2023	**20,900,000**
Lapsed	**(515,000)**
As at 30 June 2023	**20,385,000**
As at 1 January 2022	10,000,000
Granted (i)	20,900,000
As at 30 June 2022	30,900,000

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

The fair value of the 2022 Share Options on the grant date determined by using Binomial valuation model was approximately HK$0.3 per option.

Significant judgement on parameters, such as spot price at the grant date, risk free interest rate, dividend yield, expected volatility and suboptimal exercise factor are required to be made by the directors in applying the Binomial valuation model. The parameters used are as follows:

Spot share price at the grant date	HK$5.31
Risk free rate (Note 1)	2.39%
Dividend yield (Note 2)	8.0%
Expected volatility (Note 3)	24.4%
Suboptimal exercise factor	2.5

Notes:

1. Risk free rates were based on Hong Kong Exchange Fund Notes with same duration.
2. Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.
3. Expected volatility was determined by using the daily volatility of the Company's shares in similar duration as at the valuation date.

For share options outstanding as at 30 June 2023, the adjusted exercise price per share of 2022 Share Options was HK$6.36 (31 December 2022: HK$6.36).

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the six months ended 30 June 2023 and 2022 are as follows:

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Directors and employees	**1,126**	1,500

14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Perpetual capital securities (a)	**1,556,685**	1,617,351
Other non-controlling interests of ordinary shares	**(26,182)**	(26,430)
	1,530,503	1,590,921

(a) Perpetual capital securities

On 16 December 2020, a subsidiary of the Group (the "Issuer") issued US$200 million floating rate guaranteed perpetual capital securities with the aggregate net proceeds (after transaction cost of HK$5.0 million) of HK$1,545.5 million. The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of the Issuer. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the Company elects to declare dividends to ordinary shareholders, the Issuer shall make distribution to the holders of perpetual capital securities at the distribution rate as defined in the subscription agreements. As at 30 June 2023, the dividend of HK$166,878,000 (31 December 2022: Nil) scheduled to be paid in December 2023 could not be elected for deferral by the Group and has been recognised as dividend payable.

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

	HK$'000
As at 1 January 2023	**1,617,351**
Profit for the period	**106,212**
Dividends distributed to perpetual capital securities	**(166,878)**
As at 30 June 2023	**1,556,685**
As at 1 January 2022	1,474,620
Profit for the period	60,459
Dividends distributed to perpetual capital securities	(15,727)
As at 30 June 2022	1,519,352

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred income tax liabilities is as follows:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Deferred income tax liabilities:		
– To be settled within 12 months	**197,668**	199,545
– To be settled after 12 months	**913,872**	857,514
	1,111,540	1,057,059

The movement of the deferred income tax liabilities during the six months ended 30 June 2023 is as follows:

	Accelerated depreciation of leased assets HK$'000
Deferred income tax liabilities:	
As at 1 January 2023	**1,057,059**
Charged to profit or loss (Note 28)	**55,278**
Currency translation difference	**(797)**
As at 30 June 2023	**1,111,540**
As at 1 January 2022	898,240
Charged to profit or loss (Note 28)	41,959
Currency translation difference	4,684
As at 30 June 2022	944,883

16 BORROWINGS

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	**22,937,255**	19,083,257
PDP financing (b)	**9,991,360**	7,180,254
Other bank borrowings (c)	**6,099,322**	6,821,180
	39,027,937	33,084,691
Long-term borrowings		
Borrowings from trust plans (d)	**4,488,578**	4,527,538
Other borrowings (e)	**399,772**	388,921
	4,888,350	4,916,459
	43,916,287	38,001,150

Bank and other borrowings

(a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating rates (including US$ LIBOR, US$ SOFR and RMB LPR). As at 30 June 2023, certain bank borrowings were secured by, in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain companies of the Group, and pledge of deposits amounting to HK$600,416,000 (31 December 2022: HK$288,439,000). As at 30 June 2023, bank and other borrowings of HK$733,439,000 (31 December 2022: HK$1,938,212,000) were unsecured.

(b) As at 30 June 2023, PDP financing of HK$9,991,360,000 (31 December 2022: HK$7,180,254,000) was unsecured, of which HK$9,341,205,000 (31 December 2022: HK$6,532,430,000) was guaranteed by the Company.

(c) As at 30 June 2023, unsecured other bank borrowings amounted to HK$6,099,322,000 (31 December 2022: HK$6,067,502,000), of which HK$3,427,257,000 (31 December 2022: HK$4,073,926,000) were guaranteed by the Company and certain companies of the Group.

As at 31 December 2022, other bank borrowings of HK$753,678,000 were secured by pledged of deposits amounting to HK$757,357,000.

16 BORROWINGS *(continued)*

Bank and other borrowings *(continued)*

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
– Expiring within one year	**3,252,482**	3,472,957
– Expiring beyond one year	**737,780**	3,227,830
	3,990,262	6,700,787

Long-term borrowings

(d) As at 30 June 2023, 46 borrowings (31 December 2022: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposals of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (31 December 2022: 3.5% to 7.8%) per annum for remaining terms of one to seven years (31 December 2022: one to seven years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$44,339,000 (31 December 2022: HK$44,199,000).

(e) As at 30 June 2023, four borrowings (31 December 2022: four borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2022: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2022: 3.9% to 5.7%) per annum for their remaining terms of two to three years (31 December 2022: two to three years) and are guaranteed by the Company.

17 MEDIUM-TERM NOTES

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

As at 30 June 2023, after deducting the issuing cost, the total carrying amount of these notes was HK$1,618,998,000 (31 December 2022: HK$1,696,509,000).

18 BONDS AND DEBENTURES

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

In November 2020, the Group entered into a subscription agreement with an independent third party in relation to the issuance of five-year US$70.0 million senior unsecured bonds, of which US$35.0 million were issued in November 2020 and due in 2025 and US$35.0 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

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

In December 2021, the Group issued three-year US$100.0 million unsecured guaranteed notes due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Company and were listed on the Stock Exchange.

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

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

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

During the six months ended 30 June 2023, the Group did not repurchase any bond on the Stock Exchange (six months ended 30 June 2022: repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US$8,200,000).

As at 30 June 2023, after deducting the issuing cost, the total carrying amount of bonds and debentures was HK$6,917,832,000 (31 December 2022: HK$5,406,490,000).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Derivative financial assets		
– Currency swap (a)	**16,019**	9,468
– Currency forward contracts (b)	**–**	376
– Interest rate swaps (c)	**100,392**	211,555
	116,411	221,399
Derivative financial liabilities		
– Currency forward contracts (b)	**175,791**	52,543

(a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000 (equivalent to approximately HK$122,898,000). As at 30 June 2023, the fair value of this currency swap contract amounted to HK$16,019,000 (31 December 2022: HK$9,468,000) and the fair value gains of HK$6,519,000 was recognised in "Other gains, net (Note 27)" for the six months ended 30 June 2023 (six months ended 30 June 2022: losses of HK$1,040,000). As at 30 June 2023, this arrangement was secured by a pledge deposit of HK$3,306,000 (31 December 2022: HK$3,417,000).

(b) As at 30 June 2023, the Group had 19 outstanding currency forward contracts with notional amount of RMB2,650,000,000 (equivalent to approximately HK$2,862,795,000) (31 December 2022: 22 outstanding currency forward contracts with notional amount of RMB2,300,000,000 (equivalent to approximately HK$2,604,290,000)) which will expire at various dates from 14 August 2023 to 5 June 2025 (31 December 2022: expire at various dates from 30 January 2023 to 15 March 2024), to mitigate RMB exchange rate risks. These forward contracts did not satisfy the requirements for hedge accounting, the fair value changes of which were recognised in "Other gains, net (Note 27)". As at 30 June 2023, this arrangement was secured by margin deposits of HK$131,016,000 (31 December 2022: Nil).

(c) As at 30 June 2023, the Group had 19 outstanding interest rate swap contracts (31 December 2022: 27 contracts) which will expire at various dates from 28 August 2023 to 24 December 2025 (31 December 2022: 28 August 2023 to 24 December 2025), to exchange floating interest rates from SOFR (31 December 2022: from LIBOR or SOFR) into fixed interest rates in a range of 0.4% to 3.0% (31 December 2022: 0.4% to 3.0%). As at 30 June 2023, this arrangement was secured by initial deposits of HK$4,987,000 (31 December 2022: HK$21,546,000).

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

	Unaudited Six months ended 30 June 2023 HK$'000	2022 HK$'000
Recognised in other comprehensive income		
Change in fair value of interest rate swaps	**(2,901)**	199,222
Reclassified from other comprehensive income to profit or loss in respect of:		
– Hedged items that affected profit or loss (a)	**(75,341)**	49,087
– Hedge ineffectiveness	**(417)**	1,030
	(78,659)	249,339
Recognised in other gains/(losses), net of profit or loss		
Changes in fair value attributable to interest rate	**28,043**	3,933
Fair value losses on currency forward contracts in RMB	**(123,330)**	(83,082)
Unrealised gains/(losses) on a currency swap	**6,519**	(1,040)
	(88,768)	(80,189)

(a) Hedged items that have affected profit or loss are primarily recorded within interest expenses.

20 OTHER LIABILITIES AND ACCRUALS

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Deposits and fund received for lease and aircraft projects	**1,785,475**	1,680,254
Consultant and insurance premium payable	**101,500**	106,978
Value-added tax and other taxes	**260,665**	295,692
Operating lease rentals received in advance	**247,866**	230,142
Amounts due to related parties (Note 31(g))	**7,422**	12,256
Amount due to non-controlling interest of a subsidiary (Note 31(h))	**7,722**	17,149
Dividend payables to ordinary shareholders and perpetual capital securities holder	**279,902**	–
Lease liabilities	**20,654**	28,907
Others (including salary and bonus payable)	**120,699**	147,195
	2,831,905	2,518,573

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2023, the Group was engaged for the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

	Unaudited Six months ended 30 June			
	2023		2022	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease income:				
Airline company – A	**520,450**	**25%**	379,186	23%
Airline company – B	**340,344**	**17%**	166,038	10%
Airline company – C	**126,224**	**6%**	88,210	5%
Airline company – D	**114,863**	**6%**	114,916	7%
Airline company – E	**90,949**	**4%**	90,799	6%
Others	**863,623**	**42%**	814,618	49%
Total finance and operating lease income	**2,056,453**	**100%**	1,653,767	100%

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Aircraft transactions (a)	**38,615**	64,756
Aircraft components trading (b)	**6,080**	1,736
	44,695	66,492

(a) Aircraft transactions

The net gain from aircraft transactions amounted to HK$38,615,000 for the six months ended 30 June 2023 included disposal of aircraft to a related party (six months ended 30 June 2022: HK$64,756,000 included disposals of aircraft to third parties).

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING *(continued)*

(b) Aircraft components trading

	Unaudited Six months ended 30 June 2023 HK$'000	2022 HK$'000
Sales from aircraft components trading assets	**9,663**	6,651
Less: Cost of aircraft components trading assets	**(3,583)**	(4,915)
Profit from aircraft components trading assets	**6,080**	1,736

23 OTHER INCOME

	Unaudited Six months ended 30 June 2023 HK$'000	2022 HK$'000
Government grants (a)	**100,144**	94,880
Interest income from loans to associates and joint ventures (Note 7)	**56,752**	52,730
Bank interest income	**32,407**	4,391
Asset management service fees income from CAG and its subsidiaries (collectively "CAG Group") (Note 31(c))	**9,302**	8,393
Others (b)	**26,504**	10,138
	225,109	170,532

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

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

24 INTEREST EXPENSES

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Interest expense on borrowings	**1,267,545**	648,583
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	**(47,715)**	49,087
Interest expense on medium-term notes	**37,848**	42,261
Interest expense on bonds and debentures	**137,376**	166,458
Less: interest capitalised on qualifying assets (a)	**(319,183)**	(148,532)
	1,075,871	757,857

(a) Interest expenses capitalised on qualifying assets represent the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

25 OTHER OPERATING EXPENSES

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Employee benefit expenses	**77,789**	70,178
Professional service expenses	**25,541**	26,353
Value-added tax and other taxes	**14,929**	16,527
Rental and utilities expenses	**3,939**	2,246
Office and meeting expenses	**8,206**	5,356
Travelling and training expenses	**6,410**	4,046
Auditor's remuneration		
– Audit service	**980**	927
Others	**10,031**	14,967
	147,825	140,600

26 NET WRITE-OFF OF TWO AIRCRAFT REMAINED IN RUSSIA

Following the conflicts between Russia and Ukraine in February 2022 and subsequent sanctions in relation to commercial activities with businesses in Russia imposed by the European Union, the United States of America, the United Kingdom and other countries ("Sanctions"), in March 2022, in compliance with the Sanctions, the Group terminated leasing arrangements with Russian lessees in respect of two owned aircraft, representing less than 2% of the number of the Group's owned fleet of 138 as at 30 June 2022. The Group has been maintaining dialogue with the Russian lessees, actively seeking to repossess the aircraft. As at 30 June 2022, one of the engines located outside Russia (the "Engine") is under control by the Group.

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 30 June 2023 and 31 December 2022, the Group has not recognised any claim receivables.

The Group has determined prudently that the net book value of the aircraft amounting to HK$565.6 million (excluding the net book value of the Engine) should be fully written down, which is offset by the security deposit and maintenance reserves received amounting to HK$126.6 million, resulting in a net write-off of HK$439.0 million for the six months ended 30 June 2022, which was a non-cash transaction. No such write-off was made for the six months ended 30 June 2023.

27 OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Currency exchange gains in RMB	**242,210**	192,757
Fair value losses on currency forward contracts in RMB	**(123,330)**	(83,082)
Currency exchange losses in US$	**(15,578)**	(12,569)
Fair value gains on financial assets at fair value through profit or loss	**21,393**	18,364
Changes in fair value attributable to interest rate	**28,043**	3,933
Unrealised gains/(losses) on a currency swap (Note 19)	**6,519**	(1,040)
	159,257	118,363

28 INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	**98,555**	59,422
Deferred income tax	**55,278**	41,959
	153,833	101,381

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25% (six months ended 30 June 2022: 25%), except for certain subsidiaries which are subject to the preferential tax treatments. The leasing income of the subsidiaries in the Mainland China is subject to VAT at 13%.

Hong Kong

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

Profit tax concessions have been announced to the corporations carrying on business as aircraft lessors and aircraft lease managers which satisfy relevant conditions. The taxable amount of rentals derived from leasing of an aircraft to an aircraft operator by a qualifying aircraft lessor is equal to 20% of the tax base. The qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers are subject to the half of the normal rate at 8.25%.

Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

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

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

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

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

The subsidiaries incorporated in Malta are subject to income tax at rates of up to 35%.

The subsidiaries incorporated in Labuan are subject to income tax at 3%.

29 DIVIDENDS

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Interim dividend declared of HK$0.15 (2022: HK$0.15) per ordinary share	**111,653**	111,653

On 24 August 2022, the Group declared an interim dividend of HK$0.15 per ordinary share totalling HK$111.7 million which was paid by cash in November 2022.

A final dividend of HK$0.15 per ordinary share totalling HK$111.7 million for the year ended 31 December 2022 was declared and was reflected as dividend payable as at 30 June 2023.

On 22 August 2023, the Board declared an interim dividend of HK$0.15 per ordinary share totalling HK$111.7 million, which is calculated based on 744,355,352 issued shares as at 22 August 2023. The declared dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2023, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2023.

30 EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2023 and 30 June 2022.

	Unaudited Six months ended 30 June	
	2023	2022
Profit/(Loss) attributable to shareholders of the Company (HK$'000)	**201,171**	(130,160)
Weighted average number of ordinary shares in issue (number of shares in thousands)	**744,355**	743,535
Basic earnings/(losses) per share (HK$ per share)	**0.270**	(0.175)

(b) Diluted

Diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the financial period. For share options outstanding as at 30 June 2023 and as at 30 June 2022, as the exercise price per share is higher than average market price of ordinary shares, it is not assumed that the outstanding share options have been exercised in the calculation of the diluted earnings/(losses) per share for the six months ended 30 June 2023 and 30 June 2022.

31 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 13(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

(a) Transactions with China Everbright Group Ltd ("CE Group") and its subsidiaries

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of China Everbright Limited ("CEL") and CEL indirectly holds approximately 38.08% equity interest in the Company as at 30 June 2023. Accordingly, CE Group is deemed as a controlling shareholder of the Company, and thus CE Group and its subsidiaries are related parties of the Company.

(i) Deposit, loan and facilities services provided by CE Group

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group may provide deposit services to the Group through its associate, China Everbright Bank Company Limited ("CE Bank"). Pursuant to the loan services framework agreement, CE Group may provide secured loan services and guarantees to the Group through CE Bank and through the trustee of a trust plan of which CE Group is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group may assign the finance lease receivables to the trustee.

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Interest income from CE Group	**2,209**	1,500
Interest expenses to CE Group	**155,659**	104,665
Loans upfront and arrangement fee to CE Group	**1,621**	1,299
Transactions handling charges to CE Group	**1,743**	2,138

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK$'million	HK$'million
Bank deposits placed in CE Group	**390.6**	676.2
Borrowings due to CE Group	**4,427.1**	4,238.2
Undrawn facilities provided by CE Group	**858.2**	1,380.6

31 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with ARI Group and FLARI

(i) Service provided by ARI Group

	Unaudited Six months ended 30 June 2023 HK$'000	2022 HK$'000
Service fee charged by:		
ARI Group	**8,743**	5,000

(ii) Transactions with ARI Group

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. On 15 October 2018, a supplemental agreement was entered into to revise the interest rate to 3% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited with effect from 28 November 2018. As at 30 June 2023, the outstanding shareholders' loan balances receivable from ARI was amounted to HK$907,773,000 (31 December 2022: HK$1,181,449,000) (Note 7) and the interest income for the six months ended 30 June 2023 was HK$52,122,000 (six months ended 30 June 2022: HK$50,356,000).

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

During the year ended 31 December 2020, the Group entered into a letter of intent with ARI Group relating to the purchase of five engines, which would be delivered in 2021, with total consideration of US$55,000,000 (equivalent to approximately HK$426,388,000). During the year ended 31 December 2021, the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the above engines to be no later than 2022. During the year ended 31 December 2022, ARI Group delivered one engine to the Group and the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the remaining four engines to be no later than 2023. As at 30 June 2023, the Group had placed interest-free deposit amounted to HK$190,491,000 (31 December 2022: HK$189,808,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with ARI Group and FLARI *(continued)*

(ii) Transactions with ARI Group *(continued)*

During the year ended 31 December 2022, the Group entered into a letter of intent with ARI Group relating to the purchase of two aircraft, which would be delivered in 2023, with total consideration of US$46,558,000 (equivalent to approximately HK$363,516,000). As at 30 June 2023, the Group had placed deposit amounting to US$16,440,000 (equivalent to approximately HK$128,824,000) (31 December 2022: US$16,440,000 (equivalent to approximately HK$128,360,000)).

The Group entered into several cooperation agreements with ARI Group for investment projects to modify airliner into cargo. As stipulated in the cooperation agreements, the Group's committed investment is approximately US$10.0 million (equivalent to approximately HK$78.4 million). As the owner of the aircraft, ARI Group is responsible for the sale of the aircraft following the modification into cargo. After the Group and ARI Group have recovered their investment in the project, the remaining sale proceeds will be distributed between the Group and ARI Group, with the Group's sharing ranging from 10%-60%.

(iii) Transactions with FLARI

Pursuant to the shareholders' credit line agreement, the Group granted loans to FLARI, which are interest bearing from 6.6% to 8.5% per annum (six months ended 30 June 2022: 6.6% to 6.7% per annum) and are calculated on quarterly basis on the actual amount of the shareholders' loan drawn down. As at 30 June 2023, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK$122,674,000 (31 December 2022: HK$56,445,000) (Note 7) and the interest income for the six months ended 30 June 2023 was HK$2,803,000 (six months ended 30 June 2022: HK$275,000).

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased items of plant and machinery and office equipment and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK$24,524,000)), the proceeds is bearing interest at 8% per annum and payable in arrears of three monthly intervals. As at 30 June 2023, FLARI has repaid all outstanding advance balance (31 December 2022: HK$12,551,000) and the interest income for the six months ended 30 June 2023 was HK$301,000 (six months ended 30 June 2022: HK$778,000).

(c) Transactions with CAG Group

	Unaudited Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
Asset management service fees income from CAG Group	**9,302**	8,393

31 RELATED PARTY TRANSACTIONS *(continued)*

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

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

As at 30 June 2023, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK$34,687,000 (31 December 2022: HK$35,558,000) and HK$34,642,000 (31 December 2022: HK$35,511,000) (Note 7) respectively, and the interest income for the six months ended 30 June 2023 was HK$615,000 (six months ended 30 June 2022: HK$661,000) and HK$614,000 (six months ended 30 June 2022: HK$660,000) respectively.

Pursuant to the shareholder's loan agreement signed in June 2023, the Group granted loan to Feitian No.2 (Tianjin), which was unsecured and interest bearing at 2.1% per annum.

Pursuant to the subordinated fee agreement entered with Feitian No.2 (Tianjin) as mentioned in Note 9, a subordinated fee would be charged by the Group on an annual basis.

As at 30 June 2023, the outstanding balance receivables from Feitian No.2 (Tianjin) were amounted to HK$37,141,000 (Note 9).

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

During the six month ended 30 June 2023, the Group disposed of one aircraft to Feitian No.2 (Tianjin) (six month ended 30 June 2022: Nil) at consideration of HK$486.6 million (six month ended 30 June 2022: Nil) and recognised net income from aircraft transactions in the consolidated statement of income.

(f) Prepayments and amounts due from related parties

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Prepayments to ARI Group (Note 31(b)(ii))	**319,315**	318,170
Amount due from ARI Group and others	**1,209**	1,216
	320,524	319,386

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

31 RELATED PARTY TRANSACTIONS *(continued)*

(g) Amounts due to related parties

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
ARI Group (i)	**1,761**	12,256
LAI (ii)	**5,661**	–
	7,422	12,256

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

(ii) The amounts due to related parties were unsecured, interest bearing at 4% per annum and repayable in three months.

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

As at 30 June 2023, Linkasia Airlines, a non-wholly owned subsidiary of the Group has the outstanding balance due to its shareholder, Equal Honour Equity Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) amounting to HK$7,722,000 (31 December 2022: HK$17,149,000). The amount was unsecured, interest-free and repayable on demand.

(i) Transaction with TAM

During the six month ended 30 June 2023, the Group entered into operating lease arrangement of one aircraft with TAM (six month ended 30 June 2022: Nil).

As at 30 June 2023, the Group entered into one finance lease and three operating lease arrangements for four aircraft with TAM (31 December 2022: one finance lease and two operating lease arrangements for three aircraft).

The total finance lease and operating lease income earned during the six months ended 30 June 2023 was HK$16,571,000 (six months ended 30 June 2022: HK$6,582,000). As at 30 June 2023, the Group held rental deposits of US$2,611,000 (equivalent to approximately HK$20,458,000) from TAM (31 December 2022: US$1,932,000 (equivalent to approximately HK$15,085,000)) in relation to aircraft under finance leases and operating leases.

32 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 30 June 2023, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK$588,895,000 (31 December 2022: HK$604,011,000), of which HK$227,715,000 (31 December 2022: HK$274,358,000) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter guarantee as mentioned above, the Group guaranteed HK$361,180,000 (31 December 2022: HK$329,653,000) of these bank borrowings.

(b) Capital commitments

Capital expenditures contracted but not provided for at the end of the reporting period are as follows:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Contracted but not provided for:		
Purchase of aircraft (i)	**78,810,747**	85,359,348
Investment – aircraft modification (Note 9(c))	**15,325**	34,984
	78,826,072	85,394,332

(i) The capital commitments were mainly related to acquisition of 213 aircraft in its order book, comprising 120 Airbus aircraft, 65 Boeing aircraft and 28 ARJ21 series aircraft, which will be delivered in stages by the end of 2027.

(c) Short-term lease arrangement – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Not later than one year	**112**	103

32 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(d) Operating lease arrangement – where the Group is the lessor

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

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Not later than one year	**3,550,987**	3,408,488
Later than one year but not later than two years	**3,098,639**	3,102,561
Later than two years but not later than three years	**2,565,022**	2,690,833
Later than three years but not later than four years	**2,283,277**	2,128,425
Later than four years but not later than five years	**1,942,853**	1,819,982
Later than five years	**8,974,688**	7,698,693
	22,415,466	20,848,982

The above commitment included amount of HK$1,107,284,000 (31 December 2022: HK$1,021,163,000) related to assets classified as held for sale (Note 11).

The Group had future minimum lease receipts under non-cancellable operating leases or sub-leases in respect of office premises as follows:

	Unaudited As at 30 June 2023 HK$'000	Audited As at 31 December 2022 HK$'000
Not later than one year	**147**	48

33 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 August 2023, the Company (through a wholly-owned subsidiary of the Company, i.e. the Novator) entered into the Novation Agreement with the Novatee pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "Novation Arrangement"). To facilitate and as part of the Novation Arrangement, another subsidiary of the Company (i.e. the Seller) entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. It is estimated that completion of the Novation Arrangement will take place on or about 30 August 2023. Please refer to the announcement of the Company dated 14 August 2023 for details.

ISSUER

CALC Bonds Limited
c/o Vistra Corporation Services Centre
Wickhams Cay II, Road Town, Tortola
VG1-110, British Virgin Islands

GUARANTOR

China Aircraft Leasing Group Holdings Limited
32nd Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

AUDITOR OF THE GUARANTOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity
22nd Floor, Prince's Building
Central, Hong Kong

TRUSTEE

China CITIC Bank International Limited
80/F, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

ISSUING AND PAYING AGENT, REGISTRAR, TRANSFER AGENT AND CMU LODGING AND PAYING AGENT

China CITIC Bank International Limited
80/F, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

LEGAL ADVISERS

To the Issuer as to British Virgin Islands law

Walkers (Hong Kong)
15/F Alexandra House
18 Chater Road
Central, Hong Kong

To the Guarantor as to Cayman Islands law

Walkers (Hong Kong)
15/F Alexandra House
18 Chater Road
Central, Hong Kong

To the Issuer and the Guarantor as to Hong Kong and English laws

Linklaters
11th Floor
Alexandra House
Chater Road
Hong Kong

To the Dealers as to English law

Deacons
5th Floor
Alexandra House
18 Chater Road
Central, Hong Kong

To the Dealers as to PRC law

JunHe LLP
20/F, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
PRC

To the Trustee as to English law

Deacons
5th Floor
Alexandra House
18 Chater Road
Central, Hong Kong