BOC AVIATION

BOC AVIATION LIMITED
中銀航空租賃有限公司*

(Incorporated in the Republic of Singapore with limited liability)

STOCK CODE: 2588

*For identification purpose only

CONSISTENT GROWTH

ANNUAL REPORT 2019

Our Company reported another record result in 2019, with a profit before tax of US$775 million and a net profit after tax of US$702 million, both increasing by 13% year-on-year.

We have achieved a record net profit after tax in each successive year since acquisition by Bank of China, successfully achieving our goal of long-term, sustainable earnings growth. Earnings per share and net profits after tax have risen 68% since 2016 following our initial public offering.

2019 was a year in which our growth targets were challenged by significant delays from aircraft manufacturers. We overcame these challenges without sacrificing the disciplined approach to growth that has characterised our Company for the past 26 years, and which has generated US$4.4 billion in accumulated profits since inception of the Company.

As I reflect on my first year as BOC Aviation's Chairman, I would like to personally thank you – our stakeholders – for your continued support as we grow our Company.

Sun Yu
Chairman

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FINANCIAL HIGHLIGHTS

Our financial highlights for the year ended 31 December 2019 are:

- **Total revenues and other income rose 15% year-on-year, to US$1,976 million**
- **Profit before tax was US$775 million and net profit after tax was US$702 million, each an increase of 13% over 2018**
- **Earnings per Share of US$1.01 and net assets per Share of US$6.60**
- **Total assets increased 8% year-on-year, to US$19.8 billion at 31 December 2019**
- **Maintained strong liquidity with US$287 million in total cash and short-term deposits, and US$4.4 billion in undrawn committed credit facilities at 31 December 2019**
- **Board recommended a final dividend for 2019 of US$0.2153 per Share, pending approval at the AGM to be held on 27 May 2020. The final dividend will be payable to Shareholders registered at the close of business on the record date, being 4 June 2020, bringing the total dividend for the financial year 2019 to US$0.3541[1] per Share, an increase of 13% year-on-year**

Capitalised terms used but not defined in this annual report are found in pages 99 to 101.

Due to rounding, numbers presented throughout this annual report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

[1] *Includes interim dividend of US$0.1388 per Share paid to Shareholders registered at the close of business on 3 October 2019.*

FINANCIAL HIGHLIGHTS

EXHIBIT 1: NET PROFIT AFTER TAX, US$'m

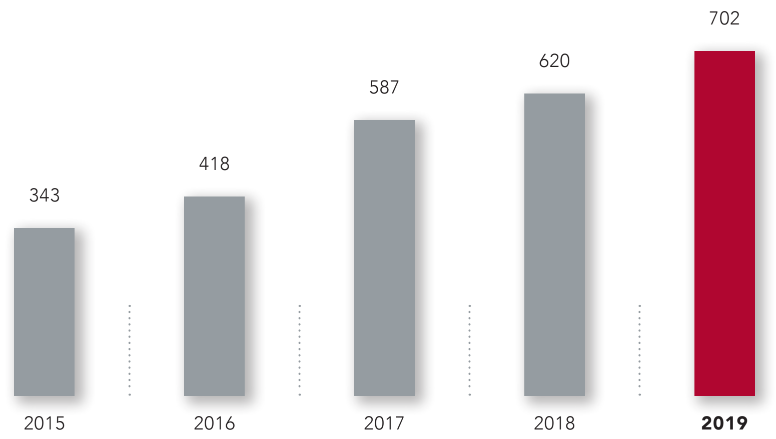
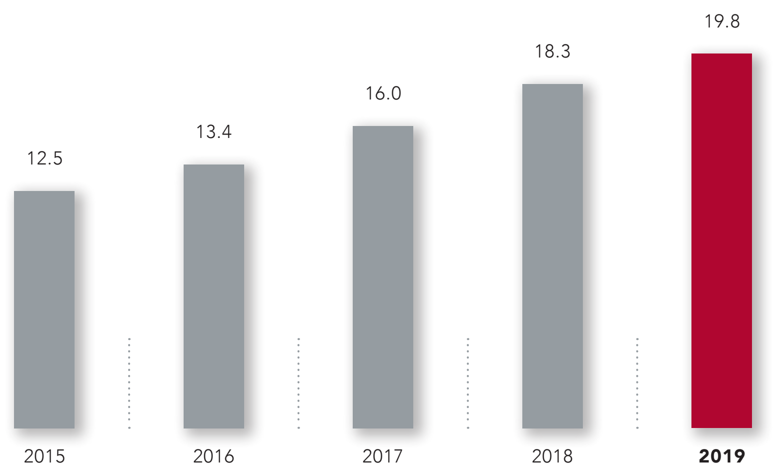


EXHIBIT 2: TOTAL ASSETS, US$'b



FINANCIAL HIGHLIGHTS

EXHIBIT 3: FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	Change[1]
	US$'m	US$'m	%
Statement of Profit or Loss			
Revenues and other income	**1,976**	1,726	14.5
Costs and expenses	**(1,201)**	(1,040)	15.4
Profit before income tax	**775**	685	13.1
Net profit after income tax	**702**	620	13.2
	As at	As at	
	31 December 2019	31 December 2018	Change[1]
	US$'m	US$'m	%
Statement of Financial Position			
Cash and short-term deposits	**287**	243	18.2
Total current assets	**739**	257	188.0
Total non-current assets	**19,025**	17,999	5.7
Total assets	**19,764**	18,256	8.3
Total current liabilities	**2,141**	1,709	25.3
Total non-current liabilities	**13,043**	12,349	5.6
Total liabilities	**15,184**	14,057	8.0
Net assets	**4,581**	4,199	9.1
Financial Ratios			
Earnings per share (US$)[2]	**1.01**	0.89	13.2
Net assets per share (US$)[3]	**6.60**	6.05	9.1
Gearing (times)[4]	**2.9**	3.0	

1 *Percentage change is calculated based on numbers in US$ thousands as shown in the financial statements.*

2 *Earnings per share is calculated by dividing net profit after tax by total number of shares outstanding at 31 December 2019, and 31 December 2018, in the respective columns. Number of shares outstanding at 31 December 2019 and 31 December 2018 was 694,010,334.*

3 *Net assets per share is calculated by dividing net assets by total number of shares outstanding at 31 December 2019, and 31 December 2018, in the respective columns. Number of shares outstanding at 31 December 2019 and 31 December 2018 was 694,010,334.*

4 *Gearing is calculated by dividing gross debt by total equity at 31 December 2019, and 31 December 2018, in the respective columns.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

As at 31 December 2019, BOC Aviation:

- **Had a total fleet of 523 aircraft owned, managed and on order[1], with an average aircraft age of 3.1 years and an average remaining lease term of 8.4 years for the 317 owned aircraft fleet, weighted by net book value**
- **Leased aircraft to 93 airlines in 41 countries and regions**
- **Had taken delivery of 54 aircraft (including 12 acquired by airline customers on delivery) in 2019**
- **Signed 87 lease commitments in 2019**
- **Sold 28 owned and two managed aircraft in 2019**
- **Had an order book of 166 aircraft[1]**
- **Recorded aircraft utilisation of 99.6%, and cash collections of 96.9%, for the year ended 31 December 2019**

[1] *Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 4: AIRCRAFT PORTFOLIO AT 31 DECEMBER 2019, BY NUMBER OF AIRCRAFT

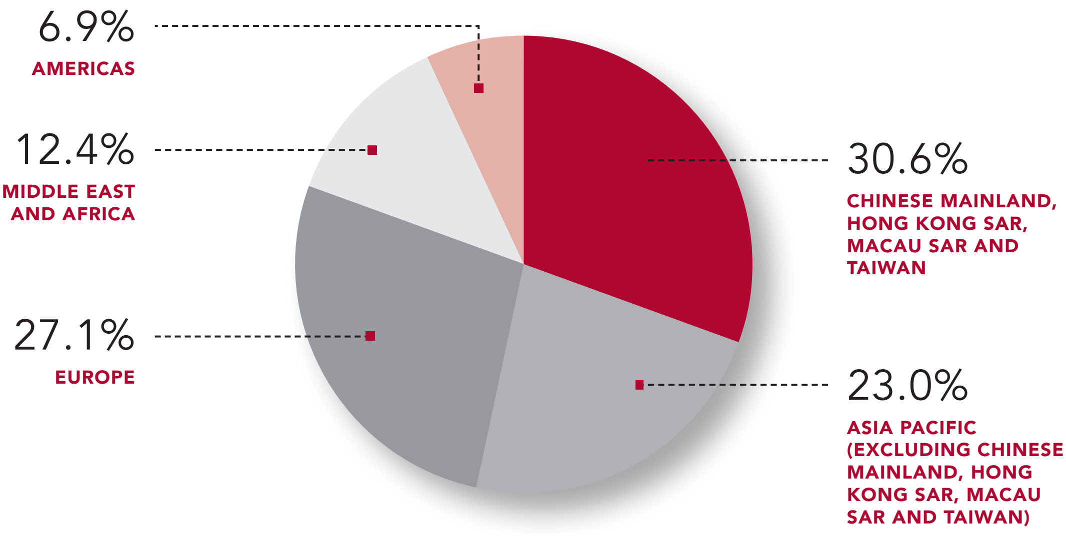
Aircraft Type	Owned Aircraft	Managed Aircraft	Aircraft on Order[1]	Total
Airbus A320CEO family	116	15	0	131
Airbus A320NEO family	50	0	67	117
Airbus A330CEO family	12	3	0	15
Airbus A330NEO family	2	0	6	8
Airbus A350 family	9	0	0	9
Boeing 737NG family	88	15	0	103
Boeing 737 MAX family	6	0	87	93
Boeing 777-300ER	18	4	3	25
Boeing 777-300	0	1	0	1
Boeing 787 family	11	1	3	15
Freighters	5	1	0	6
Total	**317**	**40**	**166**	**523**

Subsequent to 31 December 2019, the Company announced an additional order for 20 Airbus A320NEO family aircraft and an agreement to purchase 22 Boeing 787 aircraft.

[1] *Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 5: NET BOOK VALUE OF AIRCRAFT BY REGION[1]



[1] *Based on the jurisdiction of the primary obligor under the relevant operating leases.*

CHAIRMAN'S STATEMENT

Our Company reported another record result in 2019, with a profit before tax of US$775 million and a net profit after tax of US$702 million, both increasing by 13% year-on-year.

Total revenues and other income rose in 2019 to nearly US$2 billion, up 15% year-on-year, and our total assets rose to US$19.8 billion as at 31 December 2019, 8% higher than 2018. We have achieved a record net profit after tax in each successive year since acquisition by Bank of China, thus demonstrating success in achieving our goal of long-term, sustainable earnings growth. Earnings per share and net profits after tax are up 68% since 2016 following our initial public offering.

Our dividend policy remains to pay up to 35% of our full year net profit after tax to our Shareholders, and our Board has recommended a final dividend of US$0.2153 per Share. This will bring the total dividend for 2019 to US$0.3541 per Share, a 13% increase from 2018, in line with the growth in our net profit after tax.

Both the Board and the senior management team featured changes in 2019. Mr. Wang Jian retired from his roles as an Executive Director, the Vice Chairman of the Board, a Deputy Managing Director and a member of the Strategy and Budget Committee at the end of the year. We thank Mr. Wang for his service and we welcome Mdm. Zhang Xiaolu, who commenced her new roles as an Executive Director, the Vice Chairman of the Board, a Deputy Managing Director and a member of the Strategy and Budget Committee on 1 January 2020.

During the year, we retained our position as a top-five global aircraft operating leasing company and the largest aircraft leasing company based in Asia-Pacific, by value of owned fleet. In 2019 our owned, managed and on-order fleet grew to 523, with the owned and managed fleet leased to 93 airlines in 41 countries and regions. During the year we added eight new customers and extended our portfolio to cover four new countries and regions. The Belt and

CHAIRMAN'S STATEMENT

Road Initiative is reflected in the growth and development of our fleet: 68% of our owned fleet, by net book value, is currently leased to airlines domiciled in Belt and Road Initiative countries and regions.

Reflecting our strong balance sheet and sound business fundamentals, we maintained our investment grade credit ratings of A- from both S&P Global Ratings and Fitch Ratings.

We received a number of accolades during the year, including "Asia Pacific Lessor of the Year" and "Capital Markets Deal of the Year" for our US$500 million 10 year note issue, both from *Airline Economics*. We were again rated a "Most Honoured Company" in *Institutional Investor's* 2019 APAC ex-Japan Executive Team Leader survey.

2019 was a year in which our growth targets were challenged by significant delays from aircraft manufacturers. We overcame these challenges without sacrificing the disciplined approach to growth that has characterised our Company for the past 26 years, and which has generated US$4.4 billion in accumulated profits since inception of the Company. These results demonstrate the Board's active oversight of the Company's strong risk management culture and long-term perspective on the business.

As I reflect on my first year as BOC Aviation's Chairman, I would like to personally thank you – our stakeholders – for your continued support as we grow our Company. We remain committed to upholding the highest governance standards and achieving the best outcome for our stakeholders, and look forward to capitalizing on new opportunities in the year ahead.

Sun Yu
Chairman

CHIEF EXECUTIVE'S COMMENTS

BOC Aviation continued to record robust earnings growth in 2019. Our return on equity of 16.0% exceeded last year's performance, as well as exceeding our average return on equity of 15.1% since 2007.

Our Company achieved record net profit after tax in 2019, despite a challenging supply-side environment and delays to new-generation single-aisle aircraft programmes throughout the year. Our earnings per share of US$1.01 rose 13% compared with 2018. We have achieved stable earnings growth through a portfolio approach to the business, anchored by recurring core leasing rental contributions, and in 2019 we successfully grew all major components of our revenue base.

Airline load factors were strong, averaging 82.6% in 2019, and passenger demand growth rose 4.2%, slowed compared to 2018 due to supply side constraints and to moderating global economic growth. Overall, the airline industry ended 2019 in good shape. The International Air Transport Association (**IATA**) projects that airline earnings will have totalled almost US$26 billion in 2019. However, the COVID-19 virus will cause reductions in passenger demand during at least the first half of 2020 that could be felt globally.

We delivered 54 aircraft to our airline customers in 2019, including 12 aircraft acquired by airlines upon delivery, taking our owned, managed and on-order fleet to a new high of 523. Net deliveries were lower than anticipated, with delays pushing delivery of 23 Boeing 737 MAX aircraft out of 2019 and five Airbus A320NEO aircraft into 2020. During 2019 we placed all of our remaining Airbus A320NEO family delivery positions, and then after the end of the year we announced an additional order for 20 more Airbus A320NEO family aircraft delivering from 2023.

A key contributor to our second half earnings was the successful portfolio sale of 17 aircraft with leases attached into the asset-backed securitisation market. In total, we sold 28 aircraft from our owned fleet in 2019, ending the year with 317 owned aircraft. Our owned fleet continues to be one of the youngest of the world's major aircraft operating lessors, with a weighted average age of 3.1 years and our weighted average remaining lease term of 8.4 years remains one of the longest in the aircraft operating lease industry.

We accelerated our activity in the loan and bond markets in 2019, raising US$3.9 billion, including US$2.1 billion in the debt capital markets. As at 31

CHIEF EXECUTIVE'S COMMENTS

December 2019, our cash and undrawn lines of credit totalled US$4.6 billion. We continued to protect our spread, maintaining a stable net lease yield[1] of 8.4% in 2019.

We enhanced our Environmental, Social and Governance (**ESG**) programmes throughout the year, with staff volunteering activities in Singapore, London and Dublin. We also supported disaster relief in the Bahamas following the ravages of Hurricane Dorian, both pledging funds directly to rapid-response humanitarian relief organisation, Airlink, and leveraging our significant aviation network to raise awareness and generate additional support from the aviation community. In early 2020 we have again supported Airlink's aid programme, this time supporting the fight against the COVID-19 virus. On the environmental front, we are supportive of IATA's commitments to reduce global carbon emissions. In 2019, we invested more than US$3 billion in fuel efficient aircraft and maintained one of the youngest aircraft fleets in the industry. Our entire orderbook consists of the most efficient, latest technology aircraft.

In November 2019, Mr. Gao Jinyue retired from his role as Chief Commercial Officer (Asia Pacific and the Middle East). We thank Mr. Gao for his service, and for his long association with the Company that dates back to his debut on the Board in 2006. We welcomed Mr. Deng Lei, who joined us as Chief Commercial Officer (Asia Pacific and the Middle East), in November 2019. We also announced that Mr. Phang Thim Fatt, our Deputy Managing Director and Chief Financial Officer will step down from his role on 30 September 2020 and will retire at the end of 2020. Mr. Steven Townend, currently serving as the Company's Chief Commercial Officer (Europe, Americas and Africa), has been appointed Deputy Managing Director and Chief Financial Officer with effect from 1 October 2020.

We achieved a strong result in 2019 and ended the year with a solid balance sheet and US$4.6 billion in available liquidity. As we look ahead to 2020 we see new challenges, with continuing manufacturing delays from our major suppliers and disruptions to traffic flows from the COVID-19 outbreak for some of our customers in early 2020. We are well positioned to meet new challenges in the year ahead.

Robert Martin
Managing Director and Chief Executive Officer

[1] *Net lease yield is calculated as lease rental income less finance expenses apportioned to lease rental income, divided by average net book value of aircraft.*

BUSINESS AND FINANCIAL REVIEW

BOC Aviation is one of the largest aircraft operating leasing companies in the world. Our primary source of revenue is from long term, USD-denominated leases contracted with our globally diversified commercial airline customer base.

From our inception to 31 December 2019, we have:

- **Purchased and committed to purchase more than 840 aircraft with an aggregate purchase price of more than US$46 billion**
- **Executed more than 950 leases with more than 160 airlines in 57 countries and regions**
- **Sold 360 owned and managed aircraft**

We benefit from a low average cost of debt, which was 3.6% in 2019, supported by our strong investment grade corporate credit ratings of A- from both S&P Global Ratings and Fitch Ratings and by our access to diverse debt funding sources. Our primary sources of debt funding are unsecured notes issued in the debt capital markets and commercial bank debt from our group of over 70 banks and we have raised nearly US$29 billion in debt financing since 1 January 2007.

We have strong liquidity including access to US$4.4 billion in undrawn committed lines of credit as at 31 December 2019.

Our Senior Management team is highly experienced, international and stable, with extensive experience working in the aircraft leasing and banking industries.

BUSINESS AND FINANCIAL REVIEW

REVENUE

Lease rental income continues to provide the majority of our total revenue, supplemented by gains on sale of aircraft and fee income. The rise in lease rental income was primarily due to portfolio growth.

EXHIBIT 6: REVENUE BREAKDOWN, % 2019

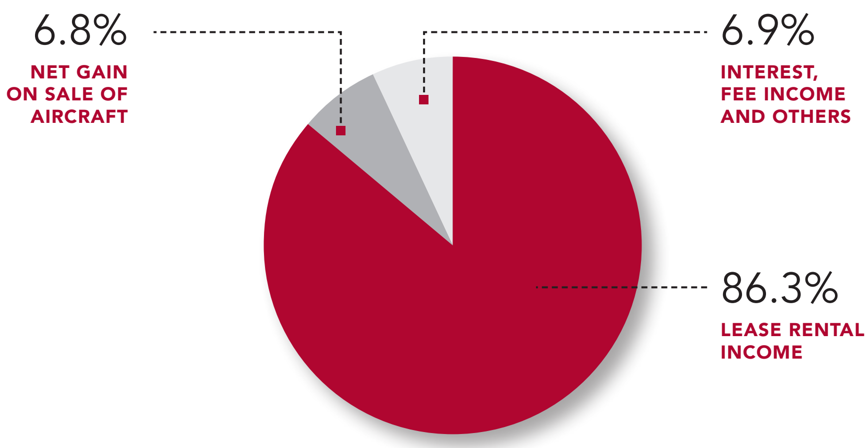
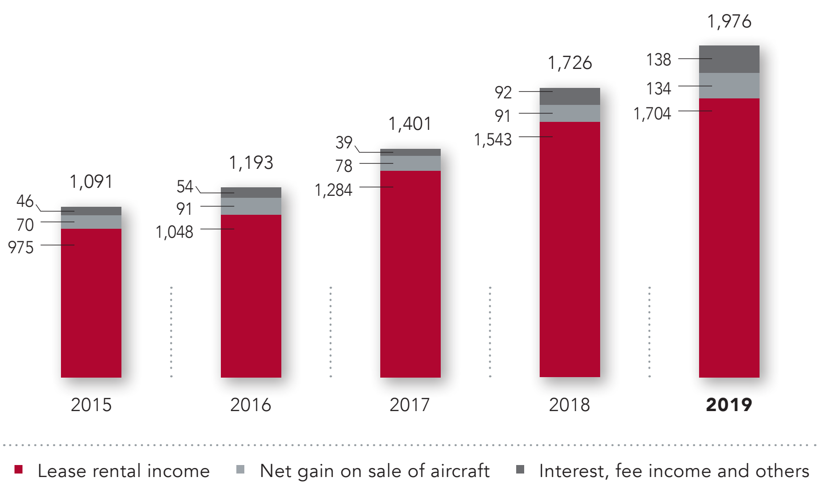


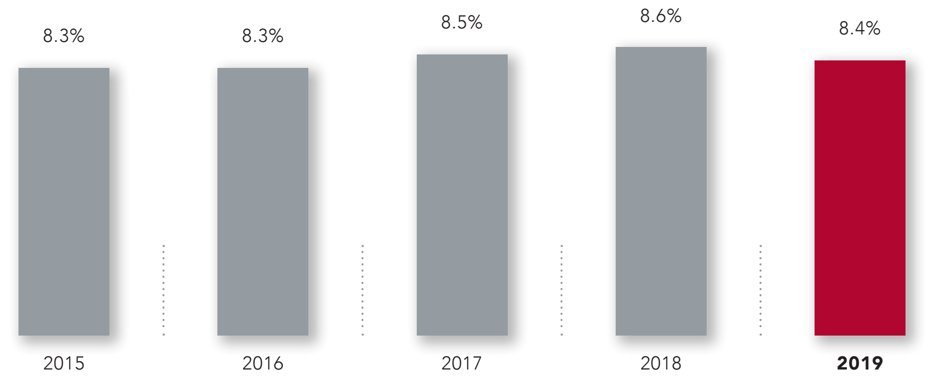
EXHIBIT 7: REVENUE BREAKDOWN, US$'m



BUSINESS AND FINANCIAL REVIEW

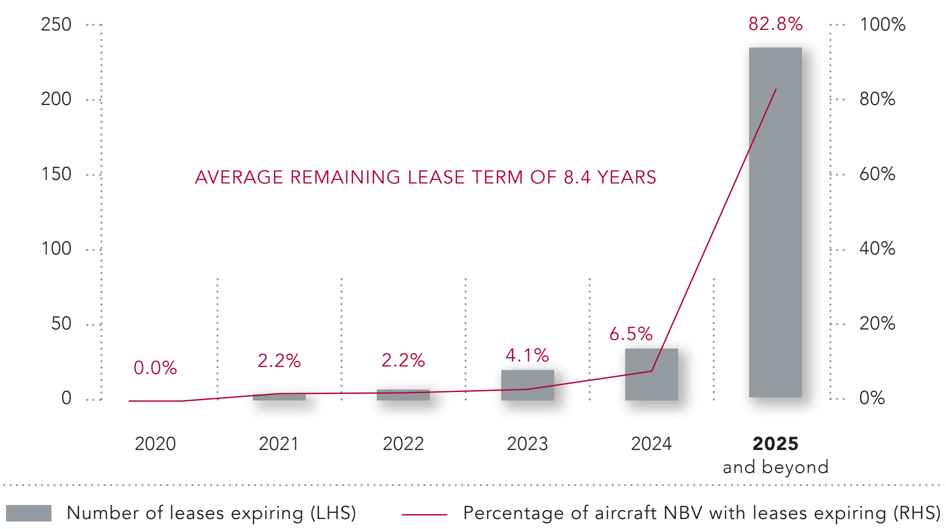
We maintained a stable net lease yield[1], which was in line with the range achieved over the last five years.

EXHIBIT 8: NET LEASE YIELD[1], %



Our lease rental revenue is contracted on a long term basis. Scheduled lease expiries on more than 80% of our owned portfolio occur in 2025 or beyond, with none scheduled to expire in 2020.

EXHIBIT 9: LEASE EXPIRIES AS % OF PORTFOLIO[2] AS AT 31 DECEMBER 2019



1 *Net lease yield is calculated as lease rental income less finance expenses apportioned to lease rental income, divided by average net book value of aircraft.*

2 *Owned aircraft with lease expiring in each calendar year, weighted by net book value, excluding any aircraft for which BOC Aviation has sale or lease commitments.*

BUSINESS AND FINANCIAL REVIEW

OPERATING EXPENSES

Aircraft costs[1] and finance expenses remain the largest components of our costs and have consistently represented around 85% of our total operating costs. Depreciation increased, reflecting growth in the fleet, with no aircraft impairment charges recorded for 2019.

EXHIBIT 10: OPERATING COST BREAKDOWN, % 2019

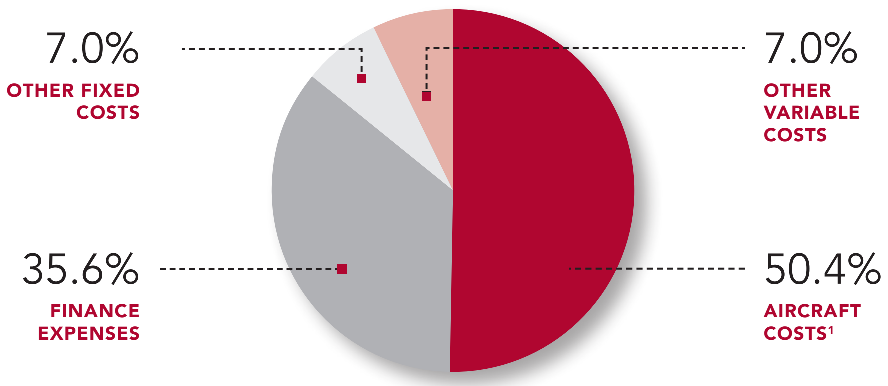
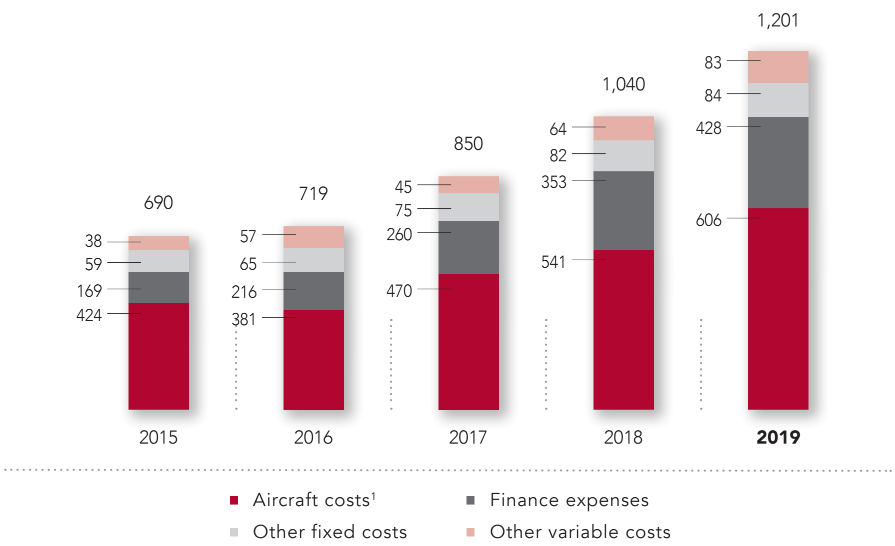


EXHIBIT 11: OPERATING COST BREAKDOWN, US$'m



Our average cost of debt in 2019 rose to 3.6% from 3.3% in 2018. This reflected a continued increase in the proportion and amount of our fixed rate debt and interest rate hedging as at 31 December 2019 compared with 31 December 2018.

[1] *Aircraft costs comprise depreciation and impairment charges.*

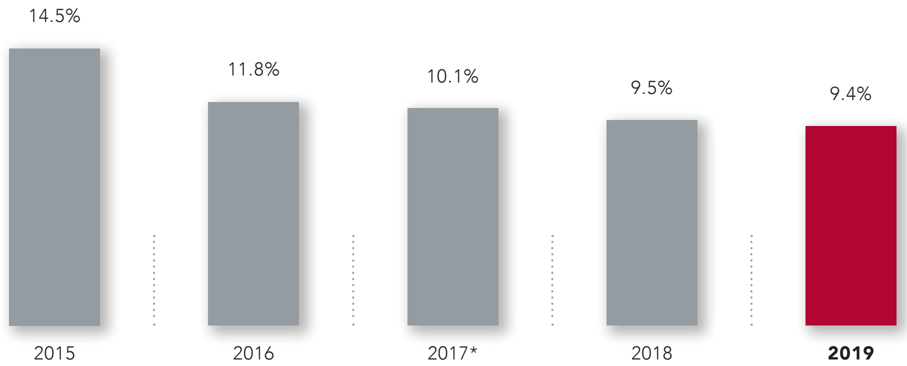
BUSINESS AND FINANCIAL REVIEW

NET PROFIT AFTER TAX

In 2019, our net profit after tax rose to US$702 million, continuing our pattern of producing consistent year on year improvements and marking 26 years of unbroken profitability. Our strong results in 2019 generated a return on equity of 16%.

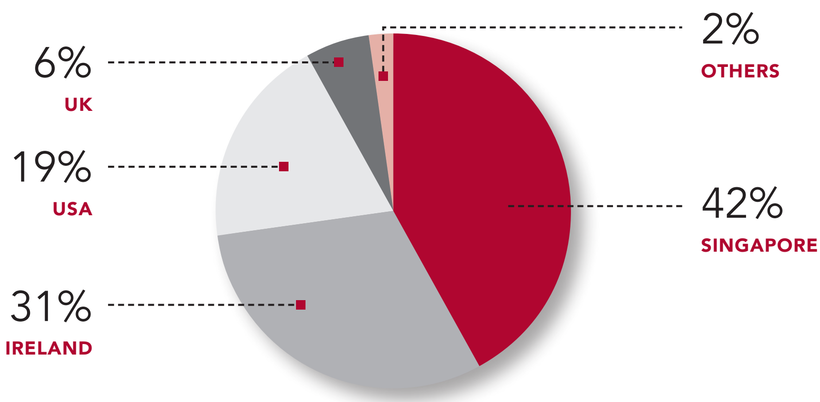
Our effective tax rate for 2019 was stable at 9.4%, with Singapore accounting for the largest proportion of income tax expense.

EXHIBIT 12: EFFECTIVE TAX RATE, %



* *2017 excludes the one-off adjustment for net deferred tax liabilities in the USA.*

EXHIBIT 13: INCOME TAX EXPENSE BY JURISDICTION, % 2019



BUSINESS AND FINANCIAL REVIEW

ASSETS AND EQUITY

Our total assets increased by US$1.5 billion to US$19.8 billion as at 31 December 2019, with aircraft representing the largest component. The full life, current market appraised value of our owned fleet based on the average of five independent appraisers was around US$1.3 billion over its book value, representing a premium of 8%.

Our total equity increased by US$0.4 billion to US$4.6 billion as at end of 31 December 2019.

EXHIBIT 14: TOTAL ASSETS VS. FLEET NBV, US$'b

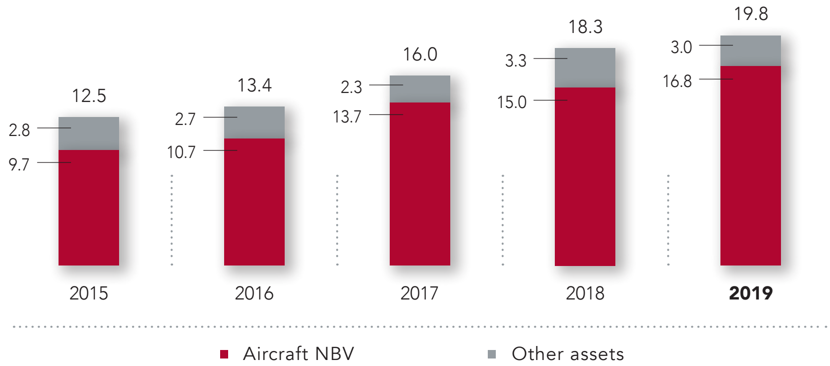
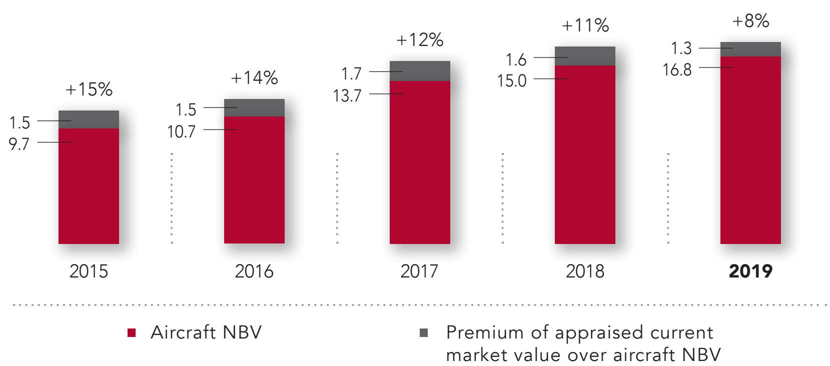


EXHIBIT 15: AIRCRAFT NBV VS. APPRAISED VALUE[1], US$'b



[1] *Percentages refer to premium of appraised current market value over aircraft net book value.*

BUSINESS AND FINANCIAL REVIEW

The net book value of our fleet rose 12% to US$16.8 billion. Retained earnings increased our equity base by US$478 million to US$4.6 billion as at 31 December 2019.

EXHIBIT 16: 2019 AIRCRAFT NBV EVOLUTION, US$'b

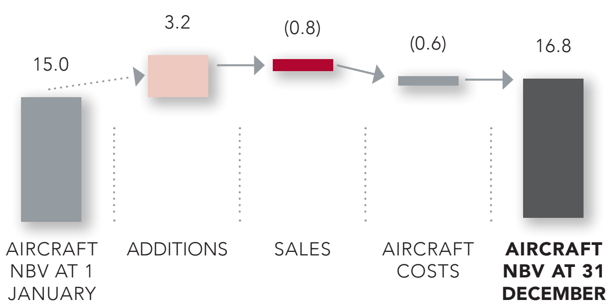
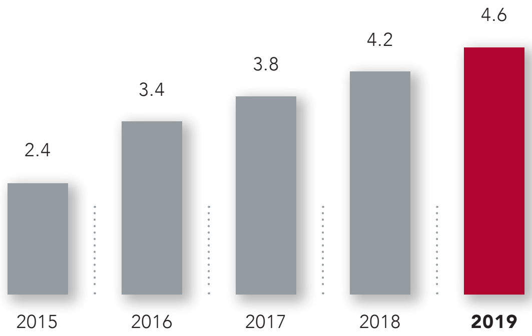


EXHIBIT 17: TOTAL EQUITY, US$'b



Our balance sheet growth is driven by our capital expenditure programme, the majority of which comprises investment in aircraft and pre-delivery payments. Our orderbook of 166 aircraft as at 31 December 2019 accounted for US$7.5 billion of future capital expenditure commitments. This includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery.

LIABILITIES

Total liabilities rose more than US$1.1 billion in 2019, as we took on additional debt to fund investment in new aircraft.

EXHIBIT 18: TOTAL LIABILITIES, US$'b

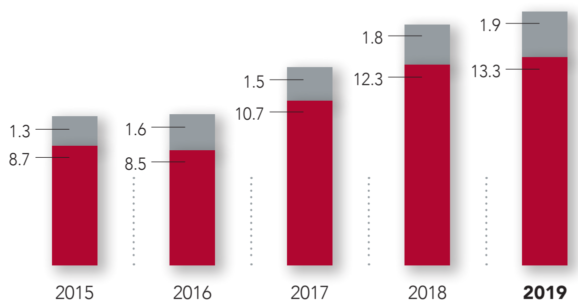
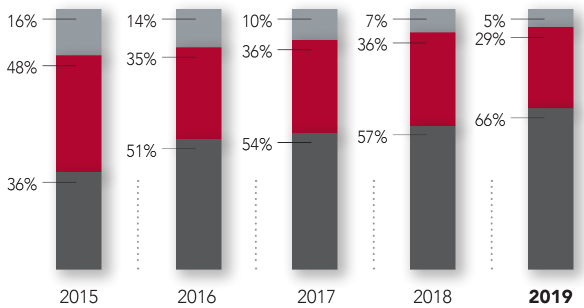


EXHIBIT 19: SOURCES OF DEBT, %



[1] *ECA refers to debt guaranteed by the export credit agencies of France, Germany, the United Kingdom or the United States.*

BUSINESS AND FINANCIAL REVIEW

The proportion of both our leases and our debt financing that is contracted on a fixed rate basis rose in 2019 as more of our airline customers entered into fixed rate leases with us. We have reflected this fixed rate lease preference in our own funding mix, as we move to a greater proportion of fixed rate debt. We actively manage our interest rate exposure through interest rate hedges[1] and issuance of fixed rate debt, which limits the impact of interest rate movements on our earnings[2].

EXHIBIT 20: FIXED VS. FLOATING RATE LEASES[3], %

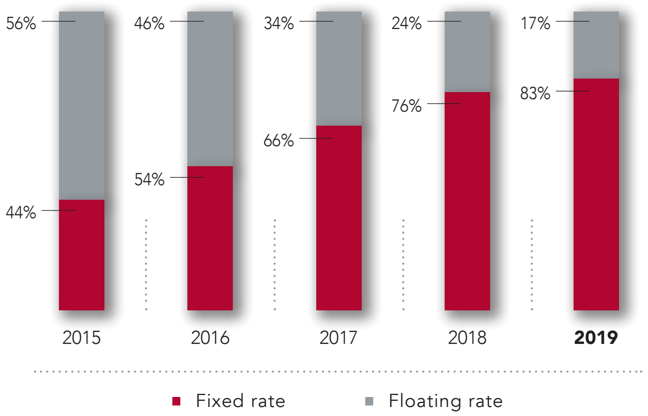
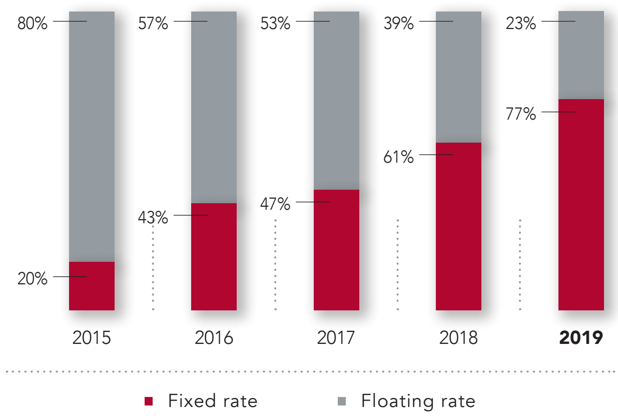


EXHIBIT 21: FIXED VS. FLOATING RATE DEBT, %



SIGNIFICANT EVENTS AFTER 31 DECEMBER 2019

On 6 January 2020, the Company entered into an agreement with Airbus pursuant to which it agreed to purchase 20 Airbus A320NEO family aircraft from Airbus. Please refer to the Company's announcement dated 7 January 2020 on the websites of the Stock Exchange and the Company for more information.

On 9 March 2020, the Company entered into an agreement to purchase 22 Boeing 787-8 aircraft. Please refer to the Company's announcement dated 10 March 2020 on the websites of the Stock Exchange and the Company for more information.

On 16 March 2020, the Company entered into an agreement to purchase six Boeing 777-300ER aircraft. Please refer to the Company's announcement dated 16 March 2020 on the websites of the Stock Exchange and the Company for more information.

1 *Hedged approximately 90% of mismatched interest rate exposure as at 31 December 2019.*

2 *A 25 basis points increase in interest rates on our floating rate leases, deposits and debt, holding all other variables constant, would have minimal impact on our annual net profit after tax of less than US$0.1 million based on lease portfolio, short-term deposits and debt composition as at 31 December 2019.*

3 *By net book value excluding aircraft off lease.*

BUSINESS AND FINANCIAL REVIEW

BUSINESS ENVIRONMENT

Our revenues derive largely from two sources: leasing aircraft and selling aircraft, generally with leases attached.

Airline demand for leased aircraft is the primary driver of lease rental income. Demand for leased aircraft by airlines, in turn, is driven by growth in air travel. While airline load factors achieved a record level in 2019, averaging 82.6%, passenger demand grew only 4.2%, which was slower than anticipated due to supply side constraints and to slower global economic growth and increased trade tension. Airline cashflows and profitability, however remained strong in 2019, with a global net profit of US$25.9 billion anticipated according to IATA. 2019 was the fifth year of strong earnings in the airline sector's history, with the performance not being evenly distributed.

It is important to note that passenger travel demand can be sensitive to external shocks, through terrorism, pandemic or restrictions on travel or trade flows. The outbreak of COVID-19 in early 2020 reminds us of the potentially significant effect on travel demand associated with such pandemics. This affects airlines earnings and their ability to pay lease rentals, which could have a short term impact on our operating cashflow. IATA in February 2020 estimated that the effect of COVID-19 could reduce revenues for airlines globally.

We mitigate these risks by maintaining a young, in-demand portfolio of aircraft and an orderbook comprising the most popular single-aisle aircraft, and by focusing on our customer selection process. We also mitigate these risks by building a global business with a diverse customer base, enabling us to redeploy assets to areas of greater demand if necessary.

Investor demand for purchasing leased aircraft is a primary driver of our aircraft sales programme and our ability to generate gains on sale. The availability and cost of financing is, in turn, one of the key drivers for investor demand for leased aircraft. 2019 was characterised by stable interest rates, with incremental borrowing costs trending downwards at both ends of the yield curve. US liquidity remained ample with all financing markets – including bank, debt and the asset backed securities (**ABS**) markets – functioning well. This in turn contributed to our low cost of funds and drove investor appetite for aircraft with leases attached. Our mix of floating rate and fixed rate leases, combined with our interest rate hedges, have protected our net spread from interest rate volatility. External shocks that might result in reduced availability of financing generally could adversely affect our cost of funds and limit debt financing availability. Such events, including shocks from pandemics and restriction on trade flows or travel, could also affect financing for potential purchasers of aircraft and impact the gains we generate by selling aircraft with leases attached.

The aircraft operating lease industry remains highly competitive. Both mature and new-entrant aircraft operating leasing companies continue to compete for PLB transactions where barriers to entry are low, especially in a market environment in which debt financing for leased aircraft is available on relatively attractive terms. Under our business model, we build our balance sheet and grow our lease rental income through direct orders from the manufacturers as well as PLB transactions. With strong competition and multiple new entrants, we may find it more difficult to grow our balance sheet and

BUSINESS AND FINANCIAL REVIEW

our revenue base by winning PLB transactions and, for the PLB transactions that we win, we may find that our margins and our returns will come under pressure. However, a competitive environment characterised by high demand for aircraft with leases attached should also provide good opportunities for selling aircraft.

Competition remains elevated in the market for operating lessors placing aircraft ordered direct from the manufacturers on lease to airline customers. The number of aircraft operating leasing companies with aircraft on order has increased 22% over the past five years to 22 lessors, and the share of the annual Airbus and Boeing delivery stream that is committed for delivery to lessors has increased during this period from 25% to 28%. This has increased the competition amongst lessors in the market for placing ordered aircraft on lease. Failure to resolve geopolitical issues could result in downward pressure on lease rates and aircraft values, which could in turn have an adverse impact on our ability to grow our lease rental income and sell aircraft.

Supply growth in our addressable market, being aircraft with 100 or more seats, has been constrained due to the grounding of the Boeing MAX and delays associated with Airbus products. Future production growth rates in the single-aisle market are difficult to predict given the uncertain timing of return to service of the Boeing MAX, which has been grounded since March 2019. Airbus has experienced issues with its Hamburg A320NEO family production line.

ENVIRONMENTAL POLICY AND PERFORMANCE

BOC Aviation commits to use resources efficiently and reduce unnecessary waste. Our efforts are reflected in our sustainable business model and our electronic communications efforts. While we do not operate the aircraft that we own and cannot directly control the greenhouse gas emissions of aircraft operated by our airline customers, our business model centered on a portfolio of latest technology, fuel efficient aircraft contributes to reductions in carbon emission. In addition, we promote a sustainable environment by using electronic communication (where possible) to distribute corporate communications to those of our Shareholders who have consented not to receive printed materials. For more information, please refer to pages 74 to 96 in the Environmental, Social and Governance Report in this annual report.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual report may be viewed as forward-looking statements. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we assume no obligation and do not intend to update these forward-looking statements.

MANAGEMENT DISCUSSION AND ANALYSIS

STATEMENT OF PROFIT OR LOSS ANALYSIS

Our net profit after tax for the year ended 31 December 2019 was US$702 million, representing an increase of 13.2% compared with the year ended 31 December 2018. The profit before income tax rose 13.1% to US$775 million in 2019 compared with 2018. Earnings growth was mainly driven by the increase in lease rental income. Total costs and expenses were largely in line with the growth in total revenues and other income.

Our selected financial data and changes of our consolidated statement of profit or loss are set out below:

	Year ended 31 December			
	2019	2018	Change	Change
	US$'000	US$'000	US$'000	%
Lease rental income	**1,704,280**	1,542,539	161,741	10.5
Interest and fee income	**99,225**	80,753	18,472	22.9
Other income:				
Net gain on sale of aircraft	**134,287**	90,822	43,465	47.9
Others	**38,160**	11,485	26,675	232.3
Total revenues and other income	**1,975,952**	1,725,599	250,353	14.5
Depreciation of property, plant and equipment	**609,664**	542,834	66,830	12.3
Finance expenses	**427,991**	353,035	74,956	21.2
Staff costs	**79,824**	91,543	(11,719)	(12.8)
Impairment losses on financial assets	**24,748**	—	24,748	nm
Other operating costs and expenses	**58,799**	52,962	5,837	11.0
Total costs and expenses	**(1,201,026)**	(1,040,374)	160,652	15.4
Profit before income tax	**774,926**	685,225	89,701	13.1
Income tax expense	**(72,667)**	(64,786)	7,881	12.2
Profit for the year	**702,259**	620,439	81,820	13.2

nm: Not meaningful

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUES AND OTHER INCOME

Our revenues and other income increased 14.5% to US$2.0 billion from US$1.7 billion in 2018, primarily due to an increase in lease rental income and net gain on sale of aircraft as described below.

LEASE RENTAL INCOME

Our lease rental income increased by 10.5% to US$1.7 billion compared with US$1.5 billion in 2018. The rise in lease rental income was mainly due to the full year impact from lease rental income of aircraft assets added in 2018, the lease rental income from additions in aircraft assets in 2019 which saw 12.1% growth in net book value to US$16.8 billion as at 31 December 2019 from the end of 2018, which were partially offset by forgone lease rental income from sale of aircraft in 2018 and 2019. All lease rental income was derived from operating leases, with no finance lease income.

INTEREST AND FEE INCOME

Our interest and fee income increased to US$99 million in 2019 from US$81 million in 2018. The increase was primarily due to an increase in fees from pre-delivery payment transactions.

NET GAIN ON SALE OF AIRCRAFT

Net gain on sale of aircraft increased by 47.9% to US$134 million in 2019 from US$91 million in 2018 mainly due to higher profit achieved per aircraft from the sale of 28 aircraft compared with 33 aircraft sold in 2018.

COSTS AND EXPENSES

The increase in costs and expenses of 15.4% to US$1.2 billion in 2019 from US$1.0 billion in 2018 was largely in line with the increase in revenues and other income. The increase was primarily due to an increase in depreciation of property, plant and equipment and the increase in finance expenses which are described below.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment increased by 12.3% to US$610 million in 2019 compared with US$543 million in 2018, mainly due to a 12.1% increase in the net book value of aircraft assets which increased to US$16.8 billion as at 31 December 2019 from US$15.0 billion as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCE EXPENSES

Finance expenses increased by 21.2% to US$428 million in 2019 from US$353 million in 2018. This was primarily due to the combined effect of (i) an increase in our total indebtedness from US$12.5 billion as at 31 December 2018 to US$13.5 billion as at 31 December 2019 and (ii) an increase in our average cost of debt to 3.6% in 2019 from 3.3% in 2018. The increase in the average cost of debt was due to an increase in the proportion and amount of our fixed rate debt and interest rate hedging added in 2018 and 2019.

STAFF COSTS

Staff costs decreased by 12.8% to US$80 million in 2019 from US$92 million in 2018 mainly due to the lower provisions for variable bonuses in 2019 compared with 2018.

IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Impairment losses on financial assets of US$25 million were recognised in 2019 in respect of trade receivables comprising amounts due under aircraft leases that were past due and in excess of the security deposits held by us under those leases. Of the past due amount of US$43 million as at 31 December 2019, an amount of US$33 million has since been collected or secured by additional collateral as at 11 March 2020.

OTHER OPERATING COSTS AND EXPENSES

Other operating costs and expenses mainly comprise amortisation of deferred debt issue costs, repossession and transition costs, marketing and travelling costs, general and administration costs, and taxes (other than income tax expense). The increase in these costs of 11.0% to US$59 million in 2019 from US$53 million in 2018 was mainly due to technical services expenses relating to repossessions and transitions of aircraft.

PROFIT BEFORE INCOME TAX AND PRE-TAX PROFIT MARGIN

Profit before income tax increased by 13.1% to US$775 million in 2019 from US$685 million in 2018. Our pre-tax profit margin decreased to 39.2% in 2019 from 39.7% in 2018.

INCOME TAX EXPENSE

Income tax expense increased by 12.2% to US$73 million in 2019 from US$65 million in 2018, mainly in line with the increase in profit before income tax. The effective tax rate for 2019 was reduced to 9.4% from 9.5% in 2018.

PROFIT FOR THE YEAR

As a result of the foregoing, our profit after tax for the year increased by 13.2% to US$702 million in 2019 from US$620 million in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

STATEMENT OF FINANCIAL POSITION ANALYSIS

Our total assets increased by 8.3% to US$19.8 billion as at 31 December 2019 from US$18.3 billion as at 31 December 2018. Our total equity increased by 9.1% to US$4.6 billion as at 31 December 2019 compared with 31 December 2018.

Our selected financial data and changes of our consolidated statement of financial position are set out below:

	31 December 2019 US$'000	31 December 2018 US$'000	Change US$'000	Change %
Property, plant and equipment and assets held for sale	**19,327,401**	17,973,481	1,353,920	7.5
Cash and short-term deposits	**287,126**	242,983	44,143	18.2
Derivative financial instruments	**2,373**	16,972	(14,599)	(86.0)
Trade receivables	**18,232**	7,984	10,248	128.4
Other assets	**129,296**	14,803	114,493	773.4
Total assets	**19,764,428**	18,256,223	1,508,205	8.3
Loans and borrowings	**13,305,935**	12,278,727	1,027,208	8.4
Maintenance reserves	**592,549**	732,133	(139,584)	(19.1)
Security deposits and non-current deferred income	**340,775**	329,597	11,178	3.4
Derivative financial instruments	**222,495**	123,748	98,747	79.8
Trade and other payables	**206,298**	156,923	49,375	31.5
Other liabilities	**515,462**	436,069	79,393	18.2
Total liabilities	**15,183,514**	14,057,197	1,126,317	8.0
Net assets	**4,580,914**	4,199,026	381,888	9.1
Share capital	**1,157,791**	1,157,791	—	—
Retained earnings	**3,515,584**	3,037,898	477,686	15.7
Statutory reserves	**262**	63	199	315.9
Share-based compensation reserves	**8,021**	1,931	6,090	315.4
Hedging reserves	**(100,744)**	1,343	(102,087)	nm
Total equity	**4,580,914**	4,199,026	381,888	9.1

nm: Not meaningful

MANAGEMENT DISCUSSION AND ANALYSIS

PROPERTY, PLANT AND EQUIPMENT AND ASSETS HELD FOR SALE

We had property, plant and equipment and assets held for sale of US$19.3 billion as at 31 December 2019, which increased by 7.5% from US$18.0 billion as at 31 December 2018 due to net addition of 14 aircraft in 2019.

Aircraft constituted the largest component, amounting to US$16.8 billion and US$15.0 billion as at 31 December 2019 and 31 December 2018, respectively, representing 86.7% and 83.2% of our total property, plant and equipment and assets held for sale as at the same dates. Aircraft pre-delivery payments constituted 13.2% and 16.8% of our total property, plant and equipment and assets held for sale as at 31 December 2019 and 31 December 2018, respectively.

TRADE RECEIVABLES

Trade receivables, net of allowance for impairment losses of US$25 million, increased to US$18 million as at 31 December 2019 from US$8 million as at 31 December 2018. The gross trade receivables past due amounted to US$43 million as at 31 December 2019 and these were mainly due to the delay in payments by certain airline customers. The amount of US$25 million, representing the overdue amounts in excess of the security deposits of each of these lessees, was provided for as impairment losses in the profit or loss statement. Subsequent to 31 December 2019, an amount of US$33 million of the past due receivables was collected or secured by additional collateral.

OTHER ASSETS

Other assets increased to US$129 million as at 31 December 2019 from US$15 million as at 31 December 2018 mainly due to an amount of US$103 million receivable from a manufacturer which was contractually deferred by mutual agreement in return for a fee. Subsequent to 31 December 2019, this amount was further deferred for another year in return for a fee.

CASH AND SHORT-TERM DEPOSITS

Our cash and short-term deposits, which were mainly denominated in US Dollar, increased to US$287 million as at 31 December 2019 from US$243 million as at 31 December 2018. The increase in cash and short-term deposits was mainly due to the total net cash inflows from operating activities, financing activities and proceeds from sales of aircraft, having been greater than the cash outflows from capital expenditure during 2019.

DERIVATIVE FINANCIAL INSTRUMENTS

Our assets and liabilities with respect to derivative financial instruments represent unrealised gains and losses, respectively, which were recognised in the hedging reserve in equity or profit or loss, on the cross-currency interest rate swap and interest rate swap contracts that we contracted as at 31 December 2019 and 31 December 2018 respectively. Under assets, our derivative financial instruments decreased to US$2 million as at 31 December 2019 from US$17 million as at 31 December 2018. Under liabilities, our derivative financial instruments increased to US$222 million as at 31 December 2019 from US$124 million as at 31 December 2018. The movements in derivative financial assets

MANAGEMENT DISCUSSION AND ANALYSIS

and liabilities were primarily due to changes in marked-to-market values of the derivative financial instruments as a result of changes in interest rates and an increase in interest rate swap contracts entered into by the Group in 2019. Due to the downward movement in interest rates in 2019, the hedging reserves as at 31 December 2019 showed an unrealised loss of US$101 million compared with an unrealised gain of US$1 million as at 31 December 2018.

MAINTENANCE RESERVES

Our maintenance reserves declined by 19.1% to US$593 million as at 31 December 2019 from US$732 million as at 31 December 2018 primarily due to the sale of older aircraft with maintenance reserves balances and the payment of maintenance reserve reimbursements to our customers in 2019.

TRADE AND OTHER PAYABLES

Our trade and other payables increased by 31.5% to US$206 million as at 31 December 2019 compared with US$157 million as at 31 December 2018, primarily due to an increase in accrued maintenance reserve payables and accrued interest expenses mainly as a result of additional loans raised to finance capital expenditure in 2019.

LOANS AND BORROWINGS

Our loans and borrowings increased by 8.4% to US$13.3 billion as at 31 December 2019 from US$12.3 billion as at 31 December 2018 to finance the increase in capital expenditure. The increase in loans and borrowings included the issuance of US$2.1 billion of notes under our Global Medium Term Note Program and the drawing down of US$970 million in term loans. An amount of US$2.0 billion in term loans, revolving credit facilities and medium term notes was repaid as part of regular loan repayment and loan prepayments in 2019.

TOTAL EQUITY

Total equity increased by 9.1% to US$4.6 billion as at 31 December 2019 compared with US$4.2 billion as at 31 December 2018, primarily due to profit for the year partially offset by payment of dividends amounting to US$224 million and unrealised losses in hedging reflected in the hedging reserve as explained above under "Derivative financial instruments".

CONTINGENT LIABILITIES

Other than corporate guarantees for certain loans extended to the Company's subsidiary companies and for obligations under certain lease agreements entered into by the subsidiary companies as set out in Note 37 to the financial statements for the year ended 31 December 2019, the Company had no material contingent liabilities as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity comprise cash generated from aircraft leasing operations, proceeds from aircraft sales and borrowings. Our business is capital intensive, requiring significant investments and borrowings in order to grow and to maintain a young aircraft fleet. The cash flows from our operations, particularly our revenues from operating leases of aircraft, have historically provided a significant portion of the liquidity for these investments.

In 2019 we issued US$2.1 billion of notes under our Global Medium Term Note Program. We have also utilised US$640 million under our committed revolving credit facilities as at 31 December 2019.

There was no significant change in our gearing as at 31 December 2019 compared with 31 December 2018 as demonstrated in the table below.

	31 December 2019 US$'m	31 December 2018 US$'m
Gross debt	**13,513**	12,476
Total equity	**4,581**	4,199
Gearing (times)	**2.9**	3.0

Gross debt comprises our loans and borrowings before adjustments for deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes. Total equity refers to the equity attributable to Shareholders. Gearing is calculated by dividing gross debt by total equity.

Our liquidity remains strong, with cash and short-term deposits of US$287 million and US$4.4 billion in undrawn committed credit facilities as at 31 December 2019, comprising the unutilised portion of our revolving credit facilities and US$700 million in term loans that were unutilised as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

INDEBTEDNESS

	31 December 2019 US$'m	31 December 2018 US$'m
Secured		
Term loans	**729**	879
Export credit agency supported financing	**601**	808
Total secured debt	**1,330**	1,687
Unsecured		
Term loans	**2,580**	2,185
Revolving credit facilities	**640**	1,439
Medium term notes	**8,963**	7,165
Total unsecured debt	**12,183**	10,789
Total indebtedness	**13,513**	12,476
Less: debt discount, debt premium, deferred debt issue costs and fair value and revaluation adjustments	**(207)**	(197)
Total debt	**13,306**	12,279
Number of aircraft pledged as security	**64**	71
Net book value of aircraft pledged as security	**2,915**	3,259

Indebtedness comprises our loans and borrowings before adjustments for deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes.

Of the total indebtedness, the amount of debt at fixed rates, including floating rate debt swapped to fixed rate liabilities, amounted to US$10.4 billion as at 31 December 2019 compared with US$7.6 billion as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Collateral for secured debt will typically include a mortgage over the relevant aircraft, an assignment of the operating lease of the relevant aircraft and/or a pledge of the shares in the subsidiary company that holds title to the relevant aircraft. In line with our strategy to reduce secured debt as a proportion of total assets and of total indebtedness, these proportions have come down in 2019 as set out in the table below:

	31 December 2019	31 December 2018
Secured debt/total assets	**6.7%**	9.2%
Secured debt/total indebtedness	**9.8%**	13.5%

As at 31 December 2019, the debt repayment profile was as follows:

DEBT REPAYMENT PROFILE

	31 December 2019 US$'b
2020	**1.8**
2021	**2.0**
2022	**2.1**
2023	**2.0**
2024	**2.7**
2025 and beyond	**2.9**
Total	**13.5**

PLEDGE OF ASSETS

Details of pledges of assets are included in Note 12 and Note 17 to the financial statements for the year ended 31 December 2019.

CREDIT RATINGS

Our credit ratings remain unchanged, at A- for both Fitch Ratings and S&P Global Ratings.

FOREIGN CURRENCY RISK

Our transactional currency exposures mainly arise from borrowings that are denominated in a currency other than US Dollar, our functional currency.

MANAGEMENT DISCUSSION AND ANALYSIS

All loans and borrowings that are denominated in Australian Dollar, Chinese Yuan, Hong Kong Dollar and Singapore Dollar are swapped into US Dollar. To eliminate foreign currency exposure that may arise, we utilise cross-currency interest rate swap contracts to hedge our Australian Dollar, Chinese Yuan, Hong Kong Dollar and Singapore Dollar denominated financial liabilities. Such contracts are entered with counterparties that are rated at least A- by S&P Global Ratings. Under these agreements, we receive foreign currency amounts sufficient to meet the obligations in foreign currency borrowings and payment of US Dollar to the counterparties.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Our estimated cash outflows based on aircraft capital expenditure commitments as at 31 December 2019 are set out below:

	31 December 2019
	US$'b
2020	**4.9**
2021	**1.1**
2022	**0.8**
2023	**0.7**
Total	**7.5**

The table above is based on estimated contractual capital expenditure commitments as at 31 December 2019 and includes all commitments to purchase aircraft, including those where an airline has a right to acquire the relevant aircraft on delivery. The capital expenditure figures for each year include anticipated escalation and are net of advance payments made before 31 December 2019.

Taking account of developments between 31 December 2019 and 11 March 2020 including (i) the most recent notification from Airbus and Boeing of the likely delivery schedule for our A320NEO and 737 MAX aircraft, (ii) our order for 20 Airbus A320NEO family aircraft announced on 7 January 2020 and (iii) our purchase of 22 Boeing 787-8 aircraft announced on 10 March 2020, our estimated cash outflows stated above would change as follows:

	11 March 2020
	US$'b
2020	**5.0**
2021	**2.9**
2022	**1.4**
2023	**1.3**
2024	**0.4**
Total	**11.0**

MANAGEMENT DISCUSSION AND ANALYSIS

SOURCES OF FUNDING

Our aircraft purchase commitments as at 31 December 2019 are expected to be financed through a range of funding sources, including (a) cash flows generated from our operating activities, (b) proceeds from our notes issuance from debt capital markets, (c) amounts made available and drawn down under our various bank financing facilities, and (d) net proceeds from sales of owned aircraft.

We benefit from our strong investment grade corporate credit ratings of A- from both S&P Global Ratings and Fitch Ratings and from our access to diverse debt funding sources. Our primary sources of debt funding are unsecured notes and unsecured and secured loan facilities. We have been an issuer of notes since 2000 and continue to regularly issue notes under our US$10 billion Global Medium Term Note Program. We also enjoy access to and continued support from a large group of lenders comprising over 70 financial institutions as at 31 December 2019. We have US$4.4 billion in undrawn committed unsecured credit facilities including a US$2 billion facility from Bank of China which matures in April 2022.

EMPLOYEES

As at 31 December 2019 and 31 December 2018, we had 176 and 169 employees respectively who were engaged in the operation and management of our business.

We provide certain benefits to our employees including retirement, health, life, disability and accident insurance coverage. We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, confidentiality and grounds for termination.

We set targets for our employees based on their position and role and periodically assess their performance. The results of such assessments are used in their salary reviews, bonus awards and assessing promotions. The employee remuneration package generally comprises a basic salary and a discretionary bonus element. Our employee bonuses include two employee incentive plans as follows: (i) our short term incentive plan which is cash-based and payable over a maximum three year period, under which a bonus is payable to employees when certain key performance indicator targets for each year are met, and (ii) our long term incentive plan, under which a bonus is awarded to selected employees based on the achievement of certain key performance targets at the end of a pre-determined period. From financial year 2017, the long term incentive plan was changed from a pure cash-based plan to a plan comprising a mix of cash-based and share-based elements. The share-based long term incentive plan involves the grant of awards in the form of restricted share units (**RSUs**), fulfilled through the purchase of Shares in the secondary market by an independent trustee after the announcement of results for the relevant financial year in which performance occurred. Upon vesting, RSUs will generally be satisfied by the transfer of Shares from the independent trustee to the employee. The first two grants under the RSU Plan were made in May 2018 and May 2019 respectively, and each RSU award is amortised over the vesting period of approximately three years commencing from the date of grant.

MANAGEMENT DISCUSSION AND ANALYSIS

None of our employees are represented by a union or collective bargaining agreement. We believe we have good employment relationships with our employees.

For the year ended 31 December 2019, our staff costs were US$80 million, representing approximately 4.0% of the Group's total revenues and other income for 2019, and a reduction of 12.8% compared to staff costs of US$92 million in 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2019, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Company.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

DIRECTORS

Mr. SUN Yu

Chairman, Non-executive Director and Chairman of the Nomination Committee, aged 47. Mr. Sun has been serving as the Chairman of the Board of Directors of the Company since February 2019.

Mr. Sun Yu has been the Executive Vice President of BOC since February 2019. He has also been serving as the General Manager of BOC, Beijing Branch since December 2019 and the President of BOC's Shanghai RMB Trading Unit since November 2019. Mr. Sun joined BOC in 1998. He served as the Chief Overseas Business Officer of BOC from September 2018 to February 2019. From March 2015 to November 2018, he served as General Manager of BOC, London Branch, CEO of Bank of China (UK) Limited, and concurrently served as General Manager of London Trading Center of BOC from December 2015 to November 2018. Mr. Sun previously served as Director of Global Financial Markets Department, Director of Financial Markets Unit (Client Business), and Director of Financial Markets Unit (Securities Investment) of BOC, Deputy General Manager of BOC, Shanghai Branch and General Manager of Global Markets Department of Bank of China (Hong Kong) Limited. Mr. Sun has served as Director of Bank of China (UK) Limited since March 2015, Chairman of Bank of China (UK) Limited since December 2018, and a non-executive Director of BOCHK Holdings and BOCHK since March 2020. He graduated from Nankai University with a Master's degree in Economics in 1998.

Mdm. ZHANG Xiaolu

Deputy Managing Director, Vice Chairman, Executive Director and a member of the Strategy and Budget Committee, aged 52. Mdm. Zhang has been serving as Deputy Managing Director, Vice Chairman, Executive Director and a member of the Strategy and Budget Committee since January 2020.

Mdm. Zhang Xiaolu joined Bank of China in July 1990. She held various positions, including serving as Senior Management Executive Assistant, Executive Office at the Head Office from October 2000 to October 2008 and Deputy CEO and COO at Bank of China (Suisse) S.A. from November 2008 to September 2012. From October 2012 to April 2014, she was the Executive Director and Special Advisor of Bank Julius Baer Head Office in Zurich. Prior to joining the Company, Mdm. Zhang was the Deputy General Manager of Bank of China Luxembourg Branch and Bank of China (Luxembourg) S.A. from April 2014 to December 2019.

Mdm. Zhang graduated with a Bachelor's degree in International Leasing and Foreign Trade Accounting from Beijing Union University in 1990, a Bachelor's degree in English Language from Beijing Foreign Study University in 2006 and a Master's degree in Business Administration from Southwestern University of Finance and Economics in 2000.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

Mr. Robert James MARTIN

Managing Director, Chief Executive Officer, Executive Director and a member of the Strategy and Budget Committee, aged 55.

Mr. Martin was appointed as a Director and the Managing Director in 1998. Mr. Martin joined the Company in 1998 and has more than 30 years of experience in the aircraft and leasing business, with Bank of America, The Long-Term Credit Bank of Japan and HSBC Investment Bank (Asia) Ltd. Mr. Martin graduated from Cambridge University in the United Kingdom with a Master of Arts degree in Economics.

Mr. LI Mang

Non-executive Director and a member of the Risk Committee and the Strategy and Budget Committee, aged 52. Mr. Li was appointed as a Non-Executive Director in December 2015.

Mr. Li joined BOC in July 1990 and he is currently the General Manager of Global Transaction Banking Department of BOC. Mr. Li is also a director of Bank of China (New Zealand) Limited. Mr. Li graduated from Central University of Finance and Economics in the PRC in June 1990 with a Bachelor's degree in Economics. He received a Master's degree in Economics from the Chinese Academy of Social Sciences in the PRC in July 2002.

Mr. LIU Chenggang

Non-executive Director, Chairman of Strategy and Budget Committee and a member of the Audit Committee, aged 47. Mr. Liu was appointed as a Non-Executive Director in September 2016.

Mr. Liu joined BOC in July 1994 and is currently the General Manager of Equity Investment and Comprehensive Operation Management Department of BOC. Mr. Liu is also a director of BOC International Holdings Limited, Bank of China Group Insurance Company Limited and BOC Wealth Management Co. Ltd. From January 2017 to December 2018, Mr. Liu was the General Manager of Financial Management Department of BOC. Mr. Liu graduated from Renmin University of China in July 1994 with a Bachelor's degree in Economics. He then obtained a Master's degree in Economics from the People's Bank of China Research Institute of Finance in April 1999, and was awarded a Master's degree in Applied Finance by Macquarie University in November 2003. Mr. Liu is a Chartered Financial Analyst.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

Mr. WANG Zhiheng

Non-executive Director, a member of the Nomination Committee and the Remuneration Committee, aged 46. Mr. Wang was appointed as a Non-Executive Director in October 2018.

Mr. Wang is currently an Employee Supervisor and the General Manager of the Human Resources Department of BOC. Mr. Wang is also a director of Bank of China Group Insurance Company Limited and BOC International Holdings Limited. Mr. Wang joined BOC in 1999. From October 2007 to September 2018, Mr. Wang successively held the positions as the Deputy General Manager of Human Resources Department of BOC, Deputy General Manager of BOC Guangdong Branch and as General Manager of BOC Qinghai Branch. Mr. Wang graduated from Nankai University of China with a Bachelor's degree in Finance in 1996 and a Master's degree in Finance in 1999.

Mdm. ZHU Lin

Non-executive Director, a member of Audit Committee and the Risk Committee, aged 46. Mdm. Zhu was appointed as a Non-Executive Director in January 2014.

Mdm. Zhu joined BOC in July 1997. Mdm. Zhu graduated from Peking University in the PRC in July 1994 with a Bachelor's degree in Economics and received a Master's degree in Economics from Guanghua School of Management, Peking University in July 1997. Mdm. Zhu has been a member of the Chinese Institute of Certified Public Accountants since July 1997. She is a director of Bank of China (Mauritius) Limited.

Dr. DAI Deming

Independent Non-executive Director, Chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee, aged 57. Dr. Dai was appointed as an Independent Non-executive Director in May 2016.

Dr. Dai is an independent non-executive director of China Zheshang Bank Co., Ltd. which is listed on the Stock Exchange (stock code: 02016), Qingdao Haier Co. Ltd. which is listed on the Shanghai Stock Exchange (stock code: 600690), CSC Financial Co. Ltd. which is listed on the Stock Exchange (stock code: 6066), Power Construction Corporation of China, Ltd which is listed on the Shanghai Stock Exchange (stock code: 601669) and Poly Developments and Holdings which is listed on the Shanghai Stock Exchange (stock code: 600048).

Mr. Dai was an independent non-executive director of CSR Corporation Limited (which merged with China CNR Corporation Limited in 2015 to form CRRC Corporation Limited and is listed on the Shanghai Stock Exchange (stock code: 601766) and the Stock Exchange (stock code: 01766)) and chairman of its audit and risk management committee from August 2008 to June 2014. Mr. Dai was also an independent director of Shanxi Taigang Stainless Steel Co., Ltd. which is listed on the Shenzhen Stock Exchange (stock code: 000825) from May 2011 to October 2016, Beijing Xinwei Telecom Technology Group Co., Ltd. which is listed on the Shanghai Stock Exchange (stock code: 600485) from September 2014 to August 2016 and Beijing Capital Development Co. Ltd. which is listed on the Shanghai Stock Exchange (stock code: 600376) from September 2015 to May 2018.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

Mr. Dai has served as the dean of the Accounting Department of the School of Business of Renmin University of China from October 2001 to September 2010, professor of the Accounting Department at that university since July 1996 and associate professor of the Accounting Department of that university from July 1993 to June 1996. Mr. Dai graduated from Hunan College of Finance & Economics in the PRC with a Bachelor's degree in Economics with a major in Industrial Financial Accounting in July 1983, graduated with an Accounting major in July 1986 and obtained a Master's degree in Economics in October 1986 from Zhongnan University of Finance & Economics in the PRC, and obtained a Doctorate degree in Economics with a major in Accounting at Renmin University of China in June 1991.

Mr. FU Shula

Independent Non-executive Director, Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee, aged 64. Mr. Fu was appointed as an independent Director in February 2011 and redesignated as an Independent Non-Executive Director in March 2016.

From 1984 to 2015, Mr. Fu held various senior positions in Aviation Industry Corporation of China (**AVIC**), including President of China National Aero-Technology Import & Export Corporation, President of AVIC International Holding Corporation, Deputy Chief Economist of AVIC, Chairman of the Board of AVIC International Holding Corporation, Chairman of the Board of AVIC Aero-Engine Holding Corporation and Chairman of the Board of AVIC Economy & Technology Research Institute. Mr. Fu is currently an independent non-executive director of Besunyen Holdings Company Limited which is listed on the Stock Exchange (stock code: 00926). Mr. Fu graduated with a Master's degree in Aero Engine Design from Northwestern Polytechnical University in the PRC in July 1984.

Mr. Antony Nigel TYLER

Independent Non-executive Director, Chairman of the Risk Committee, a member of the Audit Committee and the Strategy and Budget Committee, aged 64. Mr. Tyler was appointed as an Independent Non-executive Director in May 2016.

Mr. Tyler had been the Director General and Chief Executive Officer of the International Air Transport Association (**IATA**) from 1 July 2011 to September 2016. Prior to joining IATA, Mr. Tyler was an executive director of Cathay Pacific Airways Limited which is listed on the Stock Exchange (stock code: 00293) from December 1996 to March 2011 and the Chief Executive from July 2007 to March 2011. He was a non-executive director of Hong Kong Aircraft Engineering Company Limited (stock code: 00044) from December 1996 to September 2008 and an executive director of Swire Pacific Limited (stock code: 00019) from January 2008 to March 2011, both of which are listed on the Stock Exchange. Mr. Tyler was also a member of the Board of Governors of IATA and served as its Chairman from June 2009 to June 2010. Mr. Tyler is currently an independent non-executive director of Bombardier Inc., Trans Maldivian Airways and Qantas Airways Limited. Mr. Tyler graduated with a degree in Jurisprudence from Oxford University in the United Kingdom in July 1977.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

Dr. YEUNG Yin Bernard

Independent Non-executive Director, a member of the Nomination Committee and the Strategy and Budget Committee, aged 66. Dr. Yeung was appointed as an Independent Non-executive Director in December 2016.

Dr. Yeung is Stephen Riady Distinguished Professor in Finance and Strategic Management at the National University of Singapore (**NUS**) Business School. He is also the President of the Asian Bureau of Finance and Economic Research. He was Dean of the NUS Business School from June 2008 to May 2019. Before joining NUS, he was the Abraham Krasnoff Professor in Global Business, Economics, and Management at New York University (**NYU**) Stern School of Business and the Director of the NYU China House. From 1988 to 1999, he taught at the University of Michigan and at the University of Alberta from 1983 to 1988.

Dr. Yeung has published widely in top tier academic journals covering topics in Finance, Economics, and Strategy; his writing also appears in important media publications such as The People's Daily, The Financial Times, Economist, and The Wall Street Journal.

Dr. Yeung has various major public appointments. He was a member of the Economic Strategies Committee in Singapore (2009), a member of the Social Science Research Council in Singapore (2016-2018) and a member of the Financial Research Council of the Monetary Authority of Singapore (2010-2013). Dr. Yeung sits on the 3rd Advisory Board of the Antai College of Economics and Management at Shanghai Jiao Tong University, the Advisory Council of the Economics and Management School of Wuhan University and the Advisory Committee of the Institute of Economics, Academia Sinica.

Dr. Yeung graduated from University of Western Ontario in 1979 with a Bachelor's degree in Economics and Mathematics. He then was awarded a Master of Business Administration and a Doctor of Philosophy by The University of Chicago in December 1981 and 1984 respectively.

SENIOR MANAGEMENT

Mr. Robert MARTIN

Please refer to his biography on page 35.

Mdm. ZHANG Xiaolu

Please refer to her biography on page 34.

Mr. PHANG Thim Fatt

Deputy Managing Director and Chief Financial Officer, aged 63. Mr. Phang joined the Company in 1996 as the Chief Financial Officer. Mr. Phang was appointed as the Deputy Managing Director of the Company in July 2001. His areas of responsibilities include accounting, treasury and risk management. Mr. Phang has been with the Company for more than 20 years. Mr. Phang graduated from the University of Malaya in Malaysia with a Bachelor's Degree in Economics (First Class Honours). He will step down as Deputy Managing Director and Chief Financial Officer on 30 September 2020 and will retire in Q4 2020.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

Mr. David WALTON

Chief Operating Officer, aged 58. Mr. Walton joined the Company in November 2014 as the Chief Operating Officer and has responsibility for legal and transaction management, portfolio planning and management, technical, strategy and market research, compliance and corporate affairs, investor relations and corporate communications and information technology. Mr. Walton has more than 30 years of experience in the aircraft leasing and finance industry. Prior to joining the Company, he served as a general counsel for both privately held and publicly listed companies, with primary responsibility for structuring and documenting capital raising, joint venture and leasing activities. Mr. Walton graduated from Stanford University in the United States with a Bachelor of Arts (Honours) degree and received a law degree from the University of California, Berkeley (Boalt Hall) in the United States.

Mr. Steven TOWNEND

Chief Commercial Officer (Europe, Americas and Africa), aged 50. Mr. Townend joined the Company in January 2001 and was appointed as the Chief Commercial Officer in July 2004. He was appointed to the additional role of Deputy Managing Director in June 2006. Mr. Townend has been based in London since 2014 and oversees all revenue activities in Europe, Americas and Africa. He will relocate back to Singapore before assuming his new role as Deputy Managing Director and Chief Financial Officer in October 2020. Mr. Townend has more than 28 years of banking and leasing experience, having previously worked with DVB Bank and NatWest Markets. Mr. Townend graduated from Loughborough University in the United Kingdom with a Bachelor's Degree in Banking and Finance.

Mr. DENG Lei

Chief Commercial Officer (Asia Pacific and the Middle East), aged 43. Mr. Deng joined the Company in November 2019. He is responsible for overseeing all revenue activities within the Asia Pacific and the Middle East. He joined Bank of China in July 1998 and held various positions, including serving as the General Manager of the Global Markets Department at the Shanghai Branch and as a Director in the Investment Banking and Asset Management Department at the Head Office. Prior to joining the Company, Mr. Deng was the Assistant General Manager of Bank of China, Singapore Branch. Mr. Deng graduated with a Bachelor's degree in International Finance from Shanghai University in 1998 and a Master's degree in Business Administration from The University of Hong Kong in 2005.

COMPANY SECRETARY

Ms. ZHANG Yanqiu Juliana

Company Secretary, aged 35. Ms. Zhang was appointed Company Secretary and an authorised representative of the Company on 1 June 2017. Ms. Zhang joined the Company in November 2015 as Legal Counsel. Prior to joining the Company, she worked in international law firms in Hong Kong and Singapore. Ms. Zhang graduated from University of Nottingham in the United Kingdom with a Bachelor of Laws degree. She was admitted as a Solicitor of the High Court of Hong Kong in January 2010.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE POLICY

The Company is committed to enhancing shareholder value by achieving high standards of corporate ethics, conduct, transparency and accountability, and its corporate governance policy is intended to provide guidance for the Company's directors, officers and employees to ensure proper governance, appropriate internal controls and avoidance of conflicts of interests. The Company abides strictly by the relevant laws and regulations in Hong Kong and in Singapore, and observes the Constitution, and the rules and guidelines issued by regulatory authorities including the SFC and the Stock Exchange. The Company from time to time reviews its corporate governance practices against these laws, regulations, rules and guidelines.

The Company has applied the principles and complied with all applicable code provisions as set out in the Corporate Governance Code during the year ended 31 December 2019. The Company will continue to maintain sound corporate governance standards and procedures to ensure the completeness, transparency and quality of the Company's information disclosure. This report sets out a detailed discussion of the corporate governance practices adopted and observed by the Company during the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICE

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in provision D.3.1 of the Corporate Governance Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and Senior Management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Dealing Policy by the Directors and the employees of the Company, and the Company's compliance with Appendix 14 of the Listing Rules and disclosure in this Corporate Governance Report.

CONSTITUTIONAL DOCUMENTS

The Constitution is a document containing important corporate governance related information relating to, among other things, the rights and responsibilities of the Shareholders, the Board, the Board Committees, and the Chief Executive Officer. The Constitution also regulates the process of general meetings and meetings of the Board. Since the adoption of the constitution of the Company on 12 May 2016 which became effective on the Listing Date, no changes were made in the Constitution. An up-to-date version of the Constitution is also available on the Company's website and the Stock Exchange's website.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS RIGHTS

Shareholder(s) representing not less than 10% of the total voting rights of all Shareholders may request the Board to convene a Shareholders meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance section of the Company's website.

Shareholders who would like to make enquiries to the Board or put forward proposals at a general meeting are requested to follow the requirements and procedures set out in the Corporate Governance section of the Company's website.

If a Shareholder wishes to propose a person other than a retiring Director for election as Director at a general meeting, he or she should deliver written notice of nomination to the Company's registered office within the seven-day period commencing on and including the day after dispatch of notice of the meeting. The procedures for nominating candidates to stand for election as Directors are set out in the Corporate Governance section of the Company's website.

SHAREHOLDERS MEETINGS

The Company is required to seek Shareholders' approval according to the requirements under the Listing Rules, the Singapore Companies Act (Cap. 50), the Constitution and other relevant and applicable rules and regulations.

The Company is required to hold its annual general meeting every year to transact certain routine business being (a) declaring a dividend, (b) receiving and adopting the financial statements, the Directors' statement, the Auditor's report and other documents required to be attached to the financial statements, (c) appointing or re-appointing Directors to fill vacancies arising at the meeting on retirement by rotation or otherwise, (d) appointing or re-appointing the Auditor, (e) fixing the remuneration of the Auditor or determining the manner in which such remuneration is to be fixed, (f) fixing the remuneration of the Directors proposed to be paid in respect of their office as such under article 81 and/or article 82 of the Constitution, (g) granting of any mandate or authority to the Directors to allot and issue Shares or grant options over or issue warrants convertible into or otherwise dispose of Shares representing not more than 20% (or such percentage as may from time to time be specified in the rules and regulations of the Designated Stock Exchange) of the total number of the then existing number of issued Shares and the number of any Shares repurchased pursuant to article 54(h) of the Constitution, and (h) granting of any mandate or authority to the Directors to repurchase Shares. At its annual general meeting, the Company may transact business other than routine business.

The Company held its 2019 annual general meeting on 29 May 2019 in Hong Kong.

The Company also held an extraordinary general meeting on 11 June 2019 in Singapore to seek Shareholders' approval for annual caps in relation to certain continuing connected transactions. Please refer to the Circular dated 9 May 2019 for details.

CORPORATE GOVERNANCE REPORT

ROLES OF THE BOARD AND MANAGEMENT

The Company is governed by the Board, which is responsible for strategic leadership and control of the Company. There is a clear division of responsibilities between the Board and management. The Board is responsible for providing high-level guidance and effective oversight of management, and for, among other things:

- formulating the Company's long-term strategy and monitoring its implementation
- reviewing and approving the Company's business plan and annual budgets
- reviewing operational and financial performance
- reviewing and approving interim and annual results and results announcements
- setting dividend policy
- reviewing and monitoring the Company's risk management and internal controls
- approving appointments to the Board
- approving remuneration and benefit programmes
- formulating ESG strategy and approving the ESG report
- ensuring good corporate governance and effective compliance

The Board authorises management to implement the strategies as approved by the Board, and management is responsible for achieving the Company's objectives. Management is responsible for the day-to-day operations of the Company and reports to the Board. The Board has formulated clear written guidelines which stipulate the circumstances in which management reports to and obtains prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board conducts a regular review of the authorisation and guidelines.

CORPORATE GOVERNANCE REPORT

THE CHAIRMAN AND THE CHIEF EXECUTIVE

The positions of the Chairman and the Chief Executive Officer of the Company are held by two different individuals and their roles are distinct and clearly established.

Mr. Sun Yu is the Chairman and is responsible for leadership of the Board and for ensuring that the Board functions effectively and performs its responsibilities and acts in the best interests of the Company. In particular, the Chairman:

- sets the Board's agenda and taking into account any proposal by other Directors to include items in the Board's agenda
- ensures that all Directors are properly briefed on issues arising at Board meetings
- ensures that all Directors receive, in a timely manner, adequate information which is accurate, clear, complete and reliable
- ensures that all key and appropriate issues are discussed by the Board in a timely manner
- leads the Board in establishing good corporate governance practices and procedures for the Company
- encourages efficient and constructive deliberation of issues within the Board
- promotes a culture of openness and debate by facilitating the effective contribution of non-executive Directors to the Company's matters and ensures constructive relations between executive and non-executive directors

Mr. Robert Martin is the Managing Director and Chief Executive Officer of the Company, and is responsible for implementing the strategies set by the Board and for leading the successful day-to-day operation of the Company and the achievement of its financial and operational objectives.

BOARD COMPOSITION

The Board comprises the Chairman (who is also a Non-executive Director), four other Non-executive Directors, four Independent Non-executive Directors and two Executive Directors. Their biographical details are set out on pages 34 to 38 of this annual report. A list of Directors is set out on page 52 of this annual report.

The Directors do not have financial, business, family or other material/relevant relationships with one another.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY

The Company has adopted a Board diversity policy. In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, geographical locations, professional experience, skills, knowledge, length of service, regulatory requirements and the legitimate interests of the Company's principal Shareholders.

After annual assessment by the Nomination Committee before 11 March 2020, the Board considers the current structure, size and composition of the Board to be appropriate in enabling it to perform a balanced and independent monitoring function on management practices to complement the Company's corporate strategy.

NOMINATION POLICY

The Company has adopted a Board nomination policy. The policy sets out the criteria and process in the nomination and appointment of Directors, so as to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company's business, and that all appointments are fair, considered and transparent, that there is a formal procedure for appointments and that succession to the Board is orderly.

When deciding on appointments to the Board and the continuation of those appointments, the Nomination Committee and the Board should consider the integrity, character and other personal qualities of the candidate, the ability of the candidate to devote sufficient time and attention to carry out his or her duties and responsibilities effectively, the candidate's independence, other factors listed in the Board diversity policy, and any other factors considered to be relevant by the Nomination Committee and/or the Board.

Each proposed new appointment or re-election of a Director should be evaluated against the criteria set out in the Board nomination policy by the Nomination Committee, which should make a recommendation to the Board for consideration and, as the case may be, approval. Where the appointment is to be approved by the Shareholders, the Board should make a recommendation to the Shareholders for the Shareholders' approval at the Company's general meeting. Where Shareholders are required to vote on electing or re-electing a Director, the circular accompanying the notice of the relevant general meeting should contain all information on such candidate as required under the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the Board at all times met the requirements of Rule 3.10 of the Listing Rules.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that each Independent Non-executive Director fulfils the independence guidelines set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

CHANGES IN COMPOSITION OF THE BOARD AND BOARD COMMITTEES

From 1 January 2019 to 11 March 2020, the changes in composition of the Board and Board Committees are listed below:

Effective date	Director	Change
27 February 2019	Mr. Sun Yu	Appointed as a Non-executive Director, Chairman of the Board and Chairman of the Nomination Committee
31 December 2019	Mr. Wang Jian	Retired as an Executive Director, Vice Chairman of the Board, Deputy Managing Director and a member of the Strategy and Budget Committee
1 January 2020	Mdm. Zhang Xiaolu	Appointed as an Executive Director, Vice Chairman of the Board, Deputy Managing Director and a member of the Strategy and Budget Committee

Save as disclosed above, there were no other changes to the composition of the Board and Board Committees from 1 January 2019 to 11 March 2020.

CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's final results announcement for the year ended 31 December 2019 dated 11 March 2020, up to 3 April 2020 (being the approval date of this annual report) are set out below:

EXPERIENCE INCLUDING OTHER DIRECTORSHIPS

Mr. Sun Yu, the Chairman and a non-executive Director of the Company, was appointed as a non-executive director of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited with effect from 20 March 2020.

Mr. Wang Zhiheng, a non-executive Director of the Company, was appointed as a director of BOC International Holdings Limited with effect from 22 October 2018 and as a director of Bank of China Group Insurance Company Limited with effect from 6 June 2019, as notified to the Company after 11 March 2020.

Mdm. Zhu Lin, a non-executive Director of the Company, completed her assignment as the Deputy General Manager of Credit Management Department of BOC and is transitioning to a new role within BOC. Her appointment to a new role within BOC is pending regulatory approval.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the existing Non-executive Directors and Independent Non-executive Directors of the Company have been appointed for a fixed term of approximately three years, with formal letters of appointment setting out the key terms and conditions of their appointment. In accordance with Article 97 of the Constitution and pursuant to code provision A.4.2 of the Corporate Governance Code, any Director appointed by the Board during the year shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the term of office of Mdm. Zhang Xiaolu will expire at the forthcoming AGM. Mdm. Zhang Xiaolu, being eligible, offers herself for re-election.

Further, pursuant to Article 90 of the Constitution and code provision A.4.2 of the Corporate Governance Code, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Accordingly, each of Mr. Li Mang, Mdm. Zhu Lin, Dr. Dai Deming and Mr. Antony Nigel Tyler shall retire by rotation at the forthcoming AGM. Each of Mr. Li Mang, Mdm. Zhu Lin, Dr. Dai Deming and Mr. Antony Nigel Tyler, being eligible, offers himself or herself for re-election.

CORPORATE GOVERNANCE REPORT

BOARD MEETING PROCESS AND ATTENDANCE

Four Board meetings were held during the year ended 31 December 2019, in accordance with the Corporate Governance Code. In general, a regular meeting schedule for the year is prepared and approved by the Board, and ad hoc Board meetings are convened as appropriate. Formal notice of regular Board meetings is required to be sent to all Directors at least 14 days before the date of scheduled meetings and a Board agenda and meeting materials are sent to all Board members for review at least three days prior to the scheduled meetings.

The Board agenda for each meeting is approved by the Chairman and the Chief Executive Officer following consultation with other Board members and Senior Management. In addition, in order to facilitate open discussion, the Chairman will meet with the Independent Non-executive Directors, in the absence of other Directors and Senior Management, at least once annually.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings. Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

A typical Board meeting would consist of:

- the presentation of papers to support decisions requiring Board approval
- the presentation of discussion papers and information papers
- a report by the chairman of each Board Committee on matters arising since the last Board meeting
- a management report by the Chief Executive Officer providing an update on the results since the last Board meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- any declarations of interest

CORPORATE GOVERNANCE REPORT

The following table provides relevant details concerning attendance at Board and Board Committee meetings for the year ended 31 December 2019, and other matters:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Strategy & Budget Committee	2019 Annual General Meeting
Meetings held	4	2	1	1	4	4	1
Meetings attended							
Non-executive Directors							
Sun Yu	4			1			1
Li Mang	3				4	3	0
Liu Chenggang	4	2				4	1
Wang Zhiheng	3		1				1
Zhu Lin	3	2			4		1
Executive Directors							
Robert James Martin	4					4	1
Wang Jian (Note 1)	4					4	1
Independent Non-executive Directors							
Dai Deming	4	2	1	1			1
Fu Shula	4	2	1	1			1
Antony Nigel Tyler	4	2			4	4	1
Yeung Yin Bernard	3			1		4	0
Average Attendance	91%	100%	100%	100%	100%	96%	82%

Notes:

1. *Mr. Wang Jian retired on 31 December 2019. Mdm. Zhang Xiaolu was appointed on 1 January 2020 and therefore she is not reflected in this table.*
2. *Certain Directors did not attend certain Board or Board Committee meetings due to other business commitments.*

CORPORATE GOVERNANCE REPORT

TRAINING AND PROFESSIONAL DEVELOPMENT

All the Directors received training and training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as Directors by such means as attendance at seminars and conferences and/or reading materials about financial, commercial, economic, legal, regulatory and business affairs. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills. Each Director has provided to the Company a record of the training they received.

BOARD'S OVERSIGHT OVER RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for establishing, maintaining and reviewing the effectiveness of its risk management and internal controls systems. The Audit Committee oversees the establishment and maintenance and review the effectiveness of risk management and internal control systems on behalf of the Board.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against misstatement or loss.

Good governance begins with the culture of a company, and culture is more important than any process, policy or procedure. The Company strives to always act ethically and with integrity, and this culture begins with the Board and Senior Management and is consistently communicated to all employees, customers, suppliers and partners. The Company has a Code of Conduct that is provided to all new employees, and all employees are required to review the Code of Conduct, and affirm their compliance with it at least annually. Regular training in compliance and ethical standards is provided to all employees.

The Company is also committed to developing and maintaining high professional standards. Opportunities for career development and training are provided to employees. Each department has developed, and regularly updates, policies and procedures to ensure that control systems are in place and are regularly reviewed for effectiveness. Self-reporting of any control deficiencies is encouraged, and departmental leaders provide monthly reports of any control issues to the Company's Internal Control Committee (**ICC**) for discussion and action.

The Board and management each has responsibility to identify and analyse the risk underlying the achievement of business objectives and to determine how such risks should be monitored, evaluated, managed and mitigated. Risk management and internal controls are the day-to-day responsibility of every employee. However, clear organisational structures have been established for risk management and internal control. At the Board level, the Audit Committee and Risk Committee have delegated authority from the Board and these Board Committees report regularly to the Board and make recommendations on Board action. At management level, the Risk Management Committee and ICC have primary oversight of these matters in the day-to-day management of the Company.

CORPORATE GOVERNANCE REPORT

The Company's day-to-day control environment is managed primarily by adherence to its policies and procedures. Each department's policies and procedures contain a detailed description of the key processes for which that department is responsible, and these processes may include clear approval procedures, verifications and review and segregation of duties. The Internal Audit Department undertakes audits for compliance with these policies. The Company has in place effective processes and procedures for the identification, documentation, verification and reporting of operational, financial and compliance-related information.

Detailed control guidelines have been set and made available to all employees of the Company about the handling and dissemination of corporate data which is price sensitive. Systems and procedures are in place to identify, control and report on major risks, including business, safety, legal, financial, environmental and reputational risks. Exposures to these risks are monitored by the Board with the assistance of various committees and the Senior Management.

The Company conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review is coordinated by the Company's Internal Audit Department which, after management and various business departments have performed their self-assessment and management has confirmed the effectiveness of the relevant systems, then carries out an independent examination and other post assessment work on the review process and results. The review also considers the adequacy of resources, employee qualifications and experience and training of the Company's accounting, financial reporting and internal audit functions. The results of the 2019 review, which have been reported to the Audit Committee and the Board, revealed that the Company's risk management and internal control systems were effective and adequate.

INTERNAL AUDIT

The Company has an Internal Audit Department. The Internal Audit Department performs regular independent reviews of key risk areas and monitors compliance with the Company's accounting, financial and operational procedures.

The Internal Audit Department assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The internal audit plan, which is prepared based on risk assessment methodology, is discussed and approved by Audit Committee every year. In addition to its agreed annual schedule of work, the Internal Audit Department conducts other special reviews as required. The Head of Internal Audit has direct access to the Audit Committee. Audit reports are sent to the Audit Committee and copied to the Managing Director and Chief Executive Officer, Senior Management in charge and the relevant management of audited departments. A summary of major audit findings and recommendations as well as the remediation plan status are reported to the Audit Committee on regular basis. As a key criterion of assessing the adequacy and effectiveness of the Group's risk management and internal control systems, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY STATEMENT IN RELATION TO FINANCIAL STATEMENTS

The following statement should be read in conjunction with the auditor's statement of their responsibilities as set out in the auditor's report. The statement aims to distinguish the responsibilities of the Directors and the auditor in relation to the financial statements.

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50, applicable disclosure requirements of the Hong Kong Companies Ordinance, International Financial Reporting Standards and the Listing Rules. In addition, the Directors are responsible for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

The Directors consider that in preparing the financial statements, the Company has adopted appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

BOARD DELEGATION

Responsibility for delivering on the Company's strategies and objectives, as approved by the Board, and responsibility for day-to-day management is delegated to the Chief Executive Officer, who has been given clear guidelines and directions as to his powers and in particular the circumstances in which the Chief Executive Officer must report back to, or obtain the prior approval of, the Board before making commitments on behalf of the Company. In addition, the Company's Management Committee has clear delegated authority from the Board to approve new transactions that meet certain criteria, and the Company has a well-established and developed committee and internal governance framework for managing its day-to-day business.

BOARD COMMITTEES

The Board has established five standing Board Committees to assist in performing its responsibilities. They are the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Committee, and the Strategy and Budget Committee. In addition, the Board will authorise an Independent Board Committee comprising all Independent Non-executive Directors as and when required to review, approve and monitor connected transactions, including continuing connected transactions.

Each of the Board Committees has well-defined terms of reference and makes recommendations to the Board on relevant matters within its scope of responsibilities or makes decisions under appropriate circumstances in accordance with power delegated to it by the Board. In addition, the Board and each of the Board Committees evaluates and reviews its process and effectiveness annually, with a view to identifying areas for further improvement.

CORPORATE GOVERNANCE REPORT

Details including the composition of the Board and each of the Board Committees, roles and functions of each of the Board Committees, terms of reference of each of Audit Committee, Remuneration Committee and Nomination Committee and Procedures for Shareholders to Propose a Person for Election as a Director are available on the Company's website.

The table below sets out the chairman and members of each Board Committee as at 11 March 2020:

Director	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Strategy and Budget Committee
Mr. Sun Yu			C		
Mdm. Zhang Xiaolu					M
Mr. Robert James Martin					M
Mr. Li Mang				M	M
Mr. Liu Chenggang	M				C
Mr. Wang Zhiheng		M	M		
Mdm. Zhu Lin	M			M	
Dr. Dai Deming	C	M	M		
Mr. Fu Shula	M	C	M		
Mr. Antony Nigel Tyler	M			C	M
Dr. Yeung Yin Bernard			M		M

Explanatory notes:
C means committee chairman
M means committee member

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee comprises five members, as set out in the table above, a majority of which are Independent Non-Executive Directors.

The Audit Committee's main duties include reviewing the following matters:

- the completeness, accuracy and integrity of the Company's financial statements and financial reporting process
- the Company's significant accounting policies and practices
- the Company's financial reporting system, risk management and internal control systems
- the relationship with, engagement of and remuneration of the Company's external auditors
- the effectiveness of the Company's internal audit function

The Audit Committee held two meetings during the year ended 31 December 2019 and its main work included its:

- review, and recommendation to the Board for approval, of the Company's final results announcement, including the financial statements, for the year ended 31 December 2018
- review, and recommendation to the Board for approval, of the Company's interim results announcement, including the financial statements, for the six-month period ended 30 June 2019
- recommendation to the Board for approval of the re-appointment and remuneration of the external auditor of the Company, review and approval of the external audit plan and any external audit reports, and monitoring of the external auditor's independence and objectivity
- review and approval of the internal audit budget for 2020, and review of the effectiveness of the internal audit function of the Company
- review of the effectiveness of the Company's risk management and internal control systems

NOMINATION COMMITTEE

The Nomination Committee comprises five members, as set out in the table above, a majority of which are Independent Non-executive Directors.

The Nomination Committee's main duties include reviewing the following matters:

- the selection and nomination of Directors, Board Committee members and Senior Management
- the structure, size and composition of the Board and Board Committees
- the effectiveness of the Board and Board Committees

CORPORATE GOVERNANCE REPORT

The Nomination Committee held one meeting during the year ended 31 December 2019, supplemented by the circulation of written resolutions, and its main work included its:

- reviewing and recommendation to the Board of the new Executive Director and other Senior Management appointments
- consideration of succession planning for the Company in general
- evaluation of the Board and Board Committees
- review of the Board Diversity Policy and the Nomination Committee's terms of reference

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, as set out in the table above, a majority of which are Independent Non-executive Directors.

The Remuneration Committee's main duties include the following matters:

- reviewing the Company's policy and structure for all Directors' and Senior Management remuneration and making recommendations to the Board with respect to such policy and structure
- determining, with delegated responsibility, regarding remuneration of Executive Directors or Senior Management members
- ensuring that no Director or any of his associates is involved in deciding his own remuneration
- reviewing and approving management's remuneration proposals with reference to the Board's goals and objectives

The Remuneration Committee held one meeting during the year ended 31 December 2019 and its main work included its:

- providing input to the Strategy and Budget Committee and the Board with respect to the Company's staff costs budget for 2020
- reviewing and recommending the bonus pool based on the Company's Incentive Plan to the Board for approval
- recommending salary increase and discretionary bonus amounts for Executive Directors and Senior Management to the Board for approval
- determining and approving the remuneration of the new Executive Director and other Senior Management appointments
- reviewing remuneration competitiveness against comparable companies' market benchmark
- reviewing the Remuneration Committee's terms of reference

No Director takes part in any discussion about his or her own remuneration. Full details of remuneration of the Directors and the Senior Management are provided in Note 9 to the financial statements.

CORPORATE GOVERNANCE REPORT

RISK COMMITTEE

The Risk Committee comprises three members as set out in the table above. The primary duties of the Risk Committee include:

- conducting regular review of risk factors in the Company's business, including but not limited to customer credit and aircraft asset and portfolio risks, cashflow, liquidity, hedging and funding risks and procurement and technical risks, as well as enterprise risk matters
- regularly reviewing with management new and emerging risks and providing guidance on measures to be taken to mitigate these risks
- reviewing the adequacy of departmental resources, and policies and procedures, to mitigate current and potential future risks
- providing regular reports to the Board on the foregoing
- approving other matters delegated to it by the Board

The Risk Committee held four meetings during the year ended 31 December 2019 and its main work included the following:

- quarterly review of the overall risk status of the Company, including portfolio credit quality and collections status, liability risk management, geo-political risk factors, risk factors impacting the commercial aviation industry generally, and enterprise risk matters
- quarterly status review of technical and procurement risk factors
- review of corporate tax, insurance and vendor risk management matters
- review of key risk indicators for inclusion in the scorecard relating to the Company's long term incentive plan

STRATEGY AND BUDGET COMMITTEE

The Strategy and Budget Committee comprises six members, as set out in the table above. The primary duties of the Strategy and Budget Committee include:

- guiding management in the preparation of the Company's medium to long-term strategic plan for approval by the Board
- reviewing the process for formulating the Company's strategy to ensure that it takes into account a range of alternatives
- reviewing the annual budget prior to Board approval and monitoring performance against budgeted targets
- reviewing and monitoring the Company's business plan and financial budget
- setting corporate targets

CORPORATE GOVERNANCE REPORT

The Strategy and Budget Committee held four meetings during the year ended 31 December 2019 and its main work included the following:

- considering and recommending to the Board for approval the final dividend for full-year 2018
- considering and recommending to the Board for approval the interim dividend for the six-month period ending 30 June 2019
- reviewing and reporting to the Board on developments in market conditions and opportunities relevant to the Company's business, including developments in the lease placement and purchase-leaseback markets and developments relating to the procurement of aircraft
- reviewing and recommending to the Board for approval the 2020 budget and the 2020 Corporate Scorecard
- reviewing and recommending to the Board for approval the Company's 2019 Corporate Scorecard result and certain metrics for the Company's short term and long term incentive plans
- reviewing and reporting to the Board on preliminary work on the Company's next five-year plan

MANAGEMENT STRUCTURE

The Company also has a clear governance framework for managing the day-to-day business which includes the following management committees:

- The **Management Committee** has decision-making authority, delegated from the Board, to approve transactions that meet certain criteria, including leases and lease extensions, purchase and leasebacks, sales, loan and bond financings, hedging, aircraft specification changes and other procurement matters and general administrative matters. The committee is chaired by the Managing Director and Chief Executive Officer. The six members of the Senior Management team and the Chief Risk Officer are members of the committee.
- The **Risk Management Committee** provides an ongoing and forward-looking review of risk factors impacting both parts of the Company's balance sheet, asset/credit risk and liability risk matters. The committee also reviews changes in the external operating environment and the portfolio impact of implementing revenue plans. The committee is chaired by the Managing Director and Chief Executive Officer.
- The **Operations Committee** brings together the main business functions involved in executing the Company's aircraft acquisition, leasing and sales transactions and is involved in day-to-day management of the owned and managed aircraft portfolio, including the heads of the legal and transaction management, risk, technical, portfolio management, procurement, airline leasing and sales and aircraft sales departments. The committee is chaired by the Chief Operating Officer.
- The **Finance Committee** monitors and coordinates issues between the heads of the finance, tax, risk, aircraft sales and treasury departments, including funding requirements, risk issues that may affect collections, aircraft sales and budgeting. The committee is chaired by the Deputy Managing Director and the Chief Financial Officer.

CORPORATE GOVERNANCE REPORT

- The **Investment Committee** reviews the overall investment and divestment environment. The committee is chaired by the Managing Director and Chief Executive Officer.
- The **Revenue Committee** provides guidance and planning for new lease and sales activities, and provides direction to the customer-facing airline leasing and sales and aircraft sales team for prospective new transactions. Approval of the Revenue Committee is typically obtained for proposals falling outside certain parameters. The committee is chaired by the Managing Director and Chief Executive Officer.
- The **Funding Committee** discusses debt markets and funding requirements for the Company. The committee is chaired by the Managing Director and Chief Executive Officer.
- The **Internal Control Committee** monitors compliance with internal processes and procedures and provides direction for any needed improvements thereto. The committee is responsible for oversight of the Company's fraud risk management, anti-bribery and sanctions policies and also evaluates new regulatory or other compliance issues affecting the Company's business. The committee is chaired by the General Counsel.
- The **Disclosure Committee** monitors and approve all disclosures made on the Stock Exchange according to the Listing Rules. The committee is responsible for oversight of the Company's disclosure and the Company's inside information related policies and procedure. The committee is chaired by the Managing Director and Chief Executive Officer.

Further underpinning the Company's overall risk management approach are specific policies and procedures for each department within the Company, together with clear written delegations of authority to specified heads of department, each of which are reviewed, revised and re-approved, as appropriate, on a regular basis.

D&O LIABILITY INSURANCE POLICY

The Company has arranged appropriate insurance cover for the benefit of Directors and officers against liability which may lawfully be insured by the Company.

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company based in Singapore and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with Shareholders and with management. The Company Secretary attended sufficient professional training for the year ended 31 December 2019 to update her skills and knowledge.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has established and implemented the Directors'/Chief Executive Officer's Dealing Policy (the **Dealing Policy**) to govern the Directors' dealings in securities of the Company. Terms of the Dealing Policy are not less exacting than the mandatory standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Listing Rules (the **Model Code**).

Upon specific enquiry by the Company, all Directors confirmed that they complied with the Dealing Policy during the year ended 31 December 2019.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

Independence of the Company's external auditor is very important to Shareholders, the Board and the Audit Committee. The auditor confirms annually to the Audit Committee that they are independent accountants based on Institute of Singapore Chartered Accountants Code of Professional Conduct and Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities and that they are not aware of any matters which could be reasonably thought to bear on their independence. The Audit Committee will assess the independence of the auditor at least annually.

The Board and the Audit Committee are satisfied with the independence, objectivity and effectiveness of Ernst & Young LLP (**EY**), the Company's external auditor, and the effectiveness of its audit procedures. Upon the recommendation of the Audit committee, the Board has proposed that EY be re-appointed as auditor of the Company at the forthcoming AGM. Subject to Shareholders' authorisation, the Board has authorised the Audit Committee to determine the remuneration of EY.

For 2019, the total fees charged by EY and its affiliates were US$0.80 million, of which US$0.38 million was for audit services, US$0.13 million was for audit related services mainly relating to the Company's issuance of notes under its Global Medium Term Note Program and US$0.29 million was for non-audit related services mainly relating to tax compliance and advisory services. Apart from audit services, EY was appointed to provide audit related services and non-audit related services to the Group in relation to matters closely associated with the audit or where EY's understanding of the Group's business was beneficial in improving efficiency and effectiveness. The percentage of fee ratio between audit related services and non-audit related services versus total fees charged was 53.0%, while the percentage of fee ratio between non-audit related services versus total fees charged was 36.6%.

The Audit Committee reviewed the fees paid to EY in 2019 for the purposes of Section 206(1A) of the Singapore Companies Act, Chapter 50, and is satisfied that the non-audit services (comprising audit related and non-audit related services) provided by EY in 2019 did not affect the independence of EY in carrying out their audit services provided to the Group.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

The Board and Senior Management recognise their responsibility to represent the interests of all stakeholders. Frequent and regular communication with our stakeholders is a high priority of the Company.

The methods used to communicate with Shareholders include the following:

- the Head of Investor Relations makes himself available for regular meetings with major Shareholders, investors and analysts. During the year ended 31 December 2019, he and members of Senior Management have participated in numerous meetings, calls and conferences, in Hong Kong and overseas, with Shareholders, investors and analysts
- the Company's website includes electronic copies of financial reports, call transcripts, audio webcasts of analyst presentations, presentation slides, latest news, public announcements and general information about the Company
- publication of interim and annual reports
- publication of press releases and announcements
- the annual general meeting of the Company

PUTTING FORWARD ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns to the Board by post or email to information@bocaviation.com, timothy.ross@bocaviation.com or kelly.kang@bocaviation.com. The relevant contact details are set out in the Investors section of the Company's website.

DIRECTORS' STATEMENT

The Directors are pleased to present this statement and the audited consolidated financial statements of the Group and the statement of financial position of the Company for the financial year ended 31 December 2019. In our opinion:

(a) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

PRINCIPAL ACTIVITIES

The principal activities of the Company, which are conducted in Singapore, are the leasing of aircraft, management of aircraft leases and other related activities. The Company's subsidiaries, which are listed in Note 33 to the financial statements, are also primarily engaged in the leasing of aircraft and other related activities.

BUSINESS REVIEW

Please refer to "Chairman's Statement", "Chief Executive's Comments", "Business and Financial Review", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" sections for a review of the Company's business for the year ended 31 December 2019.

All references above or herein to other sections of this annual report form part of this statement.

ANNUAL GENERAL MEETING

The AGM will be held on 27 May 2020.

RESULTS

The financial performance of the Group for the year ended 31 December 2019 and the financial position of the Group and the Company at that date are set out in the financial statements in Appendix A to this annual report.

DIRECTORS' STATEMENT

DIVIDEND POLICY

The Company's dividend policy is to distribute up to 35% of net profit after tax for a full financial year. The Board has absolute discretion as to whether to declare any dividend for any year, and if it decides to declare a dividend, how much to declare.

DIVIDENDS

The Board has recommended a final dividend of US$0.2153 per Share for the year ended 31 December 2019, amounting to approximately US$149.4 million, subject to the approval of Shareholders at the AGM. If approved, the final dividend will be paid on 12 June 2020 to Shareholders whose names appear on the Register of Members of the Company on the record date, being 4 June 2020. The final dividend will be paid in Hong Kong Dollar, converted from US Dollar at the prevailing market rate at least one week before the dividend payment date.

Together with the interim dividend of US$0.1388 per Share declared in August 2019, the total dividend payout for the year ended 31 December 2019 would be US$0.3541 per Share, representing a total distribution to Shareholders of approximately US$245.7 million.

CLOSURE OF REGISTER OF MEMBERS – ANNUAL GENERAL MEETING

The register of members of the Company will be closed, for the purpose of determining Shareholders' entitlement to attend and vote at the AGM, from 22 May 2020 to 27 May 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to attend and vote at the AGM, all transfer documents, accompanied by the relevant Share certificates, must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 21 May 2020.

CLOSURE OF REGISTER OF MEMBERS – FINAL DIVIDEND

The register of members of the Company will be closed, for the purpose of determining Shareholders' entitlement to the proposed final dividend, from 2 June 2020 to 4 June 2020 (both days inclusive), during which no transfer of Shares will be effected. In order to qualify for entitlement to the proposed final dividend, all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 1 June 2020.

FINANCIAL SUMMARY

The Shares of the Company have been listed on the Main Board of the Stock Exchange since 1 June 2016. A five year financial summary of the Group is set out on page 97 of this annual report.

DIRECTORS' STATEMENT

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group as at 31 December 2019 are set out in Note 12 to the financial statements.

PRE-EMPTIVE RIGHTS

Article 8(A) of the Constitution provides that, subject to any direction to the contrary that may be given by the Company in general meeting, all new Shares shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the number of the existing Shares to which they are entitled. Save for the foregoing, there is no provision for pre-emptive rights under the Company's constitution or the laws of the Republic of Singapore applicable to Singapore companies generally which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

DONATIONS

For the year ended 31 December 2019, the Company donated a total of US$14,000, and employees donated more than US$4,000, for charitable purposes, to the organisations identified in "Our Performance Review" on page 90. We did not make any donation of a political nature.

SHARE CAPITAL

Details of the Shares issued by the Company are set out in Note 28 to the financial statements. There was no movement in the share capital of the Company during the year ended 31 December 2019. Save for the purchase of 1,119,200 Shares at a total consideration of approximately HK$73.4 million under the RSU Plan by the independent trustee (Computershare Hong Kong Trustees), which are held on trust in accordance with the rules of the RSU Plan, there was no purchase, sale or redemption of Shares by the Company or any of its subsidiaries during the year ended 31 December 2019.

PUBLIC FLOAT

Based on information that is publicly available and within the knowledge of the Directors, the Company maintained the prescribed public float of more than 25% of the total issued share capital required under the Listing Rules from 1 January 2019 to the date of this statement.

BANK LOANS, DEBENTURES ISSUED AND OTHER BORROWINGS

Details of the Company's bank loans, debentures issued and other borrowings are set out in Notes 21 and 31 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2019, calculated according to the Companies Act (Cap. 50 of the laws of Singapore), amounted to approximately US$1.9 billion and are set out as retained earnings in the Company's statement of financial position in the financial statements.

DIRECTORS' STATEMENT

CONTINGENT LIABILITIES

Other than corporate guarantees for certain loans extended to the Company's subsidiary companies by the banks and for obligations under certain lease agreements entered into by the subsidiary companies as set out in Note 37 to the financial statements, the Company had no material contingent liabilities as at 31 December 2019.

DIRECTORS

A list of Directors in office at the date of this statement is set out on page 52 of this annual report.

The changes in Board composition, and the biographical details of the Directors and their terms of office are set out on pages 34 to 38 and 45 to 46 of this annual report.

In accordance with Article 90 of the Constitution, Mr. Li Mang, Mdm. Zhu Lin, Dr. Dai Deming and Mr. Antony Tyler will retire at the forthcoming AGM. In addition, Mdm. Zhang Xiaolu will hold office until the forthcoming AGM pursuant to Article 97 of the Constitution. Each of the above retiring Directors, being eligible, will offer himself or herself for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

No Director standing for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in the section headed "Continuing Connected Transactions" in this statement, none of the Directors or entities connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party subsisted during or at the end of the year.

During the year ended 31 December 2019 and as at 31 December 2019, none of the Directors has interests in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

The Constitution requires each Director to observe the provisions of the Singapore Companies Act in relation to the disclosure of his interest in transactions or proposed transactions with the Company or of any office held or property possessed by him which might create duties or interests in conflict with his duties or interests as a Director. The Constitution further provides that a Director shall not vote in respect of any contract or arrangement or any other proposal in which he or any of his close associates has any personal material interest, directly or indirectly, except in certain prescribed circumstances. Please refer to the Constitution available at the Company's website at www.bocaviation.com for further details.

DIRECTORS' STATEMENT

At no time during the year or at the end of the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements whose objects are, or one of whose objects is to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, except for the RSU Plan which is applicable to all employees including the Executive Directors as described below.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The following is a general description of the emolument policy of the Company and the basis of determining the emoluments payable to the Directors.

The remuneration of Directors is recommended to the Company's Shareholders by the Board, which receives recommendations from the Remuneration Committee. The remuneration of Directors must be approved by general resolution at the annual general meeting of the Shareholders of the Company. All of the Independent Non-executive Directors received directors' fees. The Executive Directors and the Non-executive Directors (other than Independent Non-executive Directors) are not entitled to receive any director's fees.

Under the Company's compensation arrangements, the Executive Directors and Senior Management receive cash compensation in the form of salaries as well as annual bonuses that are subject to annual performance targets and other benefits. The Executive Directors and Senior Management may also be remunerated under the RSU Plan described below.

Details of the remuneration of the Directors and a summary of the remuneration of the five highest paid individuals and Senior Management by band for the year ended 31 December 2019 are set out in Note 9 to the financial statements.

RESTRICTED SHARE UNIT LONG TERM INCENTIVE PLAN

The Company adopted the Restricted Share Unit Long Term Incentive Plan on 18 December 2017. The purpose of the RSU Plan is to attract skilled and experienced management and professional employees, to motivate and reward them to maximise profit and long term investment returns for Shareholders by providing them with the opportunity to acquire equity interests in the Company, thereby aligning the respective interests of employees and Shareholders.

Eligible participants of the RSU Plan are selected employees (including Executive Directors) of the Company or any of its subsidiaries. An independent trustee (Computershare Hong Kong Trustees Limited) purchases Shares of the Company from the market and holds such Shares on trust in accordance with the rules of the RSU Plan. The RSU Plan will not involve any issue of new Shares by the Company.

The RSU Plan is a discretionary scheme, and does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purposes of Chapter 17 of the Listing Rules. For more information on the RSU Plan, please refer to the Company's announcement dated 31 January 2018 on the websites of the Stock Exchange and the Company.

DIRECTORS' STATEMENT

During the year ended 31 December 2019, the Company granted awards under the RSU Plan on 3 May 2019 as set out below:

RSU Participants	Position	Number of Shares underlying the RSUs granted	Approximate percentage of the total issued share capital (%)
Mr. Robert James MARTIN	Executive Director	173,335	0.02
Mr. WANG Jian	Executive Director#	49,755	0.01
Certain directors of subsidiaries of the Company	Subsidiary Directors	339,746	0.05
Employees of the Group other than Executive Directors and Subsidiary Directors	—	590,859	0.09
Total		**1,153,695**	**0.17**

At the time of grant. Mr. Wang Jian retired on 31 December 2019.

Subject to the terms and conditions of the RSU Plan and the fulfilment of all conditions to the vesting of the awards, the Shares underlying each RSU award will vest in favour of the relevant RSU Participants (as set out in the table above) in accordance with the RSU Plan. For more information on the grant of awards under the RSU Plan on 3 May 2019, please refer to the Company's announcement dated 3 May 2019 on the websites of the Stock Exchange and the Company.

DIRECTORS' STATEMENT

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS IN SHARES AND DEBENTURES

As at 31 December 2019, interests of the Directors or the Chief Executive Officer or their respective associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO and section 164 of the Singapore Companies Act, Cap. 50 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2019 were as follows:

LONG POSITION (ORDINARY SHARES)

Name of Director	Number of underlying Shares held under equity derivatives (Note)	Approximate percentage of total issued share capital (%)
Mr. Robert James MARTIN	372,708	0.05
Mr. WANG Jian#	84,645	0.01

As at 31 December 2019. Mr. Wang Jian retired on 31 December 2019.

Note: *These represent the number of the RSUs which were granted to the Directors. Please see "Restricted Share Unit Long Term Incentive Plan" above for details.*

Mr. Sun Yu has a personal interest in 10,000 H shares of Bank of China Limited, which is a controlling shareholder of the Company, representing approximately 0.0000001% of the total issued H share capital of Bank of China Limited.

None of the Directors or the Chief Executive Officer of the Company or their respective associates had any short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO and section 164 of the Singapore Companies Act, Cap. 50 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2019.

DIRECTORS' STATEMENT

SUBSTANTIAL SHAREHOLDERS

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2019, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Shareholder	Capacity/Nature of interest	Number and class of Shares held	Approximate percentage of total issued share capital (%)
Central Huijin Investment Limited	Interest of controlled corporation (L)	485,807,334 (Ordinary)	70
BOC	Interest of controlled corporation (L)	485,807,334 (Ordinary)	70
BOCGI	Interest of controlled corporation (L)	485,807,334 (Ordinary)	70
Sky Splendor Limited	Beneficial owner (L)	485,807,334 (Ordinary)	70
Pandanus Associates Inc.	Interest of controlled corporation (L)	34,717,000 (Ordinary)	5
Pandanus Partners L.P.	Interest of controlled corporation (L)	34,717,000 (Ordinary)	5
FIL Limited	Interest of controlled corporation (L)	34,717,000 (Ordinary)	5

Notes:

1. *BOCGI holds the entire issued share capital of Sky Splendor Limited. Accordingly, BOCGI is deemed to have the same interests in the Company as Sky Splendor Limited for the purpose of the SFO. Sky Splendor Limited directly holds 485,807,334 Shares.*

2. *BOC holds the entire issued share capital of BOCGI, which in turn holds the entire issued share capital of Sky Splendor Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCGI and Sky Splendor Limited for the purpose of the SFO. Sky Splendor Limited directly holds 485,807,334 Shares.*

3. *Central Huijin Investment Limited holds the controlling stake in the equity capital of BOC. Accordingly, for the purpose of the SFO, Central Huijin Investment Limited is deemed to have the same interest in the Company as BOC.*

4. *Pandanus Partners L.P. controls more than one-third of voting rights in FIL Limited. Accordingly, for the purpose of the SFO, Pandanus Partners L.P. is deemed to have the same interest in the Company as FIL Limited, which has an interest in 34,717,000 Shares.*

5. *Pandanus Associates Inc. holds the entire issued share capital of Pandanus Partners L.P. Accordingly, for the purpose of the SFO, Pandanus Associates Inc. is deemed to have the same interest in the Company as Pandanus Partners L.P.*

DIRECTORS' STATEMENT

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2019, so far as the Directors are aware, no other persons or corporations had 5% or more interests or short positions in Shares and underlying shares of the Company which were recorded in the register maintained by the Company under section 336 of the SFO. Subsequent to 31 December 2019, so far as the Directors are aware, FIL Limited, Pandanus Partners L.P. and Pandanus Associates Inc. no longer had 5% or more interests in the shares of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

PERMITTED INDEMNITY

Pursuant to the Constitution, every Director shall be entitled to be indemnified by the Company against all liabilities incurred by him/her to the extent permitted by the Companies Act (Cap. 50 of Singapore). The Company has maintained insurance for the benefit of Directors against liability which may lawfully be insured by the Company.

SHARE OPTION SCHEME

The Company has not adopted a share option scheme.

EQUITY-LINKED AGREEMENTS

Save for the RSU Plan, no equity-linked agreements were entered into by the Company during the year ended 31 December 2019 or subsisted as at 31 December 2019.

SHARES UNDER OPTION

No options over unissued Shares of the Company or its subsidiaries were granted by the Company or its subsidiaries, or exercised, during the year ended 31 December 2019 or subsisted as at 31 December 2019.

MAJOR CUSTOMERS

In the year of 2019, the five largest customers of the Group accounted for less than 30% of the total of lease rental income of the Group.

DIRECTORS' STATEMENT

MAJOR SUPPLIERS

The largest suppliers of the Group in terms of capital expenditure are Airbus and Boeing which are aircraft suppliers. Aircraft purchases from Airbus and Boeing accounted for approximately 97% of total capital expenditure (excluding purchase and leaseback transactions) in 2019. Together with three other suppliers, the total purchases from the five largest suppliers of the Group accounted for approximately 98% of total capital expenditure of the Group (excluding purchase and leaseback transactions).

The five largest suppliers to the Group are independent third parties and, to the best knowledge and belief of the Directors, none of the Directors or their close associates or any Shareholders (which to the knowledge of the Directors beneficially own more than 5% of the Shares) had any interest in any of the five largest suppliers in 2019 (to the extent applicable to such suppliers).

CONTINUING CONNECTED TRANSACTIONS

The following transactions constituted continuing connected transactions under the Listing Rules during the year ended 31 December 2019:

A. BANK DEPOSITS

1. Bank deposits with the BOC Group (other than the BOCHK Holdings Group)

   The Group had bank deposit accounts with the Singapore and Tianjin branches of BOC in the ordinary and usual course of its business and on normal commercial terms. The Company entered into a framework agreement with BOC (the **BOC Deposit Framework Agreement**) on 12 May 2016 to govern all existing and future bank deposits with the BOC Group (other than the BOCHK Holdings Group) with effect from the Listing Date.

   The maximum daily balance of deposit placed by the Group with the BOC Group (other than the BOCHK Holdings Group) (including interest accrued thereon) for the year ended 31 December 2019 was approximately US$113 million and it had not exceeded the applicable cap during the year ended 31 December 2019.

2. Bank deposits with the BOCHK Holdings Group

   The Group had bank deposit accounts with BOCHK in the ordinary and usual course of its business and on normal commercial terms. The Company entered into a framework agreement with BOCHK Holdings (the **BOCHK Deposit Framework Agreement**) on 12 May 2016 to govern all existing and future bank deposits with the BOCHK Holdings Group with effect from the Listing Date.

   The maximum daily balance of deposits placed by the Group with the BOCHK Holdings Group (including interest accrued thereon) for the year ended 31 December 2019 was US$209 million and it had not exceeded the applicable cap during the year ended 31 December 2019.

DIRECTORS' STATEMENT

OTHER TERMS

The BOC Deposit Framework Agreement and the BOCHK Deposit Framework Agreement provide that all deposits of funds with the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, must be (i) in the ordinary and usual course of business of the Group and the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, (ii) on an arm's length basis, (iii) on normal commercial terms and terms which are no less favourable than (a) those available to the Group from independent third parties and (b) those offered by the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, to independent third parties for similar or comparable deposits and (iv) in compliance with, amongst other things, the Listing Rules and applicable laws.

Each of the BOC Deposit Framework Agreement and the BOCHK Deposit Framework Agreement expires on 31 December 2021 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the BOC Deposit Framework Agreement or the BOCHK Deposit Framework Agreement, as the case may be.

B. SECURED LOANS AND OTHER BANKING SERVICES

1. Secured loans and other banking services from the BOC Group (other than the BOCHK Holdings Group)

   The Group did not enter into any secured loans with the BOC Group (other than the BOCHK Holdings Group) during the year ended 31 December 2019 and no secured loans with BOC Group (other than the BOCHK Holdings Group) were outstanding as at 31 December 2019.

   The BOC Group (other than the BOCHK Holdings Group) may in the future provide services as facility agent, arranger and/or security trustee in respect of any credit facilities provided by the BOC Group (including the BOCHK Holdings Group) to the Group (the **Other Banking Services**).

   The Company entered into a framework agreement with BOC (the **BOC Loan Framework Agreement**) on 12 May 2016 to govern all existing and future secured loans from the BOC Group (other than the BOCHK Holdings Group) and the provision of the Other Banking Services with effect from the Listing Date.

   The aggregate of the outstanding principal amount of the secured loans from the BOC Group (other than the BOCHK Holdings Group) and the fees paid for the provision of the Other Banking Services by the BOC Group (other than the BOCHK Holdings Group) for the year ended 31 December 2019 was nil and it had not exceeded the cap of US$500 million for the year ended 31 December 2019.

DIRECTORS' STATEMENT

2. Secured loans and other banking services from the BOCHK Holdings Group

   The Group did not enter into any secured loans with BOCHK during the year ended 31 December 2019 and no secured loans with BOCHK were outstanding as at 31 December 2019.

   BOCHK had provided services as facility agent, arranger and security trustee in respect of the loans provided by various branches of BOC to the Group (the **Other Banking Services**).

   The Company entered into a framework agreement with BOCHK Holdings (the **BOCHK Loan Framework Agreement**) on 12 May 2016 to govern all existing and future secured loans from the BOCHK Holdings Group and the provision of the Other Banking Services with effect from the Listing Date.

   The aggregate of the outstanding principal amount of the secured loans from the BOCHK Holdings Group and the fees paid for the provision of the Other Banking Services by the BOCHK Holdings Group for the year ended 31 December 2019 was nil and it had not exceeded the cap of US$500 million for the year ended 31 December 2019.

OTHER TERMS

The BOC Loan Framework Agreement and the BOCHK Loan Framework Agreement provide that all loans from the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, for which security over the assets of the Group is provided must be (i) in the ordinary and usual course of business of the Group and the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, (ii) on an arm's length basis, (iii) on normal commercial terms and terms which are no less favourable than (a) those available to the Group from independent third parties and (b) those offered to independent third parties by the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, for similar or comparable loans and (iv) in compliance with, amongst other things, the Listing Rules and applicable laws.

The BOC Loan Framework Agreement and the BOCHK Loan Framework Agreement provide that the relevant Other Banking Services provided must be (i) in the ordinary and usual course of business of the Group and the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, (ii) on an arm's length basis, (iii) on normal commercial terms and terms which are no less favourable than (a) those available to the Group from independent third parties and (b) those charged by the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, to independent third parties for similar or comparable services and (iv) in compliance with, amongst other things, the Listing Rules and applicable laws.

The BOC Loan Framework Agreement and the BOCHK Loan Framework Agreement also provide that all existing and future secured loan agreements (including in relation to the relevant Other Banking Services) which may from time to time be entered into between members of the Group and members of the BOC Group (other than the BOCHK Holdings Group) or the BOCHK Holdings Group, as the case may be, may be for a term of up to 10 years. The Company considers that it is normal business

DIRECTORS' STATEMENT

practice for aircraft financing agreements to be for a term of 10 years and the Company's secured loans obtained from other third party financial institutions are typically for a term of seven to 12 years.

Each of the BOC Loan Framework Agreement and the BOCHK Loan Framework Agreement expires on 31 December 2025 and is automatically renewable for successive periods of ten years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the BOC Loan Framework Agreement or the BOCHK Loan Framework Agreement, as the case may be.

C. ANNUAL REVIEW

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the Independent Non-Executive Directors, who confirmed that the continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

In accordance with paragraphs 14A.56 and 14A.71(6) (b) of the Listing Rules, the Board engaged the auditor of the Company to report on the Company's continuing connected transactions. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions and confirmed that nothing has come to their attention that cause them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group as stated in this annual report;

(iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the continuing connected transactions; and

(iv) have exceeded their respective annual caps for the financial year ended 31 December 2019 set out in the prospectus or previous announcements of the Company.

In accordance with paragraph 14A.57 of the Listing Rules, a copy of the auditor's letter has been provided by the Company to the Stock Exchange at least 10 business days before the bulk printing of this annual report.

The Company has complied with the requirements of Chapter 14A of the Listing Rules in relation to the connected transactions and continuing connected transactions to which any Group member was a party during the year ended 31 December 2019. Please refer to Note 35 to the financial statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2019. Other than those transactions disclosed in the section headed "Continuing Connected Transactions" above, none of these transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

DIRECTORS' STATEMENT

DEBENTURES ISSUED

In 2019, the Company issued the following debentures to raise funds to fund capital expenditure and our general corporate expenses:

Class	Amount issued	Term
Senior Unsecured Notes	US$500,000,000	5 years
Senior Unsecured Notes	HK$450,000,000	7 years
Senior Unsecured Notes	US$750,000,000	5.5 years
Senior Unsecured Notes	A$200,000,000	10 years
Senior Unsecured Notes	US$650,000,000	10 years

Please refer to Note 21 to the financial statements for details of debentures.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and policies adopted by the Company and discussed auditing, internal controls and financial reporting matters. The Audit Committee has also reviewed the audited financial statements of the Group for the year ended 31 December 2019.

AUDITOR

Ernst & Young LLP will retire and a resolution for their reappointment as the Company's auditor will be proposed for approval at the AGM.

On behalf of the Board

BOC Aviation Limited

SUN Yu	**Robert James MARTIN**
Chairman	*Executive Director*

Singapore, 11 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report for 2019 reports to Shareholders and other stakeholders the steps we are taking to achieve a more sustainable business model, contribute to a more sustainable environment and continue to build our strong governance culture. We prepare this report annually as required under the Listing Rules.

BOC Aviation is a world-class aircraft operating lessor with a portfolio of young, fuel-efficient aircraft leased to a diversified global customer base of 93 airlines in 41 countries and regions. As at 31 December 2019, all of our 166 aircraft on order comprised latest technology aircraft which, in the case of the new technology narrow body aircraft, are at least 20%[1] more fuel efficient than those that they are replacing. The weighted average age of our owned aircraft portfolio was 3.1 years at 31 December 2019, one of the youngest in the aircraft operating lease industry.

In 2019, we complied with the relevant laws and regulations in relation to our business in all material respects and there were no material breaches or violations by us of applicable laws or regulations that would have a material adverse effect on our business or financial condition taken as a whole.

GOVERNANCE

The Board has overall responsibility for the Company's ESG strategy and reporting. The Board is responsible for evaluating and determining the Company's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

Please refer to pages 40 to 59 under the section headed "Corporate Governance Report" in this annual report for details of the corporate governance policy and practices of the Company and our internal governance framework.

OUR ENVIRONMENTAL COMMITMENTS TO ADDRESS CLIMATE-CHANGE

BOC Aviation commits to promoting efficient use of resources and reducing waste. Our efforts are reflected in our sustainable business model and our electronic communications efforts.

We are a core part of the supply chain in the aviation industry and own one of the youngest and most fuel-efficient aircraft portfolios. We provide our customers with operating leased aircraft that deliver from our orderbook as well as capital to finance their own orders via purchase and leaseback (**PLB**) transactions. While we do not operate the aircraft that we own and cannot directly control the greenhouse gas emissions of aircraft operated by our airline customers, our business model of investing in and providing fleet solutions to our customers to finance young and fuel efficient aircraft contributes to reduced global carbon emissions and addresses climate-change issues.

[1] *Source: Airbus's and Boeing's websites.*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Many of BOC Aviation's customers are members of IATA and are dedicated to the industry's environmental targets. BOC Aviation is a strategic partner in IATA and supports its work on environmental and other issues. By working with all stakeholders to address issues in climate change, IATA has adopted a four-pillar action plan[1] that comprises improved technology including the deployment of sustainable low-carbon fuels, more efficient aircraft operations, improved infrastructure including air traffic management systems, and a harmonized market-based measure to address any remaining emissions gap.

In addition, in 2016, the International Civil Aviation Organisation (**ICAO**) implemented a Carbon Offsetting and Reducing Scheme for International Aviation (**CORSIA**), the world's first global carbon offsetting scheme, addressing the industry's commitment to carbon neutral growth from 2020. Airlines are required to monitor and report fuel emissions from 2019 as guided by CORSIA. From 2021, airlines will be required under CORSIA to purchase carbon offsets to compensate any increase in CO_2 emissions that are above 2020 levels. ICAO estimates that CORSIA will help to mitigate more than 2.5 billion tonnes of CO_2 and generate at least US$40 billion in climate finance between 2021 and 2035.

Separately the Aviation Working Group (**AWG**), of which BOC Aviation is a member, established a taskforce to assess and address environmental issues related to aviation financing and leasing. The AWG has also developed a statement of principles on the impact of environmental regulations and supports global initiatives to substantially lower and offset carbon emissions, with the support extended to ICAO's CORSIA. The AWG is a non-profit legal entity that comprises major aviation manufacturers, leasing companies and financial institutions that contribute to the development of policies, laws and regulations to facilitate advanced international aviation financing and leasing, including environmental impacts.[2]

BOC Aviation is committed to supporting the aviation industry to reduce global carbon emissions by building a more efficient fleet to address climate changes. In 2019, we added US$3.3 billion of latest technology aircraft to our balance sheet, including our first Airbus A330NEO aircraft, and sold US$0.7 billion of older aircraft models. As at 31 December 2019, all of the aircraft in our orderbook are latest technology aircraft.

1 *IATA (https://www.iata.org/en/policy/environment/climate-change/)*
2 *Source: http://www.awg.aero/project/environmental/*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aircraft Type	Owned Aircraft	Managed Aircraft	Aircraft on Order[1]	Total
Airbus A320CEO family	116	15	0	131
Airbus A320NEO family	50	0	67	117
Airbus A330CEO family	12	3	0	15
Airbus A330NEO family	2	0	6	8
Airbus A350 family	9	0	0	9
Boeing 737NG family	88	15	0	103
Boeing 737 MAX family	6	0	87	93
Boeing 777-300ER	18	4	3	25
Boeing 777-300	0	1	0	1
Boeing 787 family	11	1	3	15
Freighters	5	1	0	6
Total	**317**	**40**	**166**	**523**

In addition, we promote a sustainable environment by using electronic communication to distribute corporate communications to our Shareholders who have consented not to receive printed materials. We have used electronic communication for all interim and annual reports and all other Shareholder communications since the Listing Date. In addition to saving costs, reducing waste and increasing efficiency, using electronic communication is also a way to reduce deforestation and carbon emissions. We intend to continue our electronic communication in the future. Our employees also use video conferencing facilities, including in our discussions with investors, regularly to avoid unnecessary travel.

Our employees travel on commercial flights. We have taken a strong stand against the use of private jets in our travel policy due to their excessive carbon footprint relative to using commercial flights, with no employee travel permitted on private jets for Company business.

Our employees are primarily based in Singapore and operate from rented office space where resource consumption is low and is not tracked under our rental agreements. Due to the nature of our industry and business operations, most of the Environmental KPIs[2] proposed by the Hong Kong Stock Exchange are irrelevant to our business operations, other than those that apply to reporting power and paper consumption. As more than 80% of our employees are based in Singapore, we have presented the relevant figures for the Singapore office only. These are tabulated in the table below along with the Group's total assets at year-end to demonstrate the Company's power and paper consumption in the context of the growth in the underlying business.

1 *Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery.*

2 *HKEX Listing Rules and Guidance: Appendix 27 Environmental, Social and Governance Reporting Guide*

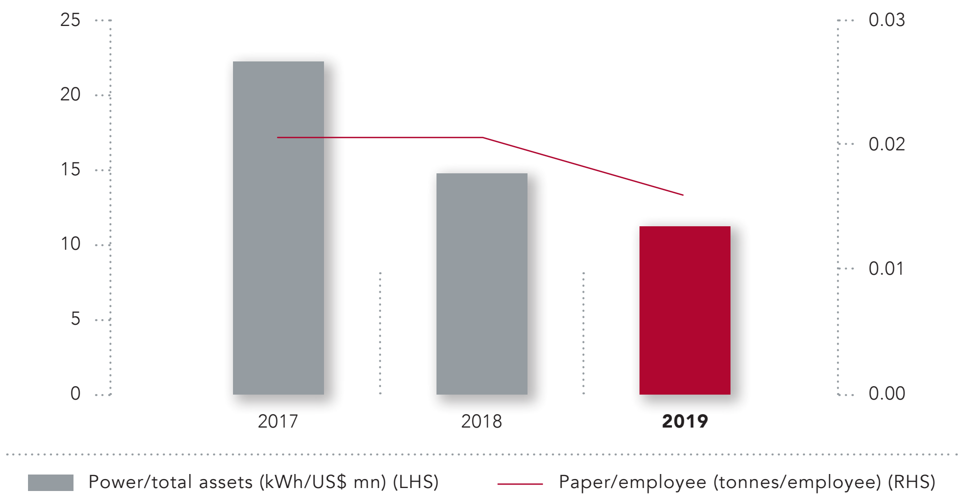
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our power and paper consumption declined 14% and 27%, respectively, compared to 2018 as we focussed on reducing our environmental footprint, including launching a 'GoPaperless' initiative to digitalize our forms and workflows. As compared to 2016, when we issued our initial ESG report, the Company's power consumption per US$1 million of total assets had more than halved by 2019. The total amount of paper recycled was, however, inevitably lower in 2019 due to the lower paper consumption.

Category	Unit	2019	2018	2017
Power	kWh	233,823	272,116	354,239
Office paper	tonnes	3.0	4.1	3.6
Paper recycled	120L bins	69	108	58
Total assets	US$ million	19,764	18,256	16,040

Resource metrics have improved significantly when measured against the scale of our business. Power consumption per US$1 million invested in total assets fell 21% relative to 2018, while paper consumed per employee declined by nearly one third.

UNIT CONSUMPTION METRICS



While we do not operate any of the aircraft that we own, we may be subject to and required to comply with applicable aircraft-related environmental laws and regulations should we repossess any aircraft for the duration of the period that they are off-lease. From 1 January 2019, under CORSIA, all airlines operating international flights except for some exempt from offsetting requirements are required to monitor their fuel consumption emissions and report them to their national authorities. We may benefit from the implementation of CORSIA as airline customers may demand for more fuel efficient latest technology aircraft. We are not aware of any changes in environmental regulations that could potentially impact our operations. The Group does not own or use any corporate aircraft.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HUMAN RESOURCES POLICIES AND PRACTICES

As a global aircraft leasing company with offices in five countries, we are able to attract a diverse workforce and provide our global talent pool with opportunities to leverage a cross-cultural working environment. There are currently 20 nationalities employed by BOC Aviation. We offer competitive salaries and provide benefits to our employees including retirement, health, life, disability and accident insurance coverage. We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, confidentiality and grounds for termination.

We set targets for employees based on their position and periodically assess their performance. The results of such assessments are used in their salary reviews, bonus awards and promotion appraisals. The employee remuneration package generally comprises a basic salary and a discretionary bonus element. In 2019, our employee bonus grants were made under two incentive plans, which were settled in cash and implemented as follows: (i) our short term incentive plan, under the terms of which a bonus was paid to employees when certain key performance indicator targets for each year were met, and (ii) our long term incentive plan, under the terms of which a bonus was paid to selected employees based on the achievement of certain key performance targets including the Group's return on equity, net profit after tax, collection rate and average fleet age at the end of a pre-determined period.

None of our employees are represented by a union or collective bargaining agreement. We believe that we have good employment relationships with our employees.

We have a diverse workforce, 68% of which is below the age of 46, with an almost equal balance of male and female employees that has remained relatively consistent over the review period.

TOTAL WORKFORCE BY AGE GROUP

	% of workforce		
	2019	**2018**	**2017**
Below 35	24	24	22
35-45	44	45	49
46-55	26	24	23
Above 55	6	7	6
Total	**100**	**100**	**100**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

TOTAL WORKFORCE BY GENDER

	% of workforce		
	2019	2018	2017
Female	51	50	52
Male	49	50	48
Total	**100**	**100**	**100**

At BOC Aviation, women accounted for 20% of the Management team[1] and around 50% of the total workforce, as at 31 December 2019. In the last three years, female representation on our management team has consistently averaged approximately 22%. With the arrival of Mdm. Zhang Xiaolu on 1 January 2020, 17% of Senior Management will be female.

As a company headquartered in Singapore, most of our employees are based in Singapore, with UK and Ireland being the other major employment bases.

TOTAL WORKFORCE BY GEOGRAPHY

	% of workforce		
	2019	2018	2017
Singapore (Headquarters)	82	82	85
China	3	2	2
Ireland	6	5	3
UK	7	9	8
USA	2	2	2
Total	**100**	**100**	**100**

The success of our business is substantially attributable to the contributions of our employees. These individuals have the ability to successfully execute our business strategy and many of them have extensive international experience in the aviation industry. Our future success depends significantly on the continued services of our employees and our ability to develop and nurture our employees to continue to contribute to the success of the Company.

All new employees receive a tailored induction briefing upon their arrival. We also provide internal and external training to our employees throughout the year based on the respective business needs.

[1] *The Management team comprises Senior Management and Heads of Department.*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company places great emphasis on talent development and conducted an average of nearly 16 hours of training per employee in 2019, approximately 40% higher than 2018. This represented a record of more than 2,700 hours in external and internal training sessions to enhance our employees' competencies and business knowledge. We also held one group-wide company offsite to communicate our business strategy to all employees and to provide Company-wide training. Additionally there was increased focus on performance coaching during the year, with the identification of leader-coaches. These employees will drive the coaching agenda of the Company, ensuring development and sustained improvement in employee job performance going forward.

The Company advocates continuous professional development. In 2019, we sponsored three employees to pursue diplomas in Accountancy and/or Commerce. Monthly "Lunch & Learn" sessions were conducted to inspire free exchange of ideas, knowledge-sharing on an informal platform, and to promote greater interaction amongst employees from various departments. We are also increasing our use of technology to facilitate sharing among our global offices, with training sessions now being recorded on video and being made available online to our colleagues in other offices.

Female employees received an average training hours of nearly 17 hours each in 2019, which is 18% higher than male employees, and 58% higher than 2018.

AVERAGE TRAINING HOURS BY GENDER

Gender	Average training hours per employee	Total number of training sessions	% of total training hours
Female	16.7	169	55
Male	14.2	126	45
	15.5	**295**	**100**

Training featured across all employee categories, with substantial training hours committed to developing employees who are not in management roles.

AVERAGE TRAINING HOURS BY EMPLOYEE CATEGORY

Category	Average training hours per employee	Total number of training sessions	% of total training hours
Management	13.3	43	12
Other employees	15.8	252	88
	15.5	**295**	**100**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

AVERAGE EMPLOYEE TURNOVER

The average employee turnover rate was around 8% in 2019, in line with the average employee turnover rate in the last three years.

SUCCESSION PLANNING

The Company actively plans for succession for Senior Management and other key roles in the Company, as featured across the changes on the Senior Management team announced in 2019. We welcomed Mdm. Zhang Xiaolu and Mr. Deng Lei, who succeeded Mr. Wang Jian and Mr. Gao Jinyue, respectively, due to retirement. Additionally, Mr. Steven Townend, currently serving as the Company's Chief Commercial Officer (Europe, Americas and Africa), has been appointed Deputy Managing Director and Chief Financial Officer with effect from 1 October 2020. Mr. Phang Thim Fatt will step down as Deputy Managing Director and Chief Financial Officer on 30 September 2020 and will retire in Q4 2020.

BOARD DIVERSITY

The Company has adopted a board diversity policy and considers a number of factors when deciding on appointments to the Board and the continuation of those appointments. These include gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills, knowledge, length of service, regulatory requirements and the legitimate interests of the Company's principal Shareholders. Please refer to page 44 of this annual report for more information.

NOMINATION POLICY

The Company adopted a Board nomination policy which sets out the criteria and process in the nomination and appointment of Directors, so as to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company's business, and that all appointments are fair, considered and transparent, that there is a formal procedure for appointments and that succession to the Board is orderly. Please refer to page 44 of this annual report for more information.

LABOUR STANDARDS

We are aware of the provisions of the United Nations Framework and Guiding Principles on Business and Human Rights and its potential implications for our business. We prohibit the employment of child, forced or compulsory labour in any of our operations. In 2019, we have not identified any operation or supplier as having significant risks of child labour, young workers exposed to hazardous works, or forced or compulsory labour.

The Group is subject to local health and safety requirements. The Group has internal policies and systems in place designed with a view to ensuring compliance with such requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are committed to creating a safe workplace and have emergency evacuation procedures in place for all our offices. All employees participate in the office building's annual fire drill exercise where relevant and in addition to that, we have four employees in our Singapore, London and Dublin offices who have been trained in first aid. Plans are underway to initiate a first aid programme in our Tianjin office. In 2019, we engaged external medical teams to administer onsite influenza vaccinations for all employees globally.

To keep our workplace and employees safe in particular in disasters, we conduct a disaster recovery exercise at least once a year where employees are accounted for, trained and briefed on the necessary actions to take in an emergency. At the same time, systems at a disaster recovery site are tested to ensure that there is no disruption to the business operations in order to minimise inconvenience to the employees and stakeholders.

The Directors believe that in the year ended 31 December 2019, the Group has been in compliance with:

- all general employment related requirements
- all local health and safety requirements

In 2019, there were no material violations of employment-related law or health and safety laws, and we received no complaints of any such violations and there were no material accidents relating to health and work safety in the course of our business operations.

SUPPLY CHAIN MANAGEMENT

The Company has developed a global network of suppliers to support the Company's business and to diversify and manage any potential geographical, environmental and social risks that we face.

As a global aircraft operating leasing company focused on commercial airlines that operate aircraft for more than 100 passengers, BOC Aviation relies mainly on Airbus and Boeing for its aircraft, and GE, CFM, Pratt & Whitney and Rolls Royce for the aircraft engines powering the aircraft types we order. The other key original equipment manufacturers (**OEMs**) that BOC Aviation does business with include aerospace support services providers such as BE Aerospace, Rockwell Collins, Honeywell, and Zodiac.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company also engages third-party suppliers on an as-required basis including (1) maintenance, repair and overhaul (**MRO**) services providers, (2) parts and material suppliers and (3) specialist service suppliers who provide services such as engineering design and ferry flight operation. We have built an extensive global network with various types of third-party service providers. These service providers offer us access to services that are either not practical for an aircraft operating leasing company to maintain or that supplement the resources of our own technical team. As at the end of 2019, our key suppliers of goods and services and those with which we have significant multi-year agreements were located as follows:

Supplier location	Americas	Europe	Asia-Pacific	Rest of the world
OEM	15	19	6	0
MRO	6	11	11	1
Parts	1	2	0	0
Services/others	0	4	1	0
Total	**22**	**36**	**18**	**1**

COMPLIANCE

The Company is firmly committed to a culture of transparency and compliance and we conduct our business affairs with honesty and integrity. One of our core values is our reputation for integrity and professionalism. We have policies and procedures against illegal and unethical behaviour including bribery, fraud, extortion and money laundering.

We take a holistic approach to manage risks in relation to any illegal or unethical business behaviour. To this end, each new hire is given a handbook to promote familiarity with the corporate governance of the Company. In addition, the Company has a code of conduct that specifies the expectations of the Company, and sets important guidelines to ensure that all employees understand, the rules regarding transparent, ethical, professional behaviour. Every new hire is given a formal induction to ensure they are aware of these policies and these values are reiterated to all employees regularly. Every employee certifies annually that they have read, that they understand and that they will abide by the Company's code of conduct. All relevant policies and procedures are published on the Company's intranet for employees' reference.

Our employees are made aware of anti-money laundering/counter-financing of terrorism risks as well as our commitment to data protection. Each year, all employees are required to complete an online compliance training programme with results reported to the ICC, which is responsible for the oversight of the Company's fraud risk management, anti-bribery and sanction policies. The Corporate Compliance Officer will ensure that all employees complete fraud and ethics awareness training and will report to the ICC periodically.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We encourage transparency by providing a method for employees to report suspicious activity through a whistleblower web portal, and we have a clear non-retaliation policy, as described below and establishing our whistleblower and non-retaliation policies. The ICC, chaired by the General Counsel, is responsible for oversight of the Group's fraud risk management, anti-bribery and sanctions policies and also evaluates new regulatory or other compliance issues affecting the Group's business. The Committee typically meets on a monthly basis.

ANTI-BRIBERY

We are committed to conducting our business with high standards of honesty and integrity. We have an anti-bribery policy which provides guidance to all directors, management, employees and consultants of the Company in conducting our business legally and ethically. No employee of the Group or Director may offer or promise gifts, gratuities or anything of value to an officer, director, employee, agent or attorney of a third party with the intent to influence or reward that person in connection with any business or transaction (proposed or actual) of that third party. All employees or Directors must never accept gifts or other benefits from anyone if this could reasonably be perceived as affecting his or her business judgment or decision. Giving or receiving cash or other payments is also not permitted.

The laws most applicable to employees and directors will be those in effect where the Group has offices:

- The Prevention of Corruption Act (Singapore)
- The UK Bribery Act of 2010
- The Foreign Corrupt Practices Act
- The Prevention of Corruption (Amendment) Act (Ireland)
- Criminal Law of the PRC Chapter VIII Graft and Bribery (China)

However it is also necessary to remain equally attentive to compliance with local corruption laws anywhere our business operates.

We recognise that violations of anti-bribery laws and regulations are serious matters that may result in significant criminal and/or civil penalties for the Company, as well as for those individuals involved. Failure to comply with all applicable Singapore and foreign laws and regulations, anti-bribery policy, or the HR Code of Professional Conduct may constitute grounds for termination of employees involved or other disciplinary action taken against them.

We have a dedicated Corporate Compliance Officer in-house to enforce the anti-bribery policy, and our General Counsel is responsible for the overall oversight as Chairperson of the ICC. In 2019, there was no legal case regarding corrupt practices brought against the Company or its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

TRADE SANCTIONS

The scope of our international operations may require us in certain situations to comply with trade and economic sanctions and other restrictions imposed by the United States, the European Union, Singapore, China and other governments or organisations. The U.S. Departments of Justice, Commerce, State and Treasury and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of economic sanctions laws, export control laws, the Foreign Corrupt Practices Act, and other federal statutes and regulations, including those established by the Office of Foreign Assets Control. In addition, the UK Bribery Act of 2010 prohibits both domestic and international bribery, as well as bribery in both private and public sectors. Under these and other laws and regulations, various government agencies may require export licences, may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries or with sanctioned persons or entities, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. A violation of these laws or regulations could adversely impact our business, financial condition and results of operations.

We have implemented and maintained policies and procedures that are designed to monitor and ensure compliance with international sanctions and other applicable laws and regulations. For example, our aircraft lease agreements allow us to terminate the lease if it becomes unlawful to continue to lease the aircraft to the lessee, such as in the case of sanctions being imposed that prohibit dealings with the lessee. If a lessee were to become subject to such sanctions before delivery or during the term of an operating lease, we would seek to exercise our rights to terminate the relevant lease, following which we would seek to re-lease the relevant aircraft to an alternative customer. However, in our Company's 26-year history, we have never had to terminate an aircraft lease for such a reason.

We have undertaken to the Stock Exchange that (i) we will not use funds raised through the Stock Exchange, (a) to finance or facilitate, directly or indirectly, any projects or businesses in Sanctioned Countries or with persons located in other countries who are subject to sanctions or (b) to pay any damages for terminating or transferring contracts relating to Sanctioned Countries or persons subject to sanctions (if any), to the extent that the Company is party to such contracts in the future (whether by reason of a change in sanctions law or otherwise), (ii) we will not enter into any transaction that, at the time of entry into such transaction, is prohibited by applicable sanctions law; and (iii) if we believe that the transactions we have entered into will put us and our investors and Shareholders at the risk of violating sanctions, we will disclose on the Stock Exchange's website, on our website, and in our annual and interim reports our efforts in monitoring our business exposure to sanctions risk, the status of future business, if any, in Sanctioned Countries and our business intention relating to such Sanctioned Countries. If we are in breach of such undertaking to the Stock Exchange, we risk the possible delisting of the Shares from the Stock Exchange. During the year ended 31 December 2019, there were no material violation of sanctions related laws or regulations and we received no complaints of any sanction related laws or regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-MONEY LAUNDERING

We have an anti-money laundering (**AML**) policy that is reviewed annually prohibiting and actively pursuing the prevention of money laundering and any activity that facilitates money laundering or the funding of terrorist, criminal or other illegal activities. We are committed to AML compliance in accordance with applicable laws and require our employees to adhere to these standards in preventing any occurrence of money laundering activities in the course of its business. BOC Aviation will take measures to prevent the Company and its employees being exposed to money laundering, to identify areas in which money laundering may occur and to comply with legal and regulatory requirements, especially in the process for reporting actual or suspected money laundering cases. It is the responsibility of every employee to be vigilant and act promptly in all suspected cases. We therefore strive to have a clear understanding of all prospective customers before entering into any contractual relationship in order to avoid exposure to any customer who would use the Company resources for illegal or fraudulent purposes.

Our risk managers conduct "know your customer" (**KYC**) assessments of potential counterparties, including prospective lessees and aircraft buyers as part of our transaction due diligence, to identify potential risks related to money-laundering, fraud, corruption, terrorist financing and breach of international sanctions. These assessments are conducted using public data sources, information provided by prospective counterparties and specialist software applications. Periodic screening of existing lessees is conducted as part of our annual review process. Implementation of our KYC policy is an essential part of effective risk management practice that contributes to improving the risk profile of our portfolio, as well as protecting our integrity by ensuring that we transact with reputable counterparties maintaining high ethical standards. We are cognizant that KYC is a continuous process as changes may occur after a transaction has commenced. All AML concerns raised by employees and the outcome of any investigation shall be reported to the ICC.

Our employees are required to comply with the highest standards of ethical behaviour in their internal and external-facing activities as set out in our code of professional conduct, deed of undertaking and staff handbook. The Human Resources Department will seek to build AML awareness within BOC Aviation by providing employees with internal and/or external training from AML experts in order to further equip and train employees on AML matters, and incorporating appropriate training into new employee introduction programmes.

WHISTLEBLOWING

We have a whistleblower policy, detailed in the Fraud Risk Management policy and under the overall purview of the Board with responsibilities delegated to the Risk Committee, to encourage and enable the reporting of any improper, illegal or criminal activities by our employees. All reports made by whistleblowers are kept under strict confidentiality, to the extent permitted by law, and any whistleblower making a report in good faith is protected from reprisal. We have a 24-hour whistleblower web portal for employees and counterparties to report concerns about bribery and corruption. The service is managed by a third party provider independent of BOC Aviation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Whistleblower allegations shall be directed to the Corporate Compliance Officer and/or the Head of Human Resources, who will refer such complaints to an investigation panel comprising the General Counsel, the Head of Internal Audit and the Head of Human Resources. As a general principle, where a director or employee is the subject of an investigation, that director or employee shall not be involved in the conduct of that investigation. Accordingly, if a case should arise which is not appropriate for senior management to handle, the Chairman of the Board of Directors may at any point decide to delegate authority to the Audit Committee to arrange the conduct of an investigation directly.

PERSONAL DATA PRIVACY

We comply with the Personal Data Protection Act in Singapore and any other relevant personal data protection legislation in jurisdictions where our employees and our operations are based. The Group has not received any material fines, penalties or complaints associated with the breach of any personal data privacy laws or regulations since the commencement of the Group's operations.

PRODUCT RESPONSIBILITY

We observe and comply with relevant laws and regulatory requirements relating to health and safety, advertising labelling and privacy matters relating to services provided. The Group has not received any material fines, penalties or complaints associated with the breach of any products or services related laws or regulations since the commencement of the Group's operation.

INVESTMENT IN THE COMMUNITY

We participate in various trade, business and industry associations to contribute to the growth and governance of the aviation leasing industry. We also made donations to various non-profit organisations for humanitarian and charitable purposes. We do not provide any donation of a political nature.

We support aviation-based organisations that provide humanitarian services. One such organisation is the aviation industry charity Airlink, which BOC Aviation supports on an annual basis. Airlink was founded in 2010 as a rapid-response humanitarian relief organisation that links airlines with prequalified non-profit organisations. Please visit the homepage of Airlink at www.airlinkflight.org for more information. In 2019, the Bahamas was struck by Hurricane Dorian, the most intense tropical cyclone on record and the worst natural disaster in the country's history. BOC Aviation donated US$10,000 to Airlink's efforts in supporting the victims of Hurricane Dorian. We also helped to spearhead a donation drive to rally support amongst industry counterparts in Asia, which was achieved through email, LinkedIn postings, and promoting Airlink's efforts at industry conferences and public speaking platforms. In early 2020, we have again supported Airlink's aid programme, this time with the goal of supporting the fight against COVID-19.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BOC Aviation expanded our Corporate Social Responsibility activities in 2019 so that we could have a direct impact on the communities around us in our offices around the world. For example:

- The BOC Aviation Singapore team partnered with Waterways Singapore in November 2019 to help clean up the waterways along the Kallang and Singapore River. In total, the team picked up 54kg worth of waste from the waterways in one short afternoon. The initiative was continued from 2018 and well-supported by colleagues, who were also encouraged to involve their children in contributing to Singapore's environmental cleaning efforts. Please visit the homepage of Waterways Watch Society http://www.wws.org.sg for more information.

- Earlier in the year, the Singapore team also organised a food donation drive and packing session with Food From The Heart (**FFTH**) in May 2019, a non-profit charity that reaches out to homes through its food distribution programme in Singapore. In total, BOC Aviation donated S$3,500 worth of food items to FFTH as part of our food donation drive. Please visit the homepage of FFTH https://www.foodfromtheheart.sg/ for more information.

- The BOC Aviation London team spent a day in August 2019 cleaning up and weeding out the gardens at the RNOH Stanmore Hospital in Greater London (an NHS hospital) so that patients recovering from spinal injuries are able to enjoy the hospital's lush greenery.

- The BOC Aviation Dublin team spent a day in July 2019 painting and refreshing the shelters for Aoibhneas, Dublin, a refuge from domestic violence for women and children. Please visit the homepage of Aoibhneas http://www.aoibhneas.ie/for more information.

We also continued as a proud sponsor of the International Society of Transport Aircraft Trading (**ISTAT**) Charity Day at the Paris Air Show 2019. We hosted beneficiaries and their families at the ISTAT Charity Day at the ISTAT Chalet on the last day of the Farnborough Air Show and presented them with our corporate memorabilia as gifts.

At the regional level, we support The Arab Air Carriers Organisation (**AACO**) through the sponsorship of seven scholarships per year for AACO-member airlines. Airlines get to use these scholarships where participants can enrol at regional training centres to learn the skills and knowledge needed to specialize in their desired field. This platform provides an additional training option for airline personnel within the Middle Eastern region, and demonstrates our continued commitment to developing talent and human capital in the thriving region. More information on AACO can be found at https://aaco.org/home.

In addition, we contributed S$5,000 as a donation to the Singapore Community Chest when we participated in CAAS Aviation Community Charity Dinner 2019 Event. Donations went to support more than 80 beneficiaries in Singapore, with more details available at www.comchest.sg.

CONTACT FOR THE ESG REPORT

Stakeholders may send their enquiries and concerns to the Company by post or email to information@bocaviation.com. The relevant contact details are set out in the Investors section of the Company's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR PERFORMANCE REVIEW

Environment **For Singapore office only**	**2019**	**2018**	**2017**
Total power consumption (kWh)	233,823	272,116	354,239
Power consumption per US$1 million of total assets invested (kWh)	11.8	14.9	22.1
Total paper consumption (tonnes)	3.0	4.1	3.6
Paper consumption per employee (tonnes)	0.017	0.024	0.024

People	**2019**	**2018**	**2017**
Average training per employee (hours)	16	11	12
Turnover rate (%)	8.1	5.0	9.9
Number of employees represented by a union or collective bargaining agreement	0	0	0

Diversity & equal opportunity	**2019**	**2018**	**2017**
Proportion of females in the workforce (%)	51	50	52
Proportion of females in the management team (%)	20	22	25
Number of nationalities	20	20	18

Compliance	**2019**	**2018**	**2017**
Number of violation of applicable laws	0	0	0
Number of workplace accidents	0	0	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social/Community Organisations supported	2019	2018	2017
Airlink	√	√	√
Aoibhneas Dublin	√		
Food From The Heart	√		
International Society of Transport Aircraft Trading (ISTAT)	√	√	√
Orbis		√	√
RNOH Stanmore Hospital NHS Trust	√		
Singapore Community Chest	√	√	√
The Arab Air Carriers Organisation (AACO)	√	√	√
The Sovereign Art Foundation		√	
Waterways Singapore	√	√	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMPLIANCE WITH THE HKEX ESG REPORTING GUIDE (APPENDIX 27 OF THE HKEX LISTING RULES)[1]

	Disclosure/Key performance indicators	Relevant section/page number/remarks where applicable
A. ENVIRONMENTAL		
Aspect A1: Emissions	General disclosure: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non- hazardous waste Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations	• Our environmental commitments to address climate change p.74–p.77
	KPI A1.1 The types of emissions and respective emission data	• Our environmental commitments to address climate change p.74–p.77
	KPI A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	• Our environmental commitments to address climate change p.74–p.77 • Our performance overview p.89–p.90
	KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	• Not applicable to our business as we do not manufacture any product
	KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	• Not applicable to our business as we do not manufacture any product

1 *Source: Hong Kong Stock Exchange (https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/h/k/HKEX4476_3841_VER10.pdf)*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Disclosure/Key performance indicators	Relevant section/page number/remarks where applicable
	KPI A1.5 Description of measures to mitigate emissions and results achieved	• Our environmental commitments to address climate change p.74–p.77
	KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	• Not applicable to our business as we do not manufacture any product
Aspect A2: Use of Resources	General disclosure: Policies on the efficient use of resources, including energy, water and other raw materials Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment etc.	• Unit consumption metrics p.77
	KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	• Unit consumption metrics p.77 • Our performance overview p.89–p.90
	KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility)	• Not applicable to our business as we do not manufacture any product
	KPI A2.3 Description of energy use efficiency initiatives and results achieved	• Unit consumption metrics p.77 • Our performance overview p.89–p.90
	KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	• Not applicable as we operate from rented office space where most resource consumption is low and not tracked as part of our rental agreements
	KPI A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	• Not applicable to our business as we do not manufacture any product
Aspect A3: The Environment and Natural Resources	General disclosure: Policies on minimising the issuer's significant impact on the environment and natural resources	• Our environmental commitments to address climate change p.74–p.77 • Unit consumption metrics p.77 • Our performance overview p.89–p.90
	KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	• Our environmental commitments to address climate change p.74–p.77

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Disclosure/Key performance indicators	Relevant section/page number/remarks where applicable
B. SOCIAL		
Aspect B1: Employment	General disclosure: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	• Human Resources Policies and Practices p.78–p.81
	Recommended disclosure: KPI B1.1 Total workforce by gender, employment type, age group and geographical region	• Human Resources Policies and Practices p.78–p.81
	Recommended disclosure: KPI B1.2 Employee turnover rate by gender, age group and geographical region	• Disclosure is not mandatory • Our performance overview p.89–p.90
Aspect B2: Health and Safety	General disclosure: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	• Human Resources Policies and Practices p.78–p.81
	Recommended disclosure: KPI B2.1 Number and rate of work-related fatalities	• Our performance overview p.89–p.90
	Recommended disclosure: KPI B2.2 Lost days due to work injury	• Our performance overview p.89–p.90
	Recommended disclosure: KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored	• Disclosure is not mandatory

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Disclosure/Key performance indicators	Relevant section/page number/remarks where applicable
Aspect B3: Development and Training	General disclosure: Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities Note: Training refers to vocational training. It may include internal and external courses paid by the employer	• Human Resources Policies and Practices p.78–p.81
	Recommended disclosure: KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	• Human Resources Policies and Practices p.78–p.81
	Recommended disclosure: KPI B3.2 The average training hours completed per employee by gender and employee category	• Human Resources Policies and Practices p.78–p.81
Aspect B4: Labour Standards	General disclosure: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	• Labour standards p.81–p.82
	Recommended disclosure: KPI B4.1 Description of measures to review employment practices to avoid child and forced labour	• Labour standards p.81–p.82
	Recommended disclosure: KPI B4.2 Description of steps taken to eliminate such practices when discovered	• Disclosure is not mandatory
OPERATING PRACTICES		
Aspect B5: Supply Chain Management	General disclosure: Policies on managing environmental and social risks of the supply chain	• Supply chain management p.82–p.83
	Recommended disclosure: KPI B5.1 Number of suppliers by geographical region	• Supply chain management p.82–p.83

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Disclosure/Key performance indicators	Relevant section/page number/remarks where applicable
	Recommended disclosure: KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	• Disclosure is not mandatory
Aspect B6: Product Responsibility	General disclosure: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	• Not applicable to our business as we do not manufacture any product
	Recommended disclosure: KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons	• Not applicable to our business as we do not manufacture any product
	Recommended disclosure: KPI B6.2 Number of products and service related complaints received and how they are dealt with	• Not applicable to our business as we do not manufacture any product
	Recommended disclosure: KPI B6.3 Description of practices relating to observing and protecting intellectual property rights	• Not applicable to our business as we do not manufacture any product
	Recommended disclosure: KPI B6.4 Description of quality assurance process and recall procedures	• Not applicable to our business as we do not manufacture any product
	Recommended disclosure: KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored	• Personal data privacy p.87

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Disclosure/Key performance indicators	Relevant section/page number/remarks where applicable
Aspect B7: Anti-corruption	General disclosure: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	• Compliance p.83–p.84 • Anti-bribery p.84 • Trade sanctions p.85 • Anti-money laundering p.86
	Recommended disclosure: KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	• Anti-bribery p.84
	Recommended disclosure: KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	• Whisteblowing p.86–p.87
COMMUNITY		
Aspect B8: Community Investment	General disclosure: Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	• Investment in the community p.87–p.88
	Recommended disclosure: KPI B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	• Investment in the community p.87–p.88 • Our performance overview p.89–p.90
	Recommended disclosure: KPI B8.2 Resources contributed (e.g. money or time) to the focus area	• Investment in the community p.87–p.88

FIVE YEAR FINANCIAL SUMMARY

The financial highlights of the Group for the financial years 2015 to 2019 are summarised below:

	2019 US$'m	2018 US$'m	2017 US$'m	2016 US$'m	2015 US$'m
Statement of Profit or Loss					
Revenues and other income	1,976	1,726	1,401	1,193	1,091
Costs and expenses	(1,201)	(1,040)	(850)	(719)	(690)
Profit before income tax	775	685	551	474	401
Net profit after income tax	**702**	**620**	**587**	**418**	**343**
Statement of Financial Position					
Cash and short-term deposits	287	243	305	558	507
Total current assets	739	257	572	820	754
Total non-current assets	19,025	17,999	15,468	12,625	11,720
Total assets	**19,764**	**18,256**	**16,040**	**13,445**	**12,474**
Total current liabilities	2,141	1,709	1,724	1,190	1,215
Total non-current liabilities	13,043	12,349	10,497	8,873	8,819
Total liabilities	**15,184**	**14,057**	**12,221**	**10,063**	**10,034**
Net assets	**4,581**	**4,199**	**3,819**	**3,382**	**2,440**
Financial ratios					
Earnings per share (US$)[1]	1.01	0.89	0.85	0.60	0.58
Net assets per share (US$)[2]	6.60	6.05	5.50	4.87	4.14
Gearing (times)[3]	2.9	3.0	2.9	2.6	3.7

1 *Earnings per share is calculated by dividing net profit after tax by total number of shares outstanding at 31 December of the relevant year. Number of shares outstanding at 31 December 2016 to 31 December 2019 was 694,010,334 and at 31 December 2015 was 589,908,834.*

2 *Net assets per share is calculated by dividing net assets by total number of shares outstanding at 31 December of the relevant year. Number of shares outstanding at 31 December 2016 to 31 December 2019 was 694,010,334 and at 31 December 2015 was 589,908,834.*

3 *Gearing is calculated by dividing gross debt by total equity of the relevant year.*

CORPORATE INFORMATION

As at 11 March 2020

BOARD OF DIRECTORS

Chairman
SUN Yu*

Vice Chairman
ZHANG Xiaolu

Directors
Robert James MARTIN
LI Mang*
LIU Chenggang*
WANG Zhiheng*
ZHU Lin*
DAI Deming#
FU Shula#
Antony Nigel TYLER#
YEUNG Yin Bernard#

* Non-executive Directors
\# Independent Non-executive Directors

SENIOR MANAGEMENT

Managing Director and Chief Executive Officer
Robert James MARTIN

Deputy Managing Director
ZHANG Xiaolu

Deputy Managing Director and Chief Financial Officer
PHANG Thim Fatt

Chief Operating Officer
David WALTON

Chief Commercial Officer (Europe, Americas and Africa)
Steven TOWNEND

Chief Commercial Officer (Asia Pacific and the Middle East)
DENG Lei

COMPANY SECRETARY

ZHANG Yanqiu Juliana

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

8 Shenton Way
#18-01
Singapore 068811

PLACE OF BUSINESS IN HONG KONG

54th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITOR

Ernst & Young LLP

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

CREDIT RATINGS

S&P Global Ratings
Fitch

STOCK CODES

Ordinary shares: The Stock Exchange of Hong Kong Limited	2588
Reuters	2588.HK
Bloomberg	2588 HK

WEBSITE

www.bocaviation.com

DEFINITIONS

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise:

TERMS	MEANINGS
"AGM"	The annual general meeting of the Company to be held for the purpose of, among others, approving the audited financial statements for the financial year ended 31 December 2019. The meeting will be held on 27 May 2020
"Airbus"	Airbus S.A.S., a societe par actions simplifiee duly created and existing under French law
"Board"	The board of Directors of the Company
"Board Committees"	The five sub-committees of the Board comprising the Audit Committee, the Remuneration Committee, the Nomination Committee, the Strategy and Budget Committee and the Risk Committee
"BOC" or "Bank of China"	Bank of China Limited (中國銀行股份有限公司), a joint stock limited company incorporated in the PRC on 26 August 2004, the H-share and A-shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively and the ultimate controlling shareholder of the Company
"BOC Group"	BOC and its subsidiaries (excluding the Group)
"BOCGI"	Bank of China Group Investment Limited (中銀集團投資有限公司), a company incorporated in Hong Kong with limited liability on 11 December 1984, and a wholly-owned subsidiary of BOC and a controlling shareholder of the Company
"BOCHK"	Bank of China (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on 16 October 1964, and a wholly-owned subsidiary of the BOCHK Holdings
"BOCHK Holdings"	BOC Hong Kong (Holdings) Limited (中銀香港 (控股) 有限公司), a company incorporated in Hong Kong with limited liability on 12 September 2001, the shares of which are listed on the Stock Exchange and a subsidiary of BOC

DEFINITIONS

"BOCHK Holdings Group"	BOCHK Holdings and its subsidiaries
"Boeing"	The Boeing Company, a corporation organised and existing under the General Corporation Law of the State of Delaware, U.S.A., and its affiliates
"Constitution"	The constitution of the Company approved on 12 May 2016 which became effective on the Listing Date
"Company" or "BOC Aviation"	BOC Aviation Limited, a company incorporated under the laws of Singapore with limited liability and listed on the Stock Exchange which, together with its subsidiaries, is engaged in aircraft leasing, aircraft purchase and sale and related business
"Corporate Governance Code"	Appendix 14 Corporate Governance Code and Corporate Governance Report to the Listing Rules
"Dealing Policy"	The Directors'/Chief Executive Officer's Dealing Policy adopted by the Board on 12 May 2016
"Director(s)"	The director(s) of the Company
"Group"	The Company together with its subsidiaries
"HKD", "HK$" or "HK Dollar"	The lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
"IPO"	The initial public offering of the Company the details of which can be found in the prospectus of the Company dated 19 May 2016
"Listing Date"	1 June 2016, being the date on which the Shares of the Company are first listed for trading on the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"NBV"	Net book value
"PLB"	Purchase and leaseback of aircraft
"PDP"	Pre-delivery payment for aircraft
"RSU Plan"	The BOC Aviation Limited Restricted Share Unit Long Term Incentive Plan, which was adopted by the Company in December 2017
"Senior Management"	Managing Director and Chief Executive Officer, Deputy Managing Director, Deputy Managing Director and Chief Financial Officer, Chief Commercial Officer (Europe, Americas and Africa), Chief Commercial Officer (Asia Pacific and the Middle East) and Chief Operating Officer
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder"	A holder of Shares
"Shares"	Ordinary shares in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"USD", "US$" or "US Dollar"	The lawful currency of the United States of America
"USD LIBOR"	The interest rate calculated by reference to the London interbank rate for unsecured funds denominated in US Dollar

BOC AVIATION LIMITED AND
ITS SUBSIDIARY COMPANIES

(Incorporated in Singapore. Registration No. 199307789K)

FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

Contents

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

The directors present their statement to the members together with the audited consolidated financial statements of BOC Aviation Limited (the "Company") and its subsidiary companies (collectively, the "Group") and the statement of financial position of the Company for the financial year ended 31 December 2019.

1. Opinion of the directors

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date; and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

The directors of the Company in office at the date of this statement are as follows:

Sun Yu	Chairman
Zhang Xiaolu	Vice-Chairman and Deputy Managing Director (appointed on 1 January 2020)
Robert James Martin	Managing Director and Chief Executive Officer
Li Mang	Non-executive Director
Liu Chenggang	Non-executive Director
Wang Zhiheng	Non-executive Director
Zhu Lin	Non-executive Director
Dai Deming	Independent Non-executive Director
Fu Shula	Independent Non-executive Director
Antony Nigel Tyler	Independent Non-executive Director
Yeung Yin Bernard	Independent Non-executive Director

3. Arrangements to enable directors to acquire shares and debentures

Except for the "Restricted Share Unit Long Term Incentive Plan" disclosed in section 4 below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares, options and debentures of the Company or any other body corporate.

4. Restricted Share Unit Long Term Incentive Plan

The Company adopted the Restricted Share Unit Long Term Incentive Plan (the "RSU Plan") on 18 December 2017. The purpose of the RSU Plan is to attract skilled and experienced management and professional staff, to motivate and reward them to maximise profit and long-term investment returns for shareholders by providing them with the opportunity to acquire equity interests in the Company, thereby aligning the interests of employees with shareholders.

Eligible participants of the RSU Plan are selected employees (including executive directors) of the Company or any of its subsidiary companies. An independent trustee purchases shares of the Company from the market and holds such shares on trust in accordance with the rules of the RSU Plan. The RSU Plan does not involve any issue of new shares by the Company.

5. Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year had, according to the register required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, interests in shares of the Company or of related companies as stated below:

Restricted share units granted by the Company but not yet vested:

Name of director	At the beginning of financial year or date of appointment	At the end of financial year
Robert James Martin	199,373	372,708
Wang Jian[1]	34,890	84,645

[1] Retired as a director on 31 December 2019

Chairman Sun Yu has an interest in 10,000 H shares of Bank of China Limited, its intermediate holding company, as at the date of appointment as a director of the Company and as at the end of financial year.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares of the Company or of related companies either at the beginning of the financial year, or date of appointment if appointed during the financial year, or at the end of the financial year.

6. Audit Committee

The members of the Audit Committee at the date of this statement are as follows:

Dai Deming	Chairman, Independent Non-executive Director
Antony Nigel Tyler	Independent Non-executive Director
Fu Shula	Independent Non-executive Director
Liu Chenggang	Non-executive Director
Zhu Lin	Non-executive Director

The Audit Committee reviews the Group's statutory financial statements, and the Independent Auditor's Report thereon, with the auditor.

The Audit Committee may examine any aspect of the Group's financial affairs it deems appropriate and also reviews the Group's internal controls over its internal and external exposures to risks including operational, credit, market, legal and regulatory risks. It will keep under review the Group's system of accounting and internal financial controls, for which the directors are responsible.

The Audit Committee has full access to, and the co-operation of, the Group's management and has full discretion to invite any director or executive officer to its meetings. The Deputy Managing Director and Chief Financial Officer, the Chief Accounting Officer and the Head of Internal Audit will normally attend meetings and the auditor will have unrestricted access to the Audit Committee. The Audit Committee has reasonable resources available to enable it to discharge its functions properly and may require the Company to appoint third parties to undertake independent audits of specific areas as it deems appropriate.

7. Auditor

Ernst & Young LLP has expressed its willingness to accept reappointment as auditor. The appointment is subject to shareholders' approval at the forthcoming Annual General Meeting.

On behalf of the Board of Directors:

Sun Yu
Director

Robert James Martin
Director

Singapore
11 March 2020

INDEPENDENT AUDITOR’S REPORT

For the financial year ended 31 December 2019

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BOC AVIATION LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BOC Aviation Limited (the “Company”) and its subsidiary companies (collectively, the “Group”), which comprise the statements of financial position of the Group and the Company as at 31 December 2019, the consolidated statement of changes in equity, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”), International Financial Reporting Standards (“IFRS”) and Singapore Financial Reporting Standards (International) (“SFRS(I)”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matters (continued)

Carrying value of property, plant and equipment - aircraft

The carrying value of aircraft in property, plant and equipment was significant to the audit because the aircraft carrying value (including aircraft classified as held for sale) of US$16,760 million as at the end of the reporting period was material to the financial statements, representing approximately 85% of the Group's total assets. During the year ended 31 December 2019, no impairment loss was recorded on aircraft.

As disclosed in Note 3.1(a) to the financial statements, the Group follows the guidance provided by IAS 36/SFRS(I) 1-36 *Impairment of Assets* in determining whether it is necessary to recognise any impairment loss on an aircraft. Management exercises significant judgement in determining whether there is any indication that any aircraft may have been impaired. This exercise involves management to consider both internal and external sources of information which include but are not limited to: observable indications that the value of aircraft has declined during the period significantly more than would be expected as a result of the passage of time or normal use; aircraft valuation reports provided by external appraisers; significant adverse changes in the expected usage of the aircraft, technological or aviation environment that have taken place or will take place in the near future; significant increase in market interest rates; evidence of obsolescence or physical damage of the aircraft; and worse than expected economic performance of the aircraft. We reviewed management's assessment of whether indicators of impairment were present and assessed the reasonableness of significant judgements used in this review.

In addition, our audit procedures included, amongst others:

- Validating the information used in assessing the financial profitability of individual aircraft by considering the recoverability of lease rental and comparing lease rental revenue to depreciation and costs of financing for that aircraft;
- Validating the utilisation of aircraft;
- Assessing management's judgement on economic and technological relevance of aircraft and engine models in the current aviation demand and supply dynamics;
- Evaluating the competence and objectivity of the experts employed in the Group's methodology to assess whether the value of aircraft has declined significantly; and
- Performing sensitivity analyses on aircraft which were not identified as having indicators of impairment but have a higher risk of impairment due to lower excess when compared to their appraised values, higher age of aircraft or the existence of operational circumstances.

Furthermore, we assessed the adequacy of the Group's disclosures regarding the impairment of aircraft, which are disclosed in Notes 3.1 and 12 to the financial statements.

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, IFRSs and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal controls 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 controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 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 financial statements, including the disclosures, and whether the 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors 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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Tan Seng Choon.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

11 March 2020

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the financial year ended 31 December 2019

	Note	Group 2019 US$'000	Group 2018 US$'000
Revenues			
Lease rental income	42(a)	**1,704,280**	1,542,539
Interest and fee income	4	**99,225**	80,753
Other income:			
Net gain on sale of aircraft	5	**134,287**	90,822
Others		**38,160**	11,485
		1,975,952	1,725,599
Costs and expenses			
Depreciation of property, plant and equipment	12	**609,664**	542,834
Finance expenses	6	**427,991**	353,035
Amortisation of deferred debt issue costs	7	**24,711**	23,186
Amortisation of lease transaction closing costs		**206**	194
Staff costs	8	**79,824**	91,543
Marketing and travelling expenses		**5,671**	5,384
Impairment losses on financial assets	14	**24,748**	–
Other operating expenses	10	**28,211**	24,198
		(1,201,026)	(1,040,374)
Profit before income tax		**774,926**	685,225
Income tax expense	11	**(72,667)**	(64,786)
Profit for the year attributable to owners of the Company		**702,259**	620,439
Earnings per share attributable to owners of the Company:			
Basic earnings per share (US$)	41	**1.01**	0.89
Diluted earnings per share (US$)	41	**1.01**	0.89

The accompanying accounting policies and explanatory notes form an integral part of these financial statements.

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	Group 2019 US$'000	2018 US$'000
Profit for the year		**702,259**	620,439
Other comprehensive income for the year, net of tax:			
Items that may be reclassified subsequently to statement of profit or loss			
Effective portion of changes in fair value of cash flow hedges, net of tax	29	**(104,520)**	(10,718)
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax	29	**2,433**	(9,022)
Total comprehensive income for the year attributable to owners of the Company		**600,172**	600,699

The accompanying accounting policies and explanatory notes form an integral part of these financial statements.

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	Group 2019 US$'000	Group 2018 US$'000
Non-current assets			
Property, plant and equipment	12	**19,002,975**	17,973,481
Lease transaction closing costs		**1,536**	1,286
Derivative financial instruments	13	**1,850**	14,379
Trade receivables	14	**–**	909
Deferred income tax assets	26	**169**	146
Other non-current assets		**18,625**	9,291
		19,025,155	17,999,492
Current assets			
Derivative financial instruments	13	**523**	2,593
Trade receivables	14	**18,232**	7,075
Prepayments		**2,534**	2,451
Other receivables	15	**106,432**	1,629
Short-term deposits	16	**202,935**	152,936
Cash and bank balances	17	**84,191**	90,047
Assets held for sale	18	**324,426**	–
		739,273	256,731
Total assets		**19,764,428**	18,256,223
Current liabilities			
Derivative financial instruments	13	**55,409**	1,536
Trade and other payables	19	**206,298**	156,923
Deferred income	20	**62,397**	63,569
Income tax payables		**431**	599
Loans and borrowings	21	**1,715,233**	1,438,258
Lease liabilities	22	**1,981**	–
Security deposits	24	**34,375**	47,623
Liabilities associated with assets held for sale	18	**64,766**	–
		2,140,890	1,708,508
Net current liabilities		**(1,401,617)**	(1,451,777)
Total assets less current liabilities		**17,623,538**	16,547,715

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

		Group	
	Note	**2019**	2018
		US$'000	US$'000
Non-current liabilities			
Derivative financial instruments	13	**167,086**	122,212
Loans and borrowings	21	**11,590,702**	10,840,469
Lease liabilities	22	**8,587**	–
Security deposits	24	**250,691**	221,529
Deferred income	20	**55,709**	60,445
Maintenance reserves	25	**592,549**	732,133
Deferred income tax liabilities	26	**334,345**	304,800
Other non-current liabilities	27	**42,955**	67,101
		13,042,624	12,348,689
Total liabilities		**15,183,514**	14,057,197
Net assets		**4,580,914**	4,199,026
Equity attributable to owners of the Company			
Share capital	28	**1,157,791**	1,157,791
Retained earnings		**3,515,584**	3,037,898
Statutory reserves		**262**	63
Share-based compensation reserves		**8,021**	1,931
Hedging reserves	29	**(100,744)**	1,343
Total equity		**4,580,914**	4,199,026
Total equity and liabilities		**19,764,428**	18,256,223

The accompanying accounting policies and explanatory notes form an integral part of these financial statements.

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	Company 2019 US$'000	 2018 US$'000
Non-current assets			
Property, plant and equipment	12	**11,855,841**	10,335,964
Lease transaction closing costs		**812**	711
Derivative financial instruments	13	**1,850**	14,379
Trade receivables	14	**–**	909
Amounts due from subsidiary companies	32	**1,424,590**	1,029,400
Investments in subsidiary companies	33	**747,227**	747,427
Other non-current assets		**15,975**	8,195
		14,046,295	12,136,985
Current assets			
Derivative financial instruments	13	**523**	2,593
Trade receivables	14	**12,501**	838
Prepayments		**1,598**	1,593
Other receivables	15	**221,759**	49,051
Short-term deposits	16	**31,730**	105,929
Cash and bank balances	17	**30,766**	13,331
Assets held for sale	18	**197,937**	–
		496,814	173,335
Total assets		**14,543,109**	12,310,320
Current liabilities			
Derivative financial instruments	13	**55,409**	1,536
Trade and other payables	19	**146,778**	106,106
Deferred income	20	**45,182**	42,366
Loans and borrowings	21	**1,271,859**	439,644
Security deposits	24	**11,647**	16,505
Lease liabilities	22	**1,359**	–
Lease liabilities to subsidiary companies	31	**105,614**	108,027
Liabilities associated with assets held for sale	18	**30,667**	–
		1,668,515	714,184
Net current liabilities		**(1,171,701)**	(540,849)
Total assets less current liabilities		**12,874,594**	11,596,136

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Note	Company 2019 US$'000	Company 2018 US$'000
Non-current liabilities			
Derivative financial instruments	13	**167,086**	122,212
Loans and borrowings	21	**8,735,749**	7,662,543
Security deposits	24	**152,858**	125,861
Deferred income	20	**33,860**	30,060
Maintenance reserves	25	**273,529**	319,801
Deferred income tax liabilities	26	**120,337**	93,065
Lease liabilities	22	**6,560**	–
Lease liabilities to subsidiary companies	31	**317,234**	443,790
Other non-current liabilities	27	**34,888**	56,975
		9,842,101	8,854,307
Total liabilities		**11,510,616**	9,568,491
Net assets		**3,032,493**	2,741,829
Equity attributable to owners of the Company			
Share capital	28	**1,157,791**	1,157,791
Retained earnings		**1,923,011**	1,591,555
Share-based compensation reserves		**6,851**	1,657
Hedging reserves	29	**(55,160)**	(9,174)
Total equity		**3,032,493**	2,741,829
Total equity and liabilities		**14,543,109**	12,310,320

The accompanying accounting policies and explanatory notes form an integral part of these financial statements.

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

		Attributable to owners of the Company					
	Note	**Share capital US$'000**	**Retained earnings US$'000**	**Statutory reserves* US$'000**	**Share-based compensation reserves US$'000**	**Hedging reserves US$'000**	**Total equity US$'000**
At 1 January 2018		1,157,791	2,639,874	9	–	21,083	3,818,757
Profit for the year		–	620,439	–	–	–	620,439
Transfers to statutory reserves		–	(54)	54	–	–	–
Other comprehensive income for the year, net of tax	29	–	–	–	–	(19,740)	(19,740)
Total comprehensive income for the year		–	620,385	54	–	(19,740)	600,699
Transactions with owners of the Company:							
Dividends	34	–	(222,361)	–	–	–	(222,361)
Share-based compensation		–	–	–	1,931	–	1,931
At 31 December 2018 and 1 January 2019		**1,157,791**	**3,037,898**	**63**	**1,931**	**1,343**	**4,199,026**
Profit for the year		**–**	**702,259**	**–**	**–**	**–**	**702,259**
Transfers to statutory reserves		**–**	**(199)**	**199**	**–**	**–**	**–**
Other comprehensive income for the year, net of tax	29	**–**	**–**	**–**	**–**	**(102,087)**	**(102,087)**
Total comprehensive income for the year		**–**	**702,060**	**199**	**–**	**(102,087)**	**600,172**
Transactions with owners of the Company:							
Dividends	34	**–**	**(224,374)**	**–**	**–**	**–**	**(224,374)**
Share-based compensation		**–**	**–**	**–**	**6,090**	**–**	**6,090**
At 31 December 2019		**1,157,791**	**3,515,584**	**262**	**8,021**	**(100,744)**	**4,580,914**

* In accordance with statutory requirements in China and France, each subsidiary company in these countries is required to make appropriation of a certain percentage of its annual profit after tax to a statutory reserve until a statutory limit is reached.

The accompanying accounting policies and explanatory notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

	Note	Group 2019 US$'000	Group 2018 US$'000
Cash flows from operating activities:			
Profit before income tax		**774,926**	685,225
Adjustments for:			
Depreciation of property, plant and equipment	12	**609,664**	542,834
Property, plant and equipment written off		**–**	62
Amortisation of deferred debt issue costs	7	**24,711**	23,186
Amortisation of lease transaction closing costs		**206**	194
Interest and fee income	4	**(99,225)**	(80,753)
Net gain on sale of aircraft	5	**(134,287)**	(90,822)
Finance expenses	6	**427,991**	353,035
Impairment losses on financial assets	14	**24,748**	–
Share-based compensation	8	**6,090**	1,931
Maintenance reserves written off	25	**–**	(47)
Operating profit before working capital changes		**1,634,824**	1,434,845
(Increase)/decrease in receivables		**(151,867)**	16,557
Increase in payables		**1,509**	11,457
Increase in maintenance reserves		**56,517**	181,959
Decrease in deferred income		**(1,172)**	(3,082)
Cash generated from operations		**1,539,811**	1,641,736
Security deposits received, net		**39,760**	55,842
Lease transaction closing costs paid		**(546)**	(431)
Income tax paid, net		**(32,913)**	(55,929)
Interest and fee income received		**99,253**	81,454
Net cash flows from operating activities		**1,645,365**	1,722,672
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(3,197,250)**	(4,143,287)
Proceeds from sale of property, plant and equipment		**1,265,693**	1,421,651
Net cash flows used in investing activities		**(1,931,557)**	(2,721,636)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the financial year ended 31 December 2019

	Note	Group 2019 US$'000	Group 2018 US$'000
Cash flows from financing activities:			
Proceeds from loans and borrowings		**3,067,962**	2,140,000
Repayment of loans and borrowings		**(1,231,308)**	(1,247,380)
(Decrease)/increase in borrowings from revolving credit facilities, net		**(799,000)**	644,000
Repayment of lease liabilities		**(1,955)**	–
Finance expenses paid		**(442,665)**	(361,330)
Debt issue costs paid		**(38,325)**	(16,275)
Dividends paid	34	**(224,374)**	(222,361)
Decrease in cash and bank balances - encumbered		**3,672**	50,424
Increase in cash and bank balances - encumbered		**(18,885)**	(7,228)
Net cash flows from financing activities		**315,122**	979,850
Net increase/(decrease) in cash and cash equivalents		**28,930**	(19,114)
Cash and cash equivalents at beginning of year		**222,733**	241,847
Cash and cash equivalents at end of year	30	**251,663**	222,733

The accompanying accounting policies and explanatory notes form an integral part of these financial statements.

1. Corporate information

BOC Aviation Limited (the "Company") is a public company limited by shares and is listed on the main board of The Stock Exchange of Hong Kong Limited. The Company's majority shareholder is Sky Splendor Limited, which is incorporated in the Cayman Islands. Its shareholder is Bank of China Group Investment Limited, incorporated in Hong Kong and owned by Bank of China Limited, incorporated in the People's Republic of China ("PRC"). Bank of China Limited is majority owned by Central Huijin Investment Limited ("Central Huijin"), which is incorporated in the PRC. Central Huijin is a wholly owned subsidiary of China Investment Corporation ("CIC"), which is a wholly state-owned company in the PRC.

The registered address of the Company is 8 Shenton Way, #18-01, Singapore 068811.

The principal activities of the Company, which are conducted in Singapore, are the leasing of aircraft, management of aircraft leases and other related activities. The subsidiary companies are primarily engaged in the leasing of aircraft and other related activities as disclosed in Note 33.

2. Summary of significant accounting policies

2.1 Basis of presentation and preparation

As at 31 December 2019, the Group's and the Company's current liabilities exceeded its current assets by US$1,401.6 million (2018: US$1,451.8 million) and US$1,171.7 million (2018: US$540.8 million), respectively. The financial statements have been prepared on a going concern basis as the management is reasonably confident that the Group will have sufficient resources including committed rental cash flows and unutilised committed banking facilities for it to pay its debts as and when they fall due.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are also prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)") as issued by the Singapore Accounting Standards Council.

The financial statements have been prepared on a historical cost convention, except as disclosed in the accounting policies and explanatory notes below. The financial statements are presented in the Group's functional currency, United States Dollar ("US$" or "US Dollar") and all values are rounded to the nearest thousand (US$'000), except when otherwise indicated.

The preparation of financial statements in conformity with IFRS and SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements are disclosed in Note 3.

2. Summary of significant accounting policies (cont'd)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2019. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

The Group adopted IFRS 16/SFRS(I) 16 *Leases* on 1 January 2019. The nature of the changes in this financial reporting standard is described below:

IFRS 16/SFRS(I) 16 *Leases*

IFRS 16/SFRS(I) 16 requires a lessee to recognise leases on the balance sheet but provides exemptions for leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments ("lease liability") and an asset representing the right to use the underlying asset during the lease term ("right-of-use asset"). The lessee will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

As the Group is primarily a lessor engaging in leasing aircraft, the adoption of this standard did not have a material impact on the consolidated financial statements of the Group. This standard affects the accounting for leases of office and facilities spaces where the Group is a lessee. The Group has adopted this standard using the modified retrospective approach at the date of initial application, 1 January 2019. The Group has chosen on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group elected the following practical expedients:

* not to reassess whether a contract is, or contains, a lease at the date of initial application and to apply this standard to all contracts that were previously identified as leases
* to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months from 1 January 2019 and for leases of low-value assets
* to apply a single discount rate to a portfolio of leases with reasonably similar characteristics

Accordingly, for leases of office and facilities spaces previously classified as operating leases, the Group and the Company recognised the right-of-use assets classified in property, plant and equipment of US$9.9 million and US$9.2 million, respectively, and total lease liabilities of US$9.9 million and US$9.2 million, respectively. No changes were made to the opening retained earnings on 1 January 2019.

2. Summary of significant accounting policies (cont'd)

2.2 Changes in accounting policies (cont'd)

IFRS 16/SFRS(I) 16 *Leases* (cont'd)

The following table presents the reconciliation of lease liabilities as of 1 January 2019:

	Group US$'000	**Company US$'000**
Minimum lease payments under operating leases as of 31 December 2018	**7,393**	**6,582**
Recognition exemption for short-term leases and leases of low-value assets	**(135)**	**(41)**
Effect from discounting at the incremental borrowing rate as of 1 January 2019	**(344)**	**(316)**
Contracts reassessed as service agreements	**(923)**	**(923)**
Adjustments as a result of a different treatment of extension options	**3,908**	**3,896**
Liabilities recognised based on the initial application of IFRS 16/SFRS(I) 16 as of 1 January 2019	**9,899**	**9,198**

The Group's and the Company's average incremental borrowing rate for the lease liabilities initially recognised as of 1 January 2019 was 3.33% per annum.

The Group has not adopted the following new or amended standards which are relevant to the Group that have been issued but are not yet effective:

Standards	**Applicable for financial year beginning on or after**
Amendments to References to the Conceptual Framework in IFRS/SFRS(I) Standards	1 January 2020
Amendments to IAS 1/SFRS(I) 1-1 and IAS 8/SFRS(I) 1-8: Definition of Material	1 January 2020
Amendments to IFRS 9/SFRS(I) 9, IAS 39/SFRS(I) 1-39 and IFRS 7/SFRS(I) 7: Interest Rate Benchmark Reform	1 January 2020

Based on a preliminary assessment using currently available information, the Group does not expect the adoption of the above standards to have a material impact on the financial statements in the period of initial application. These preliminary assessments may be subject to changes arising from ongoing analyses when the Group adopts the standards. The Group plans to adopt the above standards on the effective date.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies as at 31 December 2019. The financial statements of the subsidiary companies used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

2. Summary of significant accounting policies (cont'd)

2.3 Basis of consolidation (cont'd)

All significant balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiary companies are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.4 Functional and foreign currency

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

(b) Foreign currency transactions

Transactions in foreign currencies are measured at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of each year. Exchange differences arising from the translation of monetary assets and liabilities are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

2.5 Property, plant and equipment

(a) Aircraft

Purchased aircraft on operating lease to airline customers are included under property, plant and equipment and initially recorded at cost. Such costs include borrowing costs that are directly attributable to the acquisition of the aircraft prior to delivery. Subsequent to recognition, aircraft are stated at cost less accumulated depreciation and accumulated impairment loss. Modifications and all other costs associated with placing the aircraft in service are capitalised. The cost of aircraft is stated net of manufacturers' credits. Expenditure for additions and improvements is capitalised. Expenditure for maintenance and repairs, unless drawn from maintenance reserves, is charged to profit or loss.

The carrying values of aircraft are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

2. Summary of significant accounting policies (cont'd)

2.5 Property, plant and equipment (cont'd)

(b) Aircraft pre-delivery payments

Pre-delivery payments are recognised under property, plant and equipment when payments are made for aircraft under construction.

(c) Other plant and equipment

Other plant and equipment comprises office renovations, furniture, fittings and office equipment and are initially recognised at cost. Subsequent to recognition, these assets are stated at cost, less accumulated depreciation and accumulated impairment loss. Cost comprises purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions and improvements is capitalised. Expenditure for maintenance and repairs is charged to profit or loss.

(*d*) *Right-of-use assets*

In accordance with IFRS 16/SFRS (I) 16 *Leases*, at the commencement date of the lease, the Group and the Company recognise right-of-use assets representing the right to use the underlying asset during the lease term. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The right-of-use assets are subject to impairment. Refer to Note 2.8 for the accounting policy.

(e) Depreciation

Aircraft are depreciated on a straight-line basis over 25 years with 15% residual value at the end of the 25th year for the first 12 years. The remaining value at the end of the 12th year is depreciated using a straight-line basis over the remaining 13 years with no residual value.

Depreciation on other plant and equipment are calculated using the straight-line method to allocate the depreciable amounts over their estimated useful lives. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The estimated useful lives of these property, plant and equipment are as follows:

Office renovations	- 3 to 5 years
Furniture, fittings and office equipment	- 1 to 3 years
Office and facilities spaces	- 1 to 5 years

Fully depreciated assets are retained in the financial statements until they are no longer in use.

The residual values, useful life and depreciation method are reviewed at each year end and adjusted prospectively, if appropriate, to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

2. Summary of significant accounting policies (cont'd)

2.5 Property, plant and equipment (cont'd)

(f) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.6 Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use and the sale is highly probable. Assets classified as held for sale are not depreciated.

2.7 Lease transaction closing costs

Upfront legal fees and all other initial direct costs incurred in procuring the lease for the aircraft are capitalised and amortised on a straight-line basis over the related lease period in profit or loss.

Where the lease agreement is terminated or novated prior to its expiry date, the remaining lease transaction closing costs will be written off to profit or loss.

2.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.9 Subsidiary companies

A subsidiary company is an investee that is controlled by the Group. The Group controls an investee 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. In structured entities, the ability to control does not come from holding the majority of voting shares, but rather from contractual agreements. Entities are consolidated from the time that the ability to control begins and cease to be consolidated when the ability to control ends.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

2.10 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All purchases and sales of financial assets are recognised or derecognised on the trade date which is the date that the Group commits to purchase or sell the asset.

Subsequent measurement

(i) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

(ii) Investments in other financial assets measured at amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

2. Summary of significant accounting policies (cont'd)

2.10 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for financial assets is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(ii) Other financial liabilities

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

2. Summary of significant accounting policies (cont'd)

2.10 Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.11 Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

(a) Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

2. Summary of significant accounting policies (cont'd)

2.11 Impairment of financial assets (cont'd)

(b) General approach

The Group applies the general approach to provide for ECLs on all other financial assets not held at fair value through profit or loss. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

For the purpose of recognition of an allowance for ECL, the Group considers a financial asset to be in default:

- when the lessee does not pay the amounts due under its lease agreements to the Group in excess of the security deposit or the value of the collateral; or

- in the case where the financial asset is not secured, when the financial asset is more than 90 days past due.

2.12 Derivative financial instruments and hedging activities

The Group uses derivative financial instruments such as cross-currency interest rate swap, interest rate swap and foreign exchange forward contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently re-measured at fair value. Derivative financial instruments are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Any gains or losses arising from changes in fair values on derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss.

The fair values of cross-currency interest rate swap, interest rate swap and foreign exchange forward contracts are determined by marked-to-market values provided by counterparties which approximate fair value.

2. Summary of significant accounting policies (cont'd)

2.12 Derivative financial instruments and hedging activities (cont'd)

The Group applies hedge accounting for certain hedging relationships which qualify for hedge accounting.

For the purpose of hedge accounting, hedges are classified as:

(a) Fair value hedges when hedging the exposure to changes in the fair values of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss; and

(b) Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the years for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

(a) Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from the derivative and the hedged item are recognised in profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method.

(b) Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in hedging reserve, while the ineffective portion is recognised in profit or loss.

Amounts recognised in hedging reserve are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts recognised in hedging reserve are transferred to the initial carrying amount of the non-financial asset or liability.

2. Summary of significant accounting policies (cont'd)

2.12 Derivative financial instruments and hedging activities (cont'd)

(b) Cash flow hedges (cont'd)

If the hedged future cashflows are no longer expected to occur, amounts previously recognised in hedging reserve are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in hedging reserve remain in other comprehensive income until the future cashflows occur.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, fixed deposits, and short-term, highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each year and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Maintenance reserves

The cost of aircraft maintenance, repairs, overhauls and compliance with return conditions for aircraft on operating lease are paid for by the lessee. For major airframe, engine and other maintenance events, the lessee will be required to make a maintenance contribution payment to the lessor. Certain lease agreements require the lessee to make the maintenance contribution payments on a monthly basis while other leases require the lessee to make the maintenance contribution payment in the form of a return compensation payment at the end of the lease. Upon receipt by the Group, these monthly and end of lease maintenance payments are accounted for as maintenance reserve liabilities because the Group generally reimburses the lessee or a subsequent lessee out of the payments the Group received when the Group is satisfied that the qualifying major maintenance event has been performed. Upon expiry of a lease, any shortfall that is identified in the maintenance reserve liabilities for an aircraft as compared to the expected future reimbursement obligations to a lessee, or any surplus, will be charged or released to profit or loss. Upon sale of an aircraft, the maintenance reserve liability for that aircraft which is not transferred to the buyer will be released to profit or loss.

If a lease requires the lessee to pay return compensation payments at the end of the lease, the lessee may also be required to secure all or a portion of that obligation by a cash deposit or letter of credit. In some cases, the monthly maintenance payments or end of lease return compensation payments may be replaced by commitments from a third party, typically the original equipment manufacturer or an affiliate, which is providing flight hour-based support to the lessee.

2. Summary of significant accounting policies (cont'd)

2.16 Borrowing costs

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use is in progress, and the expenditure of the asset and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use. The Group borrows to finance certain aircraft pre-delivery payments for aircraft under construction. The interest incurred on borrowings directly attributable to the acquisition of the aircraft under construction is capitalised and included in the cost of the aircraft, except for the interest incurred for aircraft pre-delivery payments arising from lease commitment or advances of pre-delivery payments on which the Group earns income. Capitalisation of interest is suspended during extended periods in which active development of a qualifying asset is suspended and ceases when the aircraft is delivered. All other borrowing costs are expensed in the period they occur.

2.17 Debt issue costs

Debt issue costs are costs incurred in connection with obtaining financing. These costs comprise primarily front-end fees, agency fees and legal fees.

On initial recognition of a financial liability, debt issue costs that are directly attributable to the acquisition of the financial liability are included in the initial measurement of that liability. These costs are amortised over the related life of the debt using the effective interest method and written off upon prepayment of the financial liability, except for those debt issue costs relating to credit facilities which remain available for re-drawing after prepayment.

2.18 Trade and other payables

Liabilities for trade and other payables including payables to related parties, which are normally settled within 30-day credit terms, are initially carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.19 Employee benefits

(a) Short term employee benefits

All short term employee benefits, including accumulated compensated absences, are recognised in profit or loss in the period in which the employees render their services to the Group.

(b) Short term incentive plan

The short term incentive plan bonus is payable to employees of the Group when certain key performance targets for each year are met and payment is to be made over a period. The bonus is accrued and recognised in profit or loss in the period in which the employees render their services to the Group. Any over or under provision will be recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.19 Employee benefits (cont'd)

(c) Long term incentive plan

Selected employees of the Group are eligible to participate in the long term incentive plan, which comprises a cash portion and the RSU Plan. Cash amounts are payable to the participants based on the achievement of certain key performance targets at the end of a pre-determined period. The cash amount is accrued and recognised in profit or loss in the period in which the participants render their services to the Group. Any over or under provision will be recognised in profit or loss. Payment of accrued cash amounts will be made over a period after each pre-determined period.

With respect to the RSU Plan, a cash amount which is determined based on the achievement of certain key performance targets of the Group for a financial year will be paid to an independent trustee in the following year to purchase shares of the Company in the secondary market. These shares and any accrued dividends will be held on trust for the participants during the vesting period. The cost of these equity-settled share-based compensation transactions with employees is measured by reference to the fair value of RSU at grant date. This cost is recognised in the profit or loss over the vesting period (from the date of grant to the date the shares are vested) or the period of service of the employee who has retired, whichever is shorter. The vesting period is typically over a period of approximately three years.

(d) Employers' defined contributions

As required by law, the Group makes contributions to Central Provident Fund ("CPF") in Singapore, National Insurance and Pension in United Kingdom, Pay Related Social Insurance in Ireland, Federal Insurance Contributions in United States of America and Social Insurance in China. These contributions are recognised as compensation expenses in the period in which the employees render their services to the Group.

2.20 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) Where the Group or the Company is the lessor

Leases where the Group or the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. The accounting policy for rental income is set out in Note 2.21. Contingent rents are recognised as revenue in the period in which they are earned.

Finance leases, which effectively transfer to the lessee substantially all the risks and benefits incidental to ownership of the leased asset, are recognised at the inception of the lease term at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease receipts are apportioned between the finance income and reduction of the leased asset so as to achieve a constant rate of interest on the remaining balance of the asset. Finance income are charged directly to profit or loss.

2. Summary of significant accounting policies (cont'd)

2.20 Leases (cont'd)

(b) Where the Group or the Company is the lessee

The Group or the Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group or the Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Refer to Note 2.5 (d) and (e) for the accounting policies.

(ii) Lease liabilities

At the commencement date of a lease, the Group or the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group or the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payment.

(iii) Short-term leases and leases of low-value assets

The Group or the Company applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2. Summary of significant accounting policies (cont'd)

2.21 Revenue recognition

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and sales taxes or duties.

(a) Lease rental income

Lease rental income is recognised over the lease term as and when rentals become receivable under the provisions of the lease agreements.

Operating leases with stepped rentals are recognised on a straight-line basis over the term of the initial lease, assuming no renewals.

(b) Fee income from aircraft pre-delivery payments

Fee income from aircraft pre-delivery payments are recognised as revenue over time following the timing of satisfaction of the performance obligation.

(c) Remarketing and lease management fees

Remarketing and lease management fees are recognised as revenue at a point in time or over time following the timing of satisfaction of the performance obligation.

(d) Dividend income

Dividend income from investments is recognised when the Company's right to receive payment is established.

(e) Interest income

Interest income is recognised using the effective interest method.

(f) Other income

Other income are recognised based on contractual agreements with the relevant parties.

2. Summary of significant accounting policies (cont'd)

2.22 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each year, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred income tax

Deferred tax is provided using the liability method on temporary differences at the end of each year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

(i) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) In respect of taxable temporary differences associated with investments in subsidiary companies, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiary companies, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each year and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. Summary of significant accounting policies (cont'd)

2.22 Taxes (cont'd)

(b) Deferred income tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each year.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

2.23 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2. Summary of significant accounting policies (cont'd)

2.24 Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary company and fellow subsidiary company is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); or
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each year. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements which have significant effect on the amounts recognised in the consolidated financial statements.

(a) Carrying value of aircraft

The Group follows the guidance provided by IAS 36/SFRS(I) 1-36 *Impairment of Assets* in determining whether it is necessary to recognise any impairment loss on an aircraft. Management exercises significant judgement in determining whether there is any indication that any aircraft may have been impaired. This exercise involves management consideration of both internal and external sources of information which include but are not limited to: observable indications that the value of aircraft has declined during the period significantly more than would be expected as a result of the passage of time or normal use; significant adverse changes in the expected usage of the aircraft, technological or aviation environment that have taken place or will take place in the near future; significant increase in market interest rates; evidence of obsolescence or physical damage of the aircraft; and worse than expected economic performance of the aircraft. Analysis of impairment loss provision is disclosed in Note 12 in the financial statements.

(b) Maintenance of aircraft by lessees

Maintenance, repairs and overhaul of the aircraft placed on operating leases are provided by and paid for by the lessees. Certain lease agreements require the lessees to make monthly or end of lease maintenance contributions to the Group which can subsequently be drawn on for certain maintenance events carried out. Management has made a judgement based on payment records that as at period end, the lessees are able to fulfil their obligations as stipulated in the lease agreements.

3. Significant accounting judgements and estimates (cont'd)

3.1 Judgements made in applying accounting policies (cont'd)

(c) Impairment of financial assets

The Group follows the guidance of IFRS 9/SFRS(I) 9 *Financial Instruments* in determining when a financial asset is impaired and this requires judgement on the correlation between historical observed default rates and ECLs.

(d) Fair value of financial instruments

Where the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models by counterparties. The valuation of financial instruments is described in more detail in Note 38.

(e) Classification of leases

(i) Operating lease – As lessor

The Group's aircraft portfolio is on lease with various airlines. The Group has determined that it retains all significant risks and rewards of ownership of these aircraft which are leased out on operating leases.

(ii) Finance lease – As lessor

The Group has entered into aircraft leases whereby the Group has determined that the lessee has assumed all risks and rewards of ownership. Accordingly, the Group has recorded the transactions as sales of aircraft and finance lease receivables on the statement of financial position.

(f) Deferred income taxes

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary companies, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company is subject to Singapore tax on all of its foreign pre-tax earnings when earnings are effectively repatriated unless tax exemption is applicable. Management judgement is required to determine that the undistributed profits of the subsidiary companies will not be distributed and remitted into Singapore in the foreseeable future. The Company provides for taxes on the undistributed earnings of foreign subsidiary companies except to the extent that such earnings are invested outside Singapore and likely to remain invested outside Singapore in the foreseeable future. The aggregate amount of temporary differences arising from potential Singapore tax exposure on undistributed earnings of foreign subsidiary companies and overseas unremitted income as at 31 December 2019 was US$1,178.8 million (2018: US$1,172.0 million) for which deferred tax liabilities have not been recognised.

Deferred tax assets are recognised for all unabsorbed capital allowances and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future business planning decisions.

3. Significant accounting judgements and estimates (cont'd)

3.1 Judgements made in applying accounting policies (cont'd)

(f) Deferred income taxes (cont'd)

In January 2017, the Company was awarded the Aircraft Leasing Scheme ("ALS") Incentive for five years from 1 July 2017 to 30 June 2022 at a concessionary income tax rate of 5%, subject to meeting certain conditions. Management is reasonably confident that the conditions of the award will be met.

While the concessionary income tax rates under the ALS have been streamlined to 8% for approvals on or after 1 April 2017, the Singapore Government further amended the Income Tax Act in October 2018 for existing ALS recipients to apply the tax rate under their existing award up till 31 December 2027 on qualifying income from leasing of aircraft or aircraft engines acquired during their existing award tenure. The Company has exercised judgement in determining the timing in which the existing portfolio of aircraft are expected to be sold. Consequently, the deferred tax liability arising from the temporary differences between the carrying amounts of the aircraft and their tax written down values is computed based on the tax rate applicable in those years.

Details have been disclosed in Note 11 and Note 26.

(g) Assets held for sale

An asset is classified as held for sale when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary and the sale is highly probable. Management judgement is required to assess whether the asset meets the conditions to be classified as assets held for sale and details have been disclosed in Note 18.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each year are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) Depreciation of aircraft and estimation of residual values

Aircraft are depreciated on a straight-line basis over 25 years with 15% residual value at the end of the 25th year for the first 12 years. The remaining value at the end of the 12th year is depreciated using a straight-line basis over the remaining 13 years with no residual value. Management estimates the useful life to be 25 years based on the common life expectancies applied in the aircraft leasing industry.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, in these circumstances, future depreciation charges could be revised. A one-year decrease in the expected useful lives of these assets from management's estimates would result in an increase in annual depreciation charges of US$26.7 million (2018: US$23.7 million). Such a decrease in the useful lives of the Group's aircraft could affect the Group's annual profit before tax in future.

3. Significant accounting judgements and estimates (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

(b) Fair values

Fair values of the derivative financial instruments have been determined by marked-to-market values provided by counterparties as disclosed in Note 13.

Fair values of other financial instruments have been disclosed in Note 38.

(c) Income taxes and deferred income taxes

The Group has exposure to income taxes in several jurisdictions. Estimation is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Details have been disclosed in Note 11 and Note 26.

4. Interest and fee income

	Group	
	2019	2018
	US$'000	US$'000
Interest income from short-term deposits and bank balances	**4,984**	3,668
Fee income from aircraft pre-delivery payments	**85,960**	66,209
Lease management fee income	**3,556**	3,392
Remarketing fee income	**1,500**	5,574
Others	**3,225**	1,910
	99,225	80,753

5. Net gain on sale of aircraft

		Group	
	Note	**2019**	2018
		US$'000	US$'000
Proceeds from sale of aircraft		**915,708**	1,304,906
Maintenance reserves released	25	**142,160**	2,621
Security deposits released		**15,157**	–
Net book value of aircraft classified as:			
Property, plant and equipment		**(300,602)**	(695,779)
Assets held for sale	18	**(630,138)**	(518,236)
Expenses		**(7,998)**	(2,690)
		134,287	90,822

6. Finance expenses

	Group 2019 US$'000	Group 2018 US$'000
Interest expense and other charges on:		
Loans and borrowings	**427,669**	352,804
Lease liabilities*	**322**	231
	427,991	353,035

* Interest expense on lease liabilities recognised in accordance with IFRS 16/ SFRS(I) 16 *Leases*.

7. Amortisation of deferred debt issue costs

	Note	Group 2019 US$'000	Group 2018 US$'000
Arising from:			
Loans and borrowings	21	**24,711**	23,007
Lease liabilities		**–**	179
		24,711	23,186

8. Staff costs

	Group 2019 US$'000	Group 2018 US$'000
Salaries, bonuses and other staff costs	**71,242**	86,274
Employers' defined contributions	**2,492**	3,338
Share-based compensation	**6,090**	1,931
	79,824	91,543

8. Staff costs (cont'd)

Share-based compensation (equity-settled)

The Group has in place a Restricted Share Unit Long Term Incentive Plan for certain employees. The Restricted Share Units ("RSU") granted in a financial year will vest in the third year from the year of grant.

RSUs granted by the Group but not yet vested:

2019

Year of grant	Fair value at grant date HK$ per share	Fair value at grant date US$ equivalent per share	At 1 January	Granted during the period	Forfeited during the period	At 31 December
2018	46.61	5.94	1,273,080	–	(25,651)	1,247,429
2019	65.64	8.36	–	1,153,695	–	1,153,695
			1,273,080	**1,153,695**	**(25,651)**	**2,401,124**

2018

Year of grant	Fair value at grant date HK$ per share	Fair value at grant date US$ equivalent per share	At 1 January	Granted during the period	Forfeited during the period	At 31 December
2018	46.61	5.94	–	1,299,300	(26,220)	1,273,080

The fair value of RSU at grant date was determined by the average market price at which the shares of the Company were purchased by an independent trustee in the secondary market.

9. Emoluments of directors, five highest paid individuals and senior management

(a) Emoluments paid to directors of the Company during the year

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Employers' defined contributions	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
2019					
Chairman, Non-executive director[1]					
Sun Yu[2]	**–**	**–**	**–**	**–**	**–**
Executive directors					
Wang Jian (Vice-Chairman)[3]	**–**	**550**	**926**	**–**	**1,476**
Robert James Martin	**–**	**1,067**	**7,767**	**4**	**8,838**
Independent non-executive directors					
Antony Nigel Tyler	**140**	**39**	**–**	**–**	**179**
Dai Deming	**60**	**17**	**–**	**–**	**77**
Fu Shula	**60**	**17**	**–**	**–**	**77**
Yeung Yin Bernard	**45**	**–**	**–**	**–**	**45**
Non-executive directors[1]					
Li Mang	**–**	**–**	**–**	**–**	**–**
Liu Chenggang	**–**	**–**	**–**	**–**	**–**
Wang Zhiheng[4]	**–**	**–**	**–**	**–**	**–**
Zhu Lin	**–**	**–**	**–**	**–**	**–**
	305	**1,690**	**8,693**	**4**	**10,692**

9. Emoluments of directors, five highest paid individuals and senior management (cont'd)

(a) Emoluments paid to directors of the Company during the year (cont'd)

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Employers' defined contributions	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
2018					
Chairman, Non-executive director[1]					
Sun Yu[2]	–	–	–	–	–
Executive directors					
Wang Jian (Vice-Chairman)[3]	–	536	385	–	921
Robert James Martin	–	1,059	6,420	4	7,483
Independent non-executive directors					
Antony Nigel Tyler	140	40	–	–	180
Dai Deming	60	17	–	–	77
Fu Shula	60	17	–	–	77
Yeung Yin Bernard	45	–	–	–	45
Non-executive directors[1]					
Li Mang	–	–	–	–	–
Liu Chenggang	–	–	–	–	–
Wang Zhiheng[4]	–	–	–	–	–
Zhu Lin	–	–	–	–	–
	305	1,669	6,805	4	8,783

1 In 2018 and 2019, the non-executive Chairman and non-executive directors (other than independent non-executive directors) were not entitled to any emoluments under their respective engagement letters
2 Appointed on 27 February 2019
3 Retired on 31 December 2019
4 Appointed on 22 October 2018

9. Emoluments of directors, five highest paid individuals and senior management (cont'd)

(b) Five highest paid individuals

In the year ended 31 December 2019 and 2018, the five individuals whose emoluments were the highest in the Group include one (2018: one) executive director whose emoluments are reflected in Note 9(a).

The emoluments paid to the remaining four (2018: four) individuals during the year ended 31 December 2019 and 2018 were as follows:

	2019	2018
	US$'000	US$'000
Salaries, allowances and other benefits	**2,403**	2,414
Discretionary bonus	**9,498**	7,839
Employers' defined contributions	**413**	376
	12,314	10,629

The number of such individuals whose emoluments paid during the year ended 31 December 2019 and 2018 fell within the following bands:

	2019	2018
HK$15,000,001 to HK$15,500,000	**–**	1
HK$18,000,001 to HK$18,500,000	**1**	–
HK$19,000,001 to HK$19,500,000	**–**	1
HK$23,000,001 to HK$23,500,000	**–**	1
HK$25,000,001 to HK$25,500,000	**2**	1
HK$27,500,001 to HK$28,000,000	**1**	–

During the year ended 31 December 2019 and 2018, 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 as compensation for loss of office.

9. Emoluments of directors, five highest paid individuals and senior management (cont'd)

(c) *Senior management's emoluments*

The number of senior management whose emoluments paid during the year ended 31 December 2019 and 2018 fell within the following bands:

	2019	2018
HK$500,001 to HK$1,000,000	**1**	–
HK$7,000,001 to HK$7,500,000	**–**	1
HK$11,000,001 to HK$11,500,000	**–**	1
HK$11,500,001 to HK$12,000,000	**1**	–
HK$16,500,001 to HK$17,000,000	**1**	–
HK$19,000,001 to HK$19,500,000	**–**	1
HK$23,000,001 to HK$23,500,000	**–**	1
HK$25,000,001 to HK$25,500,000	**2**	1
HK$27,500,001 to HK$28,000,000	**1**	–
HK$58,500,001 to HK$59,000,000	**–**	1
HK$69,000,001 to HK$69,500,000	**1**	–

10. Other operating expenses

	Group	
	2019	2018
	US$'000	US$'000
General office expenses	**5,119**	4,895
Operating lease expenses	**472**	2,250
Technical services expenses	**9,825**	3,867
Professional fees	**3,674**	5,189
Auditors' remuneration	**396**	393
Net foreign exchange losses[1]	**470**	413
Other taxes and expenses	**8,255**	7,191
	28,211	24,198

Technical services expenses include net provisions for repair, maintenance, transition and repossession costs of aircraft.

[1] Included foreign exchange gain of US$7.3 million (2018: US$12.5 million) in revaluation of financial liabilities which was offset by fair value loss of US$7.3 million (2018: US$12.5 million) in derivative financial instruments.

11. Income tax expense

The major components of income tax expense for the year ended 31 December 2019 and 2018 are:

	Group	
	2019	2018
	US$'000	US$'000
Current income tax		
Singapore	**(28)**	(40)
Foreign	**32,681**	56,377
Under/(over) provision in respect of prior years	**222**	(7)
	32,875	56,330
Deferred income tax		
Singapore	**33,650**	21,207
Foreign	**11,182**	(11,930)
Over provision in respect of prior years	**(5,040)**	(821)
	39,792	8,456
	72,667	64,786

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the year ended 31 December 2019 and 2018 is as follows:

	Group	
	2019	2018
	US$'000	US$'000
Profit before income tax	**774,926**	685,225
Tax at the Singapore tax rate of 17% (2018:17%)	**131,737**	116,488
Adjustments:		
Different tax rates in foreign jurisdictions	**12,656**	17,726
Effects of Aircraft Leasing Scheme incentive on the Company's results	**(69,710)**	(72,172)
Income not subject to tax	**(892)**	(388)
Expenses not deductible for tax purposes	**3,327**	3,329
Others	**367**	631
Over provision in respect of prior years, net	**(4,818)**	(828)
	72,667	64,786

12. Property, plant and equipment

Group	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Right-of-use asset US$'000	Total US$'000
Cost:						
At 1 January 2018	15,041,583	2,004,277	1,603	11,383	–	17,058,846
Additions	1,698,738	2,471,401	547	1,846	–	4,172,532
Disposals/reductions	(915,731)	(116,745)	(257)	(46)	–	(1,032,779)
Transfers	1,345,149	(1,345,149)	–	–	–	–
Transfer to assets held for sale	(407,639)	–	–	–	–	(407,639)
Adjustments	1,992	(85)	–	–	–	1,907
At 31 December 2018 and 1 January 2019	16,764,092	3,013,699	1,893	13,183	–	19,792,867
Adoption of IFRS 16/SFRS(I) 16	–	–	–	–	9,899	9,899
Additions	2,173,757	1,059,072	104	2,142	2,278	3,237,353
Disposals/reductions	(407,217)	(349,985)	–	(180)	(16)	(757,398)
Transfers	1,167,922	(1,167,922)	–	–	–	–
Transfer to assets held for sale	(1,206,620)	–	–	–	–	(1,206,620)
Adjustments	(2,824)	–	(107)	–	–	(2,931)
At 31 December 2019	**18,489,110**	**2,554,864**	**1,890**	**15,145**	**12,161**	**21,073,170**

12. Property, plant and equipment (cont'd)

Group	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Right-of-use asset US$'000	Total US$'000
Accumulated depreciation and impairment:						
At 1 January 2018	1,613,609	–	1,060	10,014	–	1,624,683
Charge for the year	540,701	–	208	1,925	–	542,834
Disposals	(219,952)	–	(195)	(46)	–	(220,193)
Transfer to assets held for sale	(127,938)	–		–	–	(127,938)
At 31 December 2018 and 1 January 2019	1,806,420	–	1,073	11,893	–	1,819,386
Charge for the year	605,689	–	304	1,801	1,870	609,664
Disposals	(106,615)	–	–	(180)	(4)	(106,799)
Transfer to assets held for sale	(252,056)	–	–	–	–	(252,056)
At 31 December 2019	**2,053,438**	**–**	**1,377**	**13,514**	**1,866**	**2,070,195**
Net book value:						
At 31 December 2018	14,957,672	3,013,699	820	1,290	–	17,973,481
At 31 December 2019	**16,435,672**	**2,554,864**	**513**	**1,631**	**10,295**	**19,002,975**

12. Property, plant and equipment (cont'd)

Company	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Right-of-use asset (Aircraft) US$'000	Right-of-use asset (Others) US$'000	Total US$'000
Cost:							
At 1 January 2018	9,607,755	129,941	1,146	11,144	–	–	9,749,986
Additions	1,940,905	387,141	547	1,647	–	–	2,330,240
Disposals/reductions	(654,439)	–	(25)	(42)	–	–	(654,506)
Transfer to assets held for sale	(73,000)	–	–	–	–	–	(73,000)
Adjustments	(2,718)	(85)	–	–	–	–	(2,803)
At 31 December 2018 and 1 January 2019	10,818,503	516,997	1,668	12,749	–	–	11,349,917
Adoption of IFRS 16/SFRS(I) 16	(1,491,988)	–	–	–	1,491,988	9,198	9,198
Additions	2,158,483	480,527	–	1,918	–	–	2,640,928
Disposals/reductions	(161,226)	(62,816)	–	(180)	–	–	(224,222)
Transfer	406,033	(406,033)	–	–	–	–	–
Transfer to assets held for sale	(635,077)	–	–	–	–	–	(635,077)
Adjustments	(24)	–	(107)	99	(825)	–	(857)
At 31 December 2019	**11,094,704**	**528,675**	**1,561**	**14,586**	**1,491,163**	**9,198**	**13,139,887**

12. Property, plant and equipment (cont'd)

Company	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Right-of-use asset (Aircraft) US$'000	Right-of-use asset (Others) US$'000	Total US$'000
Accumulated depreciation and impairment:							
At 1 January 2018	839,373	–	882	9,806	–	–	850,061
Charge for the year	347,565	–	109	1,740	–	–	349,414
Disposals	(162,951)	–	(24)	(40)	–	–	(163,015)
Transfer to assets held for sale	(22,507)	–	–	–	–	–	(22,507)
At 31 December 2018 and 1 January 2019	1,001,480	–	967	11,506	–	–	1,013,953
Adoption of IFRS 16/SFRS(I) 16	(264,285)	–	–	–	264,285	–	–
Charge for the year	352,109	–	243	1,735	50,964	1,508	406,559
Disposals	(24,862)	–	–	(180)	–	–	(25,042)
Transfer to assets held for sale	(111,424)	–	–	–	–	–	(111,424)
At 31 December 2019	**953,018**	**–**	**1,210**	**13,061**	**315,249**	**1,508**	**1,284,046**
Net book value:							
At 31 December 2018	9,817,023	516,997	701	1,243	–	–	10,335,964
At 31 December 2019	**10,141,686**	**528,675**	**351**	**1,525**	**1,175,914**	**7,690**	**11,855,841**

12. Property, plant and equipment (cont'd)

(a) Impairment of assets

As at 31 December 2019 and 31 December 2018, there was no impairment loss on the Group's and the Company's property, plant and equipment.

Movement of accumulated impairment loss provision:

	Group		**Company**	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
At 1 January	**–**	4,700	**–**	4,700
Utilised	**–**	(4,700)	**–**	(4,700)
At 31 December	**–**	–	**–**	–

(b) Right-of-use assets

The Group and the Company have lease contracts for its office and facilities spaces. The Company also has lease contracts for aircraft as a lessee with its subsidiary companies.

The Group and the Company have certain leases that either have lease terms of 12 months or less or are of low value. The Group and the Company apply the exemption under IFRS 16/SFRS(I) 16 *Leases* not to recognise right-of-use assets and liabilities for these leases.

12. Property, plant and equipment (cont'd)

(c) *Reconciliation of capital expenditure in property, plant and equipment to net cash flows used in investing activities*

Extract from Consolidated Statement of Cash Flows

	Group	
	2019	2018
	US$'000	US$'000
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(3,197,250)**	(4,143,287)
Proceeds from sale of property, plant and equipment	**1,265,693**	1,421,651
Net cash flows used in investing activities	**(1,931,557)**	(2,721,636)

Cash flows from investing activities:		
Additions of aircraft	**(2,173,757)**	(1,698,738)
Additions of aircraft pre-delivery payments	**(1,059,072)**	(2,471,401)
Additions of other property, plant and equipment	**(2,246)**	(2,393)
Proceeds from sale of aircraft	**915,708**	1,304,906
Refunds from airlines for aircraft pre-delivery payments upon delivery of aircraft	**349,985**	116,745
Adjustments for capitalised borrowing costs	**37,825**	29,245
Net cash flows used in investing activities	**(1,931,557)**	(2,721,636)

(d) *Assets pledged as security*

The net book value of aircraft and aircraft held for sale (Note 18) owned by the Group and the Company, including aircraft held under lease arrangements (Note 31), that have been charged for loan facilities granted (Note 21 and Note 31) by way of mortgages and/or by way of a pledge by the Company of all its benefits in respect of its entire shareholding in certain subsidiary companies which hold title to such aircraft (Note 33) amounted to US$2,915.3 million (2018: US$3,258.5 million) and US$1,832.4 million (2018: US$1,977.7 million), respectively.

(e) *Capitalisation of borrowing costs*

The borrowing costs capitalised as cost of aircraft by the Group and the Company amounted to US$37.8 million (2018: US$29.2 million) and US$4.7 million (2018: nil). The rate used to determine the amount of borrowing costs for capitalisation ranged from 2.5% to 3.6% (2018: 2.4% to 3.2%) per annum.

13. Derivative financial instruments

	Group and Company					
	2019			2018		
	Outstanding notional amounts	**Assets**	**Liabilities**	Outstanding notional amounts	Assets	Liabilities
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Current:						
Cross-currency interest rate swaps	**379,788**	**–**	**(55,215)**	–	–	–
Interest rate swaps	**280,000**	**523**	**(194)**	600,000	2,593	(1,536)
		523	**(55,409)**		2,593	(1,536)
Non-current:						
Cross-currency interest rate swaps	**693,194**	**182**	**(58,886)**	875,019	2,859	(99,733)
Interest rate swaps	**3,615,000**	**1,668**	**(108,200)**	2,890,000	11,520	(22,479)
		1,850	**(167,086)**		14,379	(122,212)

The fair values of interest rate swaps and cross-currency interest rate swaps as shown above are determined with reference to marked-to-market values provided by counterparties.

Hedge accounting has been applied for interest rate swaps and cross-currency interest rate swaps that are assessed by the Group to be highly effective hedges.

The Group determines the economic relationship between the loans and borrowings and the derivatives by matching the critical terms of the hedging instruments with the terms of the hedged items. The hedge ratio (the ratio between the notional amount of the derivative financial instrument to the amount of the loans and borrowings being hedged) is determined to be 1:1. There were no expected sources of ineffectiveness on the Group's hedges as the critical terms of the derivatives match exactly with the terms of the hedged items.

13. Derivative financial instruments (cont'd)

The following hedging instruments used by the Group and the Company are shown as derivative financial instruments in the statement of financial position:

	Outstanding notional amounts US$'000	Assets/ (Liabilities) US$'000	Hedge rates: USD interest rates (p.a.)	Hedge rates: Foreign currency rates	Maturity (Year)
2019					
Group and Company					
Fair value hedge					
Cross-currency interest rate swaps[1]					
- Australian Dollar	373,493	(82,664)	6-month LIBOR + Margin ranging from 1.70% to 1.96%	US$1 : AUD1.06 to AUD1.08	2020 to 2021
- Chinese Yuan	250,179	(19,244)	6-month LIBOR + Margin ranging from 0.64% to 2.28%	US$1 : CNY6.04 to CNY6.57	2020 to 2024
Interest rate swaps[2]					
- United States Dollar	200,000	(194)	6-month LIBOR + Margin ranging from 1.28% to 1.38%	–	2020
Cash flow hedge					
Cross-currency interest rate swaps[3]					
- Australian Dollar	140,590	(3,151)	3.43%	US$1 : AUD1.42	2029
- Chinese Yuan	40,000	(4,137)	2.95%	US$1 : CNY6.25	2020
- Hong Kong Dollar	159,837	(4,926)	3.72% to 4.13%	US$1 : HK$7.81 to US$1 : HK$7.84	2026 to 2027
- Singapore Dollar	108,883	203	4.00%	US$1 : SGD1.33	2025
Interest rate swaps[4]					
- United States Dollar	3,695,000	(106,009)	1.975% to 4.242%	–	2020 to 2025

13. Derivative financial instruments (cont'd)

	Outstanding notional amounts US$'000	Assets/ (Liabilities) US$'000	Hedge rates: USD interest rates (p.a.)	Hedge rates: Foreign currency rates	Maturity (Year)
2018					
Group and Company					
Fair value hedge					
Cross-currency interest rate swaps[1]					
- Australian Dollar	373,493	(81,001)	6-month LIBOR + Margin ranging from 1.70% to 1.96%	US$1 : AUD1.06 to AUD 1.08	2020 to 2021
- Chinese Yuan	250,179	(15,154)	6-month LIBOR + Margin ranging from 0.64% to 2.28%	US$1 : CNY6.04 to CNY 6.57	2020 to 2024
Interest rate swaps[2]					
- United States Dollar	500,000	(4,806)	6-month LIBOR + Margin ranging from 1.283% to 2.05%	–	2019 to 2020
Cash flow hedge					
Cross-currency interest rate swaps[3]					
- Chinese Yuan	40,000	(2,846)	2.95%	US$1 : CNY6.25	2020
- Hong Kong Dollar	102,464	(732)	3.72%	US$1 : HK$7.81	2027
- Singapore Dollar	108,883	2,859	4.00%	US$1 : SGD1.33	2025
Interest rate swaps[4]					
- United States Dollar	2,990,000	(5,096)	1.975% to 4.242%	–	2019 to 2025

[1] The Group uses these cross-currency interest rate swaps to hedge against the exposure to exchange rates and interest rates arising from the Group's non-US Dollar loans and borrowings which are liabilities designated as hedged items in fair value hedge. Under these cross-currency interest rate swaps, the Group receives non-US Dollar principal and fixed interest and pays US Dollar principal and floating interest pegged to US Dollar LIBOR. These hedges are classified as fair value hedges and the fair value changes of these cross-currency interest rate swaps are recognised in profit or loss.

[2] The Group uses these interest rate swaps to hedge against the exposure to interest rates arising from the Group's US Dollar loans and borrowings which are liabilities designated as hedged items in fair value hedge. Under these interest rate swaps, the Group receives fixed interest and pays floating interest pegged to US Dollar LIBOR. These hedges are classified as fair value hedges and the fair value changes of these interest rate swaps are recognised in profit or loss.

13. Derivative financial instruments (cont'd)

[3] The Group uses these cross-currency interest rate swaps to hedge against (i) the exposure to exchange rates of loans and borrowings issued in non-US Dollar currencies (fair value hedge) and (ii) the exposure to variability in cash flows for the related loans and borrowings (cash flow hedge). Under these cross-currency interest rate swaps, the Group receives non-US Dollar principal and fixed interest, and pays US Dollar principal and fixed interest. The cross-currency interest rate swaps are bifurcated into two portions. The portion of the fair value change attributable to changes in the exchange rate are recognised in profit or loss, and the remaining portion attributable to cash flow variability is recognised in hedging reserve.

[4] The Group uses these interest rate swaps to hedge against the exposure to variability in cash flows from the related loans and borrowings which are pegged to US Dollar LIBOR. Under these interest rate swaps, the Group receives floating interest pegged to US Dollar LIBOR and pays fixed interest. These hedges are classified as cash flow hedges and the fair value changes of these interest rate swaps are recognised in hedging reserve.

14. Trade receivables

	Group		**Company**	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Trade receivables – gross carrying amount				
Current	**42,980**	7,075	**29,785**	838
Non-current	**–**	909	**–**	909
	42,980	7,984	**29,785**	1,747
Less: Impairment losses charged for the year	**(24,748)**	–	**(17,284)**	–
	18,232	7,984	**12,501**	1,747
Trade receivables – net of allowance for impairment losses				
Current	**18,232**	7,075	**12,501**	838
Non-current	**–**	909	**–**	909
	18,232	7,984	**12,501**	1,747

Trade receivables are recognised at their original invoice amounts which represent their fair values on initial recognition and are generally received monthly in advance. Trade receivables are generally secured by cash security deposits or letters of credit. As at 31 December 2018, included in the current and non-current portion of trade receivables was an amount of US$4.2 million and US$0.9 million, respectively, that was contractually deferred by mutual agreement and was interest bearing. None of the trade receivables as at 31 December 2019 was subject to a deferral arrangement.

14. Trade receivables (cont'd)

Impairment of financial assets

The Group and the Company recognise an allowance for impairment losses by providing for expected credit losses when the lessee does not pay the amounts due under its lease agreements in excess of the security deposit or the value of the collateral.

As at 31 December 2019, the aging of the current portion of trade receivables based on the receivables due date was as follows:

	Group					
2019	**Current**	**Less than 30 days past due**	**30 to 60 days past due**	**61 to 90 days past due**	**More than 90 days past due**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Gross carrying amount	**109**	**8,945**	**7,933**	**4,946**	**21,047**	**42,980**
Allowance for impairment losses	**–**	**(2,590)**	**(2,696)**	**(1,583)**	**(17,879)**	**(24,748)**

	Company					
2019	**Current**	**Less than 30 days past due**	**30 to 60 days past due**	**61 to 90 days past due**	**More than 90 days past due**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Gross carrying amount	**–**	**7,017**	**6,357**	**4,946**	**11,465**	**29,785**
Allowance for impairment losses	**–**	**(2,434)**	**(2,283)**	**(1,583)**	**(10,984)**	**(17,284)**

2018

As at 31 December 2018, none of the Group's and the Company's trade receivables was past due or impaired.

15. Other receivables

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Deposits	**680**	596	**574**	567
Sundry receivables	**105,212**	636	**103,742**	242
Accrued income	**540**	397	**10,575**	6,920
Amounts due from subsidiary companies	**–**	–	**106,868**	41,322
	106,432	1,629	**221,759**	49,051

The sundry receivables of the Group and the Company are non-trade related, unsecured and included an amount of US$103.2 million (2018: nil) due from a manufacturer which was contractually deferred by mutual agreement in return for a fee. Subsequent to 31 December 2019, this amount was further deferred for another year in return for a fee. The balance amounts of sundry receivables of the Group and the Company are non-interest bearing.

The amounts due from subsidiary companies are non-trade related, unsecured, interest free and are repayable on demand.

16. Short-term deposits

		Group		Company	
	Note	**2019**	2018	**2019**	2018
		US$'000	US$'000	**US$'000**	US$'000
Unencumbered	30	**202,935**	152,936	**31,730**	105,929

Short-term deposits consist of fixed deposits and investments in money market funds which are placed for varying periods between one day and three months depending on cash requirements of the Group, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate for fixed deposits and money market funds were 2.4% (2018: 2.0%) and 2.2% (2018: 2.2%) per annum, respectively.

As at 31 December 2019, there were no short-term deposits placed with the intermediate holding company by the Group (2018: US$45.0 million) and the Company (2018: US$45.0 million). As at 31 December 2019, there were no short-term deposits placed with other related parties by the Group (2018: US$12.0 million) and the Company (2018: nil).

17. Cash and bank balances

		Group		Company	
	Note	**2019**	2018	**2019**	2018
		US$'000	US$'000	**US$'000**	US$'000
Encumbered		**35,463**	20,250	**16,923**	8,313
Unencumbered	30	**48,728**	69,797	**13,843**	5,018
		84,191	90,047	**30,766**	13,331

The Group's and the Company's encumbered cash and bank balances have been pledged for loan obligations (Note 21) and contingency provisions under such obligations.

The Group's and Company's cash and bank balances included an amount of US$13.4 million (2018: US$33.8 million) and US$8.8 million (2018: US$0.6 million), respectively, placed in daily sweep accounts which are available upon demand.

As at 31 December 2019, the Group's cash and bank balances included an amount of US$14.1 million (2018: US$11.4 million) placed with the intermediate holding company.

Cash and bank balances were denominated in US Dollar except for the following:

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Australian Dollar	**87**	151	**–**	–
Chinese Yuan	**5,148**	7,146	**–**	–
Euro	**1,644**	1,666	**1,033**	1,064
Hong Kong Dollar	**316**	314	**316**	314
Japanese Yen	**981**	969	**–**	–
Malaysian Ringgit	**–**	93	**–**	–
Sterling Pound	**1,154**	33	**–**	–
Singapore Dollar	**853**	50	**853**	50
	10,183	10,422	**2,202**	1,428

18. Assets held for sale and liabilities associated with assets held for sale

As at 31 December 2019 and 2018, the Group's and Company's aircraft which met the criteria to be classified as assets held for sale were as follows:

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Assets held for sale:				
Property, plant and equipment – aircraft				
At beginning of year	–	238,535	–	229,550
Additions	**954,564**	279,701	**523,653**	50,493
Disposals	**(630,138)**	(518,236)	**(325,716)**	(280,043)
At end of year	**324,426**	–	**197,937**	–

	Note	Group		Company	
	Note	**2019**	2018	**2019**	2018
		US$'000	US$'000	**US$'000**	US$'000
Liabilities associated with assets held for sale:					
Maintenance reserve payables	25	**58,741**	–	**26,099**	–
Security deposits		**6,025**	–	**4,568**	–
		64,766	–	**30,667**	–

19. Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Trade payables	**70**	258	**56**	–
Sundry payables	**4,603**	2,728	**2,455**	1,380
Accrued interest expenses	**95,191**	76,521	**82,952**	61,221
Accrued maintenance reserve payables	**37,613**	7,271	**11,375**	738
Accrued technical expenses	**2,673**	1,926	**950**	629
Staff costs related accruals	**54,153**	44,070	**44,638**	36,440
Other accruals and liabilities	**11,995**	24,149	**1,742**	2,621
Amounts due to subsidiary companies	–	–	**2,610**	3,077
	206,298	156,923	**146,778**	106,106

Trade payables and sundry payables are substantially denominated in US Dollar, non-interest bearing, current in nature and are normally settled on 30-day credit terms.

The table below summarises the aging of trade payables based on invoice due date:

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Current	**36**	256	**23**	–
1 – 30 days	**34**	–	**33**	–
31 – 60 days	–	–	–	–
61 – 90 days	–	–	–	–
More than 90 days	–	2	–	–
	70	258	**56**	–

20. Deferred income

Deferred income (current) relates to advance receipts for lease and other income for which services have not yet been rendered.

Deferred income (non-current) relates to the difference between the nominal value of the security deposits (Note 24) and their fair value. The deferred income is charged to profit or loss on a straight-line basis over the lease term.

21. Loans and borrowings

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Current:				
Medium term notes	**1,129,788**	300,000	**1,129,788**	300,000
Loans	**650,273**	1,150,566	**198,865**	142,239
Medium term notes discount (net of premium)	**(213)**	(241)	**(213)**	(241)
Fair value and revaluation adjustments	**(55,547)**	(1,536)	**(55,547)**	(1,536)
Deferred debt issue costs	**(9,068)**	(10,531)	**(1,034)**	(818)
	1,715,233	1,438,258	**1,271,859**	439,644
Non-current:				
Medium term notes	**7,833,194**	6,865,019	**7,833,194**	6,865,019
Loans	**3,900,021**	4,160,037	**1,007,170**	936,035
Medium term notes discount (net of premium)	**(19,058)**	(9,639)	**(19,058)**	(9,639)
Fair value and revaluation adjustments	**(53,562)**	(106,498)	**(53,562)**	(106,498)
Deferred debt issue costs	**(69,893)**	(68,450)	**(31,995)**	(22,374)
	11,590,702	10,840,469	**8,735,749**	7,662,543
Total loans and borrowings	**13,305,935**	12,278,727	**10,007,608**	8,102,187

21. Loans and borrowings (cont'd)

The deferred debt issue costs relating to the obtaining of the loans are analysed as follows:

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Cost:				
At beginning of year	**162,235**	158,608	**37,919**	32,536
Additions	**24,695**	15,403	**17,496**	8,061
Fully amortised costs written off	**(15,637)**	(11,640)	**(1,962)**	(2,554)
Adjustments	**(4)**	(136)	**(4)**	(124)
At end of year	**171,289**	162,235	**53,449**	37,919
Accumulated amortisation:				
At beginning of year	**83,254**	71,887	**14,727**	10,957
Charge for the year (Note 7)	**24,711**	23,007	**7,655**	6,324
Fully amortised costs written off	**(15,637)**	(11,640)	**(1,962)**	(2,554)
At end of year	**92,328**	83,254	**20,420**	14,727
Net book value:				
At end of year	**78,961**	78,981	**33,029**	23,192
Deferred debt issue costs, net	**78,961**	78,981	**33,029**	23,192
Less: Current portion	**(9,068)**	(10,531)	**(1,034)**	(818)
Non-current portion	**69,893**	68,450	**31,995**	22,374

21. Loans and borrowings (cont'd)

The table below summarises the maturity profile of the gross loans and borrowings before adjustments for deferred debt issue costs, fair value, revaluations and discounts/premiums to medium term notes at the end of each year for the Group and the Company.

	Group				
	One year or less	**One to two years**	**Two to five years**	**Over five years**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
2019					
Medium term notes	1,129,788	1,185,873	3,788,011	2,859,310	8,962,982
Loans	650,273	790,682	3,098,745	10,594	4,550,294
Total gross loans and borrowings	**1,780,061**	**1,976,555**	**6,886,756**	**2,869,904**	**13,513,276**
2018					
Medium term notes	300,000	1,129,788	3,674,174	2,061,057	7,165,019
Loans	1,150,566	828,324	3,155,115	176,598	5,310,603
Total gross loans and borrowings	1,450,566	1,958,112	6,829,289	2,237,655	12,475,622

	Company				
	One year or less	**One to two years**	**Two to five years**	**Over five years**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
2019					
Medium term notes	1,129,788	1,185,873	3,788,011	2,859,310	8,962,982
Loans	198,865	50,552	956,618	–	1,206,035
Total gross loans and borrowings	**1,328,653**	**1,236,425**	**4,744,629**	**2,859,310**	**10,169,017**
2018					
Medium term notes	300,000	1,129,788	3,674,174	2,061,057	7,165,019
Loans	142,239	438,865	461,264	35,906	1,078,274
Total gross loans and borrowings	442,239	1,568,653	4,135,438	2,096,963	8,243,293

21. Loans and borrowings (cont'd)

As at 31 December 2019, secured loans amounted to US$1,330.3 million (2018: US$1,686.6 million) and US$476.0 million (2018: US$523.3 million) for the Group and the Company, respectively. These amounts are secured by the related aircraft (Note 12), certain cash and bank balances and designated bank accounts (Note 17) and/or a pledge of the shares in certain subsidiary companies (Note 33) that hold title to aircraft.

In addition, the Company and certain subsidiary companies have provided negative pledges relating to all of these companies' assets and revenues (other than any encumbrance in existence at the time the negative pledge is entered into or created subsequently to secure finance to acquire or re-finance any aircraft).

(a) Medium term notes

Outstanding notes issued at fixed coupon rate and floating rate denominated in various currencies issued were:

			Group and Company 2019		
		Maturity	Outstanding amounts	Amounts swapped to US$ and floating rates	Amounts swapped to US$ and fixed rates
		(Year)	US$'000	US$'000	US$'000
Currency	**Fixed Coupon Rate (p.a.)**				
Australian Dollar	3.15% to 5.375%	2020 to 2029	**514,083**	**373,493**	**140,590**
Chinese Yuan	4.5% to 5.5%	2020 to 2024	**290,179**	**250,179**	**40,000**
Hong Kong Dollar	3.25% to 3.6%	2026 to 2027	**159,837**	**–**	**159,837**
Singapore Dollar	3.93%	2025	**108,883**	**–**	**108,883**
United States Dollar	2.375% to 4.375%	2020 to 2029	**6,450,000**	**200,000**	**–**
			7,522,982	**823,672**	**449,310**
Currency	**Floating Rate (p.a.)**				
United States Dollar	3-month LIBOR + Margin ranging from 1.05% to 1.30%	2021 to 2025	**1,440,000**	**–**	**1,440,000**
			8,962,982	**823,672**	**1,889,310**

21. Loans and borrowings (cont'd)

(a) Medium term notes (cont'd)

			Group and Company 2018		
		Maturity	**Outstanding amounts**	**Amounts swapped to US$ and floating rates**	**Amounts swapped to US$ and fixed rates**
		(Year)	**US$'000**	**US$'000**	**US$'000**
Currency	**Fixed Coupon Rate (p.a.)**				
Australian Dollar	5.375%	2020 to 2021	373,493	373,493	–
Chinese Yuan	4.5% to 5.5%	2020 to 2024	290,179	250,179	40,000
Hong Kong Dollar	3.25%	2027	102,464	–	102,464
Singapore Dollar	3.93%	2025	108,883	–	108,883
United States Dollar	2.375% to 4.375%	2019 to 2027	4,850,000	500,000	–
			5,725,019	1,123,672	251,347
Currency	**Floating Rate (p.a.)**				
United States Dollar	3-month LIBOR + Margin ranging from 1.05% to 1.30%	2021 to 2025	1,440,000	–	1,440,000
			7,165,019	1,123,672	1,691,347

As at 31 December 2019, an amount of US$823.7 million (2018: US$1,123.7 million) in medium term notes of the Group and the Company has been swapped to floating rate liabilities and US Dollars (for non-US Dollar denominated notes) via interest rate swap and cross-currency interest rate swap contracts. The carrying amount of these medium term notes was US$721.2 million (2018: US$1,021.4 million). These notes are liabilities designated as hedged items in fair value hedge and classified under Level 2 of the fair value hierarchy. The floating interest rate ranged from 2.6% to 5.0% (2018: 1.9% to 4.9%) per annum during the year.

Effects of fair value hedges on the notes in 2019 and 2018 were as follows:

	Group and Company 2019			
	Outstanding amounts	**Discount and deferred debt issue costs**	**Accumulated amount of fair value and revaluation adjustments**	**Carrying amounts of liabilities**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Fair value hedge				
Foreign currency and interest rate risks				
- Cross-currency interest rate swaps	**623,672**	**(278)**	**(101,908)**	**521,486**
- Interest rate swaps	**200,000**	**(105)**	**(194)**	**199,701**
	823,672	**(383)**	**(102,102)**	**721,187**

21. Loans and borrowings (cont'd)

(a) Medium term notes (cont'd)

	Group and Company 2018			
	Outstanding amounts	**Discount and deferred debt issue costs**	**Accumulated amount of fair value and revaluation adjustments**	**Carrying amounts of liabilities**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Fair value hedge				
Foreign currency and interest rate risks				
- Cross-currency interest rate swaps	623,672	(532)	(96,097)	527,043
- Interest rate swaps	500,000	(874)	(4,805)	494,321
	1,123,672	(1,406)	(100,902)	1,021,364

As at 31 December 2019, an amount of US$449.3 million (2018: US$251.3 million) in medium term notes of the Group and the Company which was denominated in non-US Dollar currencies at fixed rates has been swapped to US Dollars and at fixed rates via cross-currency interest rate swap contracts to hedge (i) the exposure to exchange rates of loans and borrowings issued in non-US Dollar currencies (fair value hedge) and (ii) the exposure to variability in cash flows for the related borrowings (cash flow hedge). The portion of the fair value change attributable to changes in the exchange rate are recognised in profit or loss, and the remaining portion attributable to cash flow variability is recognised in hedging reserve. The net fair value loss of US$11.1 million (31 December 2018: gain of US$2.4 million) on these cross-currency interest rate swaps was recognised in hedging reserve while the balance amount was recognised in profit or loss.

As at 31 December 2019, an amount of US$1,440.0 million (2018: US$1,440.0 million) in medium term notes of the Group and the Company has been swapped to fixed rate liabilities via interest rate swaps to hedge exposure to variability in cash flows from related loans which are pegged to US Dollar LIBOR. These hedges are classified as cash flow hedges. The net fair value loss of US$32.5 million (2018: US$14.9 million) on these financial instruments was recognised in hedging reserve.

The terms of the above cross-currency interest rate swap and interest rate swap contracts have been negotiated to match the terms of the notes and accordingly, the hedges are assessed to be highly effective.

21. Loans and borrowings (cont'd)

(b) Loans

Interest on floating rate loans of the Group is set at specified margins above US Dollar LIBOR. Interest rate for floating rate loans is reset at intervals of up to six months and the weighted average effective interest rate was 3.4% (2018: 3.1%) per annum. The loans are repayable based on agreed repayment schedules, until the expiry date of the respective loans. The final maturities of the loans are between 2020 and 2025 (2018: 2019 and 2025).

As at 31 December 2019, the loan due to the intermediate holding company in the Group and the Company amounted to US$95.0 million (2018: nil), and the loans due to other related parties for the Group and the Company amounted to US$761.9 million (2018: US$735.3 million) and US$127.6 million (2018: nil), respectively.

As at 31 December 2019, loans outstanding amounting to US$2,255 million (2018: US$1,550 million) have been swapped to fixed rate liabilities via interest rate swaps to hedge exposure to variability in cash flows from related loans which are pegged to US Dollar LIBOR. These hedges are classified as cash flow hedges. The terms of the interest rate swap contracts have been negotiated to match the terms of the loans and accordingly, the cash flow hedges were assessed to be highly effective. The net fair value loss of US$58.5 million (2018: US$7.2 million) was accounted for in hedging reserve.

As at 31 December 2019, the Group and the Company had unutilised unsecured committed revolving credit facilities of US$3,655 million (2018: US$2,841 million) and US$2,640 million (2018: US$2,170 million), respectively. These facilities include a US$2 billion committed revolving credit facility which is granted by the intermediate holding company and matures in 2022, and an amount of US$248.0 million (2018: US$118.7 million) in undrawn commitments which are provided by other related parties as part of committed syndicated revolving credit facilities which mature between 2021 and 2024.

As at 31 December 2019, the Group and the Company had a committed unutilised unsecured term loan facility of US$700 million (2018: US$750 million) and US$350 million (2018: nil), respectively. These facilities include an amount of US$337 million (2018: US$145 million) which was provided by other related parties.

22. Lease liabilities

	Group 2019 US$'000	Company 2019 US$'000
At beginning of year	–	–
Adoption of IFRS 16/SFRS(I) 16	9,899	9,198
Additions	2,278	–
Disposals	(12)	–
Accretion of interest	322	287
Payments	(1,955)	(1,564)
Revaluation adjustments	36	(2)
At end of year	10,568	7,919
Current	1,981	1,359
Non-current	8,587	6,560
	10,568	7,919

The following amounts were recognised in profit or loss:

	Group 2019 US$'000
Depreciation expense of right-of-use assets	1,870
Interest expense on lease liabilities	322
Expense relating to short-term leases	213
Expense relating to leases of low-value assets	3
	2,408

Interest on the leases ranged from 2.8% to 3.4% per annum for the Group and at 3.3% per annum for the Company.

23. Reconciliation of movement of financial liabilities to net cash flows from financing activities

Extracted from Consolidated Statement of Cash Flows

	Group	
	2019	2018
	US$'000	US$'000
Cash flows from financing activities:		
Proceeds from loans and borrowings	**3,067,962**	2,140,000
Repayment of loans and borrowings	**(1,231,308)**	(1,247,380)
(Decrease)/increase in borrowings from revolving credit facilities, net	**(799,000)**	644,000
Repayment of lease liabilities	**(1,955)**	–
Finance expenses paid	**(442,665)**	(361,330)
Debt issue costs paid	**(38,325)**	(16,275)
	554,709	1,159,015
Cash flows used in other financing activities	**(239,587)**	(179,165)
Net cash flows from financing activities	**315,122**	979,850

23. Reconciliation of movement of financial liabilities to net cash flows from financing activities (cont'd)

				Non-cash changes					
Group	Note	2018 US$'000	Cash flows US$'000	Fair value and revaluation adjustments US$'000	Adoption of IFRS 16 /SFRS(I) 16 US$'000	Future lease payments US$'000	Amortisation /accretion US$'000	Re-classification and others US$'000	2019 US$'000
Loans and borrowings									
Medium term notes									
- current		298,464	(300,000)	(54,011)	–	–	–	1,129,788	**1,074,241**
- non-current		6,758,521	2,097,963	52,936	–	–	–	(1,129,788)	**7,779,632**
Medium term notes discount (net of premium)									
- current		(241)	–	–	–	–	241	(213)	**(213)**
- non-current		(9,639)	(13,634)	–	–	–	4,002	213	**(19,058)**
Loans									
- current		1,150,566	(1,150,566)	–	–	–	–	650,273	**650,273**
- non-current		4,160,037	390,257	–	–	–	–	(650,273)	**3,900,021**
Deferred debt issue costs									
- current		(10,531)	–	–	–	–	10,531	(9,068)	**(9,068)**
- non-current		(68,450)	(24,691)	–	–	–	14,180	9,068	**(69,893)**
	21	12,278,727	999,329	(1,075)	–	–	28,954	–	**13,305,935**
Lease liabilities									
- current		–	(1,955)	38	1,641	353	322	1,582	**1,981**
- non-current		–	–	(2)	8,258	1,925	–	(1,594)	**8,587**
	22	–	(1,955)	36	9,899	2,278	322	(12)	**10,568**
Trade and other payables									
Accrued interest expenses		76,521	(442,665)	84	–	–	461,251	–	**95,191**
	19	76,521	(442,665)	84	–	–	461,251	–	**95,191**
Total		**12,355,248**	**554,709**	**(955)**	**9,899**	**2,278**	**490,527**	**(12)**	**13,411,694**

23. Reconciliation of movement of financial liabilities to net cash flows from financing activities (cont'd)

Group	Note	2017 US$'000	Cash flows US$'000	Non-cash changes: Fair value and revaluation adjustments US$'000	Non-cash changes: Amortisation /accretion US$'000	Non-cash changes: Re-classification US$'000	2018 US$'000
Loans and borrowings							
Medium term notes							
- current		454,222	(492,225)	36,467	–	300,000	298,464
- non-current		5,363,550	1,740,000	(45,029)	–	(300,000)	6,758,521
Medium term notes discount (net of premium)							
- current		79	–	–	(79)	(241)	(241)
- non-current		(12,334)	(1,008)	–	3,462	241	(9,639)
Loans							
- current		975,074	(975,074)	–	–	1,150,566	1,150,566
- non-current		3,988,387	1,322,216	–	–	(1,150,566)	4,160,037
Deferred debt issue costs							
- current		(9,932)	–	–	9,932	(10,531)	(10,531)
- non-current		(76,789)	(15,267)	–	13,075	10,531	(68,450)
	21	10,682,257	1,578,642	(8,562)	26,390	–	12,278,727
Lease liabilities							
Lease liabilities							
- current		33,526	(33,526)	–	–	–	–
- non-current		24,771	(24,771)	–	–	–	–
Deferred debt issue costs							
- current		(48)	–	–	48	–	–
- non-current		(131)	–	–	131	–	–
		58,118	(58,297)	–	179	–	–
Trade and other payables							
Accrued interest expenses		58,863	(361,330)	91	378,897	–	76,521
	19	58,863	(361,330)	91	378,897	–	76,521
Total		10,799,238	1,159,015	(8,471)	405,466	–	12,355,248

24. Security deposits

In addition to the cash security deposits recorded on the statement of financial position, the security deposits received by the Group and the Company in the form of irrevocable letters of credit amounted to US$245.1 million (2018: US$139.9 million) and US$77.7 million (2018: US$74.4 million), respectively.

25. Maintenance reserves

	Note	Group 2019 US$'000	Group 2018 US$'000	Company 2019 US$'000	Company 2018 US$'000
At beginning of year		**732,133**	558,503	**319,801**	245,874
Contributions		**203,954**	232,526	**93,750**	124,164
Utilisation		**(82,638)**	(11,611)	**(66,804)**	(6,324)
Transfer to accrued maintenance reserve payables		**(31,367)**	(6,713)	**(10,930)**	(270)
Transfer to buyers		**(28,632)**	(37,904)	**(11,498)**	(19,466)
Transfer to liabilities associated with assets held for sale	18	**(58,741)**	–	**(26,099)**	–
Transfer to subsidiary companies		**–**	–	**–**	(15,958)
Release to profit or loss for excess written off		**–**	(47)	**–**	(47)
Release to profit or loss upon sale of aircraft	5	**(142,160)**	(2,621)	**(24,691)**	–
Release to profit or loss upon sale of aircraft to subsidiary companies		**–**	–	**–**	(8,172)
At end of year		**592,549**	732,133	**273,529**	319,801

Letters of credit received by the Group and the Company from certain lessees to cover all or a portion of their maintenance contribution payment obligations amounted to US$280.2 million (2018: US$220.9 million) and US$124.5 million (2018: US$103.1 million), respectively.

26. Deferred income tax assets and liabilities

	Group 2019 US$'000	Group 2018 US$'000	Company 2019 US$'000	Company 2018 US$'000
Deferred income tax liabilities, net	**334,345**	304,800	**120,337**	93,065
Deferred income tax assets, net	**(169)**	(146)	**–**	–
	334,176	304,654	**120,337**	93,065

Net deferred income tax assets and deferred income tax liabilities which arose in different taxable jurisdictions are grouped separately.

26. Deferred income tax assets and liabilities (cont'd)

Breakdown of deferred income tax assets and liabilities is as follows:

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Gross deferred tax liabilities	**435,844**	399,112	**150,873**	118,411
Gross deferred tax assets	**(101,668)**	(94,458)	**(30,536)**	(25,346)
Net deferred tax liabilities	**334,176**	304,654	**120,337**	93,065

The unrecognised deferred tax liabilities are as disclosed in Note 3.1(f).

Movements in the Group's and Company's deferred tax assets and liabilities during the year are as follows:

	Group			
	Differences in depreciation	**Unremitted overseas income**	**Others**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Deferred tax liabilities arising from:				
At 1 January 2018	373,530	4,291	873	378,694
Charged to profit or loss	17,867	1,764	787	20,418
At 31 December 2018 and 1 January 2019	**391,397**	**6,055**	**1,660**	**399,112**
Charged/(credited) to profit or loss	**37,551**	**301**	**(1,120)**	**36,732**
At 31 December 2019	**428,948**	**6,356**	**540**	**435,844**

26. Deferred income tax assets and liabilities (cont'd)

	Group			
	Unabsorbed capital allowances and unutilised tax losses	**Provisions**	**Others**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Deferred tax assets arising from:				
At 1 January 2018	(74,247)	(6,351)	(1,898)	(82,496)
Credited to profit or loss	(9,523)	(1,045)	(1,394)	(11,962)
At 31 December 2018 and 1 January 2019	**(83,770)**	**(7,396)**	**(3,292)**	**(94,458)**
Charged to profit or loss	**1,060**	**769**	**1,231**	**3,060**
Credited to other comprehensive income	**–**	**–**	**(10,270)**	**(10,270)**
At 31 December 2019	**(82,710)**	**(6,627)**	**(12,331)**	**(101,668)**

	Company			
	Differences in depreciation	**Unremitted overseas income**	**Others**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Deferred tax liabilities arising from:				
At 1 January 2018	93,628	4,291	311	98,230
Charged/(credited) to profit or loss	18,449	1,764	(32)	20,181
At 31 December 2018 and 1 January 2019	**112,077**	**6,055**	**279**	**118,411**
Charged to profit or loss	**31,936**	**301**	**225**	**32,462**
At 31 December 2019	**144,013**	**6,356**	**504**	**150,873**

26. Deferred income tax assets and liabilities (cont'd)

	Company			
	Unabsorbed capital allowances and unutilised tax losses	**Provisions**	**Others**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Deferred tax assets arising from:				
At 1 January 2018	(21,437)	(4,095)	(268)	(25,800)
Charged/(credited) to profit or loss	1,276	(632)	(190)	454
At 31 December 2018 and 1 January 2019	**(20,161)**	**(4,727)**	**(458)**	**(25,346)**
(Credited)/charged to profit or loss	**(2,044)**	**431**	**(56)**	**(1,669)**
Credited to other comprehensive income	**–**	**–**	**(3,521)**	**(3,521)**
At 31 December 2019	**(22,205)**	**(4,296)**	**(4,035)**	**(30,536)**

27. Other non-current liabilities

Included in other non-current liabilities are the non-current portion of bonuses and related employers' contributions payable and provided for under the staff cash incentive plans. These bonuses are payable over a 3-year period from the second year after the end of each year.

28. Share capital

	Group and Company			
	2019		2018	
	No. of shares '000	**US$'000**	No. of shares '000	US$'000
Issued and fully paid ordinary shares:				
At beginning and end of year	**694,010**	**1,157,791**	694,010	1,157,791

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

29. Hedging reserves

Hedging reserves record the portion of the fair value changes on derivative financial instruments designated as hedging instruments in cash flow hedges that is determined to be an effective hedge.

	Group		Company	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Interest rate and foreign currency risk:				
At beginning of year	**1,343**	21,083	**(9,174)**	4,068
Effective portion of changes in fair value of cash flow hedges, net of tax:				
- Interest rate swaps	**(92,457)**	(14,871)	**(42,006)**	(16,460)
- Cross-currency interest rate swaps	**(12,063)**	4,153	**(12,063)**	4,153
	(104,520)	(10,718)	**(54,069)**	(12,307)
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax:				
- Interest rate swaps	**1,514**	(7,240)	**7,164**	847
- Cross-currency interest rate swaps	**919**	(1,782)	**919**	(1,782)
	2,433	(9,022)	**8,083**	(935)
	(102,087)	(19,740)	**(45,986)**	(13,242)
At end of year	**(100,744)**	1,343	**(55,160)**	(9,174)

30. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Note	Group	
		2019	2018
		US$'000	US$'000
Short-term deposits	16	**202,935**	152,936
Cash and bank balances	17	**48,728**	69,797
		251,663	222,733

31. Lease liabilities to subsidiary companies

	Company	
	2019	2018
	US$'000	US$'000
Current:		
Lease liabilities to subsidiary companies	**110,262**	112,922
Deferred debt issue costs	**(4,648)**	(4,895)
Lease liabilities to subsidiary companies, net	**105,614**	108,027
Non-current:		
Lease liabilities to subsidiary companies	**330,913**	462,980
Deferred debt issue costs	**(13,679)**	(19,190)
Lease liabilities to subsidiary companies, net	**317,234**	443,790
Total lease liabilities to subsidiary companies, net	**422,848**	551,817

	Company	
	2019	2018
	US$'000	US$'000
At beginning of year	**551,817**	663,806
Accretion of interest	**23,427**	22,971
Payments	**(152,396)**	(134,960)
At end of year	**422,848**	551,817
Current	**105,614**	108,027
Non-current	**317,234**	443,790
	422,848	551,817

31. Lease liabilities to subsidiary companies (cont'd)

The lease liabilities to subsidiary companies are secured by a charge over leased assets (Note 12). Interest rates on the leases ranged from 2.2% to 4.0% (2018: 1.5% to 4.1%) per annum.

As at 31 December 2018, the Company's future minimum lease payments for lease liabilities to subsidiary companies was US$131.2 million payable within one year, US$434.7 million between one and five years and US$65.4 million after five years.

The deferred debt issue costs relating to lease liabilities to subsidiary companies are analysed as follows:

	Company	
	2019	2018
	US$'000	US$'000
Cost:		
At beginning of year	**58,213**	59,265
Fully amortised cost written off	**(2,971)**	(1,230)
Transfers	**–**	178
At end of year	**55,242**	58,213
Accumulated amortisation:		
At beginning of year	**34,128**	30,156
Charge for the year	**5,758**	5,297
Fully amortised cost written off	**(2,971)**	(1,230)
Transfers	**–**	(95)
At end of year	**36,915**	34,128
Net book value:		
At end of year	**18,327**	24,085
Deferred debt issue costs, net	**18,327**	24,085
Less: Current portion	**(4,648)**	(4,895)
Non-current portion	**13,679**	19,190

32. Amounts due from subsidiary companies

The amounts due from subsidiary companies of US$1,424.6 million (2018: US$1,029.4 million) are interest bearing, non-trade related and unsecured. The interest rate ranged from 2.6% to 3.4% (2018: 2.5% to 3.2%) per annum.

33. Investments in subsidiary companies

	Company	
	2019	2018
	US$'000	US$'000
Equity investments at cost:		
At beginning of year	**747,427**	747,428
Dissolutions	–	(1)
Redemption of preference shares	**(200)**	–
At end of year	**747,227**	747,427

33. Investments in subsidiary companies (cont'd)

Details of the subsidiary companies are as follows:

	Name	**Country of incorporation**	**Principal activities**	**Paid up capital as at 31 December 2019**	**Percentage of equity held**	
					2019	2018
					%	%
[1]	BOC Aviation (UK) Limited	England and Wales	Leasing of aircraft	US$75,000,000	**100**	100
[1]	BOC Aviation (Ireland) Limited	Ireland	Leasing of aircraft	US$250,000,000 +€5.08	**100**	100
[1]	BOC Aviation Leasing (Tianjin) Limited	People's Republic of China	Investment holding	US$1,800,000	**100**	100
[1]	BOC Aviation (USA) Corporation	United States	Leasing of aircraft	US$186,400,000	**100**	100
[2]	BOC Aviation (Bermuda) Limited	Bermuda	Holding of funds	US$12,000	**100**	100
[2]	BOCA Leasing (Bermuda) Limited	Bermuda	Dissolved	–	–	100
[2]	BOC Aviation Capital Limited	Cayman Islands	Financing activities	US$10	**100**	100
[2]	BOC Aviation (Cayman) Limited	Cayman Islands	Acquisition of aircraft	US$100	**100**	100
[2]	Echo Leasing One Limited	Cayman Islands	Leasing of aircraft	US$100	**100**	100

33. Investments in subsidiary companies (cont'd)

	Name	Country of incorporation	Principal activities	Paid up capital as at 31 December 2019	Percentage of equity held	
					2019	2018
					%	%
[2]	Echo Leasing Two Limited	Cayman Islands	Leasing of aircraft	US$100	**100**	100
[2]	Echo Leasing Five Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2]	Echo Leasing Six Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2]	Echo Leasing Seven Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2,5]	SALE Cayman (35073) Limited	Cayman Islands	In dissolution process	–	**–**	100

33. Investments in subsidiary companies (cont'd)

	Name	Country of incorporation	Principal activities	Paid up capital as at 31 December 2019	Percentage of equity held	
					2019	2018
					%	%
[2,3]	Vanda Leasing Seven Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2,3]	Vanda Leasing Eight Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2]	Vanda Leasing Nine Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2]	Vanda Leasing Ten Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2]	Vanda Leasing Eleven Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[2]	Vanda Leasing Twelve Limited	Cayman Islands	Leasing of aircraft	US$10	**100**	100
[1]	BOC Aviation (Labuan) Pte. Ltd.	Malaysia	In dissolution process	US$75,000	**100**	100

33. Investments in subsidiary companies (cont'd)

	Name	Country of incorporation	Principal activities	Paid up capital as at 31 December 2019	Percentage of equity held 2019 %	2018 %
	Consolidated structured entities*					
2,4	Galahad Leasing Limited	Cayman Islands	Leasing of aircraft	US$250	–	–
2,4	Gawain Leasing Limited	Cayman Islands	Leasing of aircraft	US$250	–	–
2,4	Green Knight Leasing Limited	Cayman Islands	Leasing of aircraft	US$250	–	–
2,4	Guinevere Leasing Limited	Cayman Islands	Leasing of aircraft	US$250	–	–
1,4	ARCU Aircraft Holdings Pte. Ltd.	Singapore	Investment holding	US$1	–	–
1,4	Pacific Triangle Holdings Pte. Ltd.	Singapore	Investment holding	US$1	–	–
2,4	Chilli Leasing LLC	United States	Leasing of aircraft	US$1,000	–	–
2,4	Laylya Leasing LLC	United States	Leasing of aircraft	US$1,000	–	–
2,4	Sunshine Aircraft Leasing LLC	United States	Leasing of aircraft	US$1,000	–	–

* The companies are fully consolidated as structured entities of the Company as the Group is exposed, or has rights, to variable returns from its involvement with the entities and has the ability to affect those returns through its power over the investee.

33. Investments in subsidiary companies (cont'd)

	Name	Country of incorporation	Principal activities	Paid up capital as at 31 December 2019	Percentage of equity held	
					2019	2018
					%	%
	Held by ARCU Aircraft Holdings Pte. Ltd.:					
2,4	ARCU Aircraft Leasing Limited*	Cayman Islands	Leasing of aircraft	US$250	**–**	–
	Held by Pacific Triangle Holdings Pte. Ltd.:					
2,4	Pacific Triangle Leasing Limited*	Cayman Islands	Leasing of aircraft	US$250	**–**	–
2,4	Pacific Triangle Leasing 2 Limited*	Cayman Islands	Leasing of aircraft	US$250	**–**	–
	Held by BOC Aviation (Ireland) Limited:					
2	BOC Aviation (France) SARL	France	Leasing of aircraft	€1,000	**100**	100
2,3	BOC Aviation (France) 2 SARL	France	Leasing of aircraft	€1,000	**100**	100
2,3	BOC Aviation (France) 5 SARL	France	Leasing of aircraft	€1,000	**100**	100
2,3	BOC Aviation (France) 6 SARL	France	Leasing of aircraft	€1,000	**100**	100
2	BOC Aviation (France) 8 SARL	France	Leasing of aircraft	€1,000	**100**	100
2	BOC Aviation (France) 9 SARL	France	Leasing of aircraft	€1,000	**100**	100
2	BOC Aviation (France) 10 SARL	France	Leasing of aircraft	€1,000	**100**	100
2,3	BOC Aviation (France) 11 SARL	France	Leasing of aircraft	€1,000	**100**	100

* The companies are fully consolidated as structured entities of the Company as the Group is exposed, or has rights, to variable returns from its involvement with the entities and has the ability to affect those returns through its power over the investee.

33. Investments in subsidiary companies (cont'd)

	Name	Country of incorporation	Principal activities	Paid up capital as at 31 December 2019	Percentage of equity held 2019 %	2018 %
	Held by BOC Aviation Leasing (Tianjin) Limited:					
2	博加阿尔法航空租赁（天津）有限公司 (BOCA Alpha Leasing (TJ) Limited)	People's Republic of China	Leasing of aircraft	CNY100,000	**100**	100
2	博加布拉沃航空租赁（天津）有限公司 (BOCA Bravo Leasing (TJ) Limited)	People's Republic of China	Leasing of aircraft	CNY100,000	**100**	100
2	博加查理航空租赁（天津）有限公司 (BOCA Charlie Leasing (TJ) Limited)	People's Republic of China	Leasing of aircraft	CNY100,000	**100**	100
2	博加德达航空租赁（天津）有限公司 (BOCA Delta Leasing (TJ) Limited)	People's Republic of China	Leasing of aircraft	CNY100,000	**100**	–
2	博加易科航空租赁（天津）有限公司 (BOCA Echo Leasing (TJ) Limited)	People's Republic of China	Leasing of aircraft	CNY100,000	**100**	–
	Held by BOC Aviation (USA) Corporation:					
2	BOC Aviation (Aruba) A.V.V.	Aruba	Leasing of aircraft	US$100	**100**	100

All subsidiary companies, including all consolidated structured entities, are incorporated as limited liability entities.

1 Audited by Ernst & Young LLP, Singapore or member firms of Ernst & Young.
2 Not required to be audited by law in its country of incorporation.
3 The Company has pledged all its benefits in respect of its entire shareholding in these subsidiary companies for loan facilities granted (Note 21).
4 The shares or membership interest (as applicable) of these companies are pledged for loan facilities granted to certain companies within the Group.
5 Subsequent to 31 December 2019, this company has completed its dissolution process.

34. Dividends

	Group and Company	
	2019	2018
	US$'000	US$'000
Declared and paid during the year:		
Final dividend for 2018: US$0.1845 (2017: US$0.1920) per share	**128,045**	133,250
Interim dividend for 2019: US$0.1388 (2018: US$0.1284) per share	**96,329**	89,111
	224,374	222,361
Proposed as at 31 December:		
Final dividend for 2019: US$0.2153 (2018: US$0.1845) per share	**149,420**	128,045

On 11 March 2020, the directors proposed to recommend in the Annual General Meeting on 29 May 2020 a final dividend of US$0.2153 per ordinary share for the year ended 31 December 2019 amounting to approximately US$149.4 million, bringing the total dividend for 2019 to US$245.7 million (2018: US$217.2 million) or US$0.3541 (2018: US$0.3129) per ordinary share. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

35. Related party transactions

The Group is majority owned by Bank of China Limited which is controlled by Central Huijin, a wholly owned subsidiary of CIC, which is a wholly state-owned company in the PRC. Central Huijin and CIC have equity interests in certain other entities in the PRC. Bank of China Limited is indirectly subject to the control of the State Council of the PRC Government through CIC and Central Huijin. The State Council directly or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities.

The Group enters into leasing, purchase and leaseback, borrowings and other transactions with certain state-owned entities mentioned above in the normal course of business and on commercial terms.

35. Related party transactions (cont'd)

The Group considers only those entities known to the management to be a subsidiary company, associate or joint venture of Central Huijin to be related parties.

In addition to the information disclosed elsewhere in the financial statements, the following significant transactions took place between the Group and related parties in the normal course of business and on commercial terms:

	Group	
	2019	2018
	US$'000	US$'000
Expense		
(a) Intermediate holding company:		
Interest expense	**1,753**	–
(b) Other related parties:		
Interest expense	**26,222**	19,063

	Group	
	2019	2018
	US$'000	US$'000
Directors' and key executives' remuneration paid during the year		
(a) Directors of the Company:		
Salary, fees, bonuses and other costs	**10,688**	8,779
CPF and other defined contributions	**4**	4
	10,692	8,783
(b) Key executives (excluding executive directors):		
Salary, bonuses and other costs	**16,158**	13,427
CPF and other defined contributions	**417**	376
	16,575	13,803

As at 31 December 2019, US$19.2 million (2018: US$20.2 million) of deferred bonuses were payable to directors of the Company and key executives of the Group.

During the year ended 31 December 2019, the share-based compensation expense for directors of the Company and key executives of the Group amounted to US$1.3 million (2018: US$0.3 million) and US$1.9 million (2018: US$0.5 million), respectively.

36. Commitments

(a) Operating lease commitments

(i) Operating lease commitments - As lessor

Aircraft

The Group and the Company lease its aircraft under operating lease agreements that are non-cancellable.

Future net minimum lease receivables under the non-cancellable operating leases as at the end of each year for existing aircraft are as follows:

	Group		Company	
	2019	2018	**2019**	2018
	US$ million	US$ million	**US$ million**	US$ million
Within one year	**1,740**	1,604	**1,160**	1,004
Between one and two years	**1,694**	1,547	**1,130**	980
Between two and three years	**1,625**	1,509	**1,090**	968
Between three and four years	**1,592**	1,420	**1,075**	909
Between four and five years	**1,499**	1,377	**1,036**	892
After five years	**5,591**	5,101	**4,328**	3,745
	13,741	12,558	**9,819**	8,498

Future net minimum lease receivables committed for aircraft yet to be delivered are as follows:

	Group		Company	
	2019	2018	**2019**	2018
	US$ million	US$ million	**US$ million**	US$ million
Within one year	**87**	108	**40**	68
Between one and two years	**230**	199	**123**	125
Between two and three years	**242**	282	**123**	185
Between three and four years	**240**	294	**123**	185
Between four and five years	**240**	292	**123**	185
After five years	**1,689**	2,221	**854**	1,399
	2,728	3,396	**1,386**	2,147

36. Commitments (cont'd)

(a) Operating lease commitments (cont'd)

(ii) Operating lease commitments - As lessee

The Group leases office and facility spaces under non-cancellable operating lease agreements. With the adoption of IFRS 16/SFRS(I) 16 *Leases*, the Group has recognised the lease liabilities representing the present value of the minimum lease payments on the statement of financial position as disclosed in Note 22. As at 31 December 2018, the future minimum lease payments for the office leases were US$2.3 million payable within one year and US$5.1 million between one and five years for the Group and US$1.9 million within one year and US$4.6 million between one and five years for the Company.

(b) Capital expenditure commitments

As at 31 December 2019, the Group had committed to purchase various aircraft delivering between 2020 and 2023. The amount of future commitments under purchase agreements, including assumed escalation to delivery, was US$7,509 million to the end of 2023 (2018: US$9,217 million to the end of 2021). This includes all commitments to purchase aircraft, including those where an airline has a right to acquire the relevant aircraft on delivery.

Subsequent to 31 December 2019, the Group was notified by The Boeing Company ("Boeing") of the likely delivery schedule for the Group's 87 Boeing model 737 MAX ("MAX") aircraft between 2020 and 2023. In addition, (i) on 6 January 2020 the Group entered into a purchase agreement with Airbus SAS for 20 Airbus A320 NEO family aircraft that are scheduled for delivery in 2023 and 2024 and (ii) on 9 March 2020 the Group entered into an agreement to acquire 22 Boeing 787 aircraft that are scheduled for delivery in 2020 and 2021 and that will be leased to a North American airline under long term leases.

The MAX remains grounded and Boeing suspended production of the MAX in January 2020, and it is therefore likely that a material number of the Group's MAX aircraft currently scheduled for delivery in 2020 will be delayed or deferred to later years. There is uncertainty surrounding the timing of re-certification and return to service of the MAX, although all of the Group's capital expenditure commitments of US$7,509 million as at 31 December 2019 are presently expected to be incurred by the end of 2023. As at 11 March 2020, the financial impact on the Group from the delays caused by the grounding of the MAX cannot be reliably measured and the management is closely monitoring the situation.

37. Contingent liabilities

Corporate guarantees for subsidiary companies

The Company has provided corporate guarantees for certain loans extended to its subsidiary companies by the banks and for obligations under certain lease agreements entered into by the subsidiary companies. As at 31 December 2019, the corporate guarantees for loans to subsidiary companies amounted to approximately US$3,344.3 million (2018: US$4,232.3 million).

38. Classification of financial instruments and their fair values

The carrying amounts of each category of financial assets and financial liabilities, as defined in IFRS 9/SFRS(I) 9, are disclosed either in the statement of financial position or in the notes to the financial statements.

Financial assets measured at amortised cost comprise trade receivables (Note 14), other receivables (Note 15), short-term deposits (Note 16), cash and bank balances (Note 17), amounts due from subsidiary companies (Note 32) and other non-current assets.

As at 31 December 2019, the financial assets measured at amortised cost for the Group and the Company were US$413.4 million (2018: US$254.2 million) and US$1,722.9 million (2018: US$1,201.0 million), respectively.

Financial liabilities measured at amortised cost comprise liabilities associated with assets held for sale (Note 18), trade and other payables (Note 19), loans and borrowings (Note 21), lease liabilities (Note 22), security deposits (Note 24), other non-current liabilities (Note 27) and lease liabilities to subsidiary companies (Note 31).

As at 31 December 2019, the financial liabilities measured at amortised cost for the Group and the Company were US$13,915.6 million (2018: US$12,770.3 million) and US$10,815.2 million (2018: US$8,959.5 million), respectively.

(a) Financial instruments carried at fair values

Financial assets and liabilities at fair value through profit or loss comprise derivative financial instruments (Note 13).

The fair values of the derivative financial instruments are determined by reference to marked-to-market values provided by counterparties. The fair value measurement of all derivative financial instruments under the Group are classified under Level 2 of the fair value hierarchy, for which inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) are included as inputs for the determination of fair value.

(b) Financial instruments whose carrying amounts approximate fair values

Management has determined that except for derivative financial instruments, the carrying amounts of its current financial assets and liabilities, reasonably approximate their fair values because these are mostly short-term in nature or are repriced frequently. Amounts due from subsidiary companies approximate their fair value because these are repriced frequently.

Non-current loans and borrowings reasonably approximate their fair values for those that are at floating rate and are re-priced to market interest rates on or near the end of each year for the respective financial year.

38. Classification of financial instruments and their fair values (cont'd)

(c) Financial instruments not measured at fair value, for which fair value is disclosed

Set out below is a comparison of carrying amounts and fair values of all of the Group's and Company's financial instruments not measured at fair value.

	Group and Company	
	2019	**2018**
	US$'000	**US$'000**
Medium term notes :		
Carrying amounts	**6,661,979**	4,578,648
Fair values	**6,817,043**	4,492,516

As at 31 December 2019, the fair value measurements of the above financial instruments were classified under Level 1 of the fair value hierarchy as these amounts were based on quoted prices, except for the carrying amount of US$159.5 million (2018: US$102.2 million) with fair value of US$158.7 million (2018: US$98.5 million) which was classified under Level 2 of the fair value hierarchy as it was determined based on indicative bid price obtained from a counterparty.

39. Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign exchange risk. The Group reviews and agrees policies for managing each of these risks. The following sections provide details regarding the Group's exposure to financial risks and the objectives, policies and processes for the management of these risks.

There has been no significant change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its loans and borrowings and lease rental income.

The Group obtains financing through loans and capital market notes. The Group's objective is to obtain the most favourable interest rates available on acceptable terms and conditions.

A portion of the Group's financial assets and liabilities are based on floating interest rates pegged to US Dollar LIBOR and are contractually repriced at intervals of less than 12 months from the end of each year. Interest rate exposure for the Group arises when the Group collects fixed rate rentals but pays floating interest rate under its borrowings.

The Group's policy is to hedge at least 50% of its mismatched interest rate exposure through appropriate interest rate derivative financial instruments and borrowing fixed rate debts. At the end of the year, the Group had hedged approximately 90% (2018: 80%) of the Group's mismatched interest rate exposure.

39. Financial risk management objectives and policies (cont'd)

(a) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

A sensitivity analysis is performed based on the following assumptions on the outstanding financial instruments of the Group at the end of the year:

(i) Changes in interest rates affect the interest income or finance expenses of variable interest financial instruments which include short-term deposits and floating rate loans.

(ii) Changes in interest rates affect the fair values of derivative financial instruments.

(iii) Changes in the fair values of derivative financial instruments and other financial assets and liabilities are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the end of the year.

For a more meaningful analysis on the impact of a change in floating interest rates, the sensitivity analysis includes the effect of such a change on the lease rental income in order to determine the potential impact on the Group's net profit after tax.

Under these assumptions, an increase or decrease in US Dollar floating interest rates of 25 basis points (2018: 25 basis points) with all other variables held constant will have the following effect on the Group's profit net of tax and the Group's hedging reserve in equity. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

		Group	
	Basis points	**Increase/ (decrease) on profit net of tax US$'000**	**Increase/ (decrease) on hedging reserve net of tax in equity US$'000**
2019			
Increase in interest rate	+25	**34**	**25,827**
Decrease in interest rate	-25	**(34)**	**(26,137)**
2018			
Increase in interest rate	+25	(2,835)	23,319
Decrease in interest rate	-25	2,835	(23,630)

39. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to a mismatch of assets and liabilities and/or due to refinancing risk.

The Group's primary sources of liquidity have principally comprised bank balances, cash generated by aircraft leasing operations, proceeds from aircraft sales and loans and borrowings. The Group's business is capital intensive, requiring significant investments and borrowings in order to grow and to maintain a young aircraft fleet. The cash flows from operations, particularly revenues from operating leases of aircraft, have historically provided a significant portion of the liquidity for these investments.

To ensure that the Group is able to meet its financial obligations, the Group's policy is to have its loan repayment spread over substantial periods of up to 12 years, and also to have available committed credit facilities from banks.

As at 31 December 2019, the Group had unutilised unsecured committed revolving credit facilities of US$3,655 million (2018: US$2,841 million) and a committed unutilised unsecured term loan facility of US$700 million (2018: US$750 million).

As at 31 December 2019, approximately 13% (2018: 12%) of the Group's gross debt would have matured in less than one year.

39. Financial risk management objectives and policies (cont'd)

***(b) Liquidity risk* (cont'd)**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the year based on contractual undiscounted repayment obligations.

	Group			
2019	**One year or less US$'000**	**One to five years US$'000**	**Over five years US$'000**	**Total US$'000**
Financial liabilities:				
Trade and other payables	**206,298**	**–**	**–**	**206,298**
Loans and borrowings	**1,780,061**	**8,863,311**	**2,869,904**	**13,513,276**
Estimated interest and net swap payments	**423,129**	**1,065,008**	**261,121**	**1,749,258**
Lease liabilities	**2,293**	**8,087**	**1,150**	**11,530**
Security deposits	**34,375**	**41,253**	**265,147**	**340,775**
Liabilities associated with assets held for sale	**64,766**	**–**	**–**	**64,766**
Other non-current liabilities	**–**	**42,955**	**–**	**42,955**
Total undiscounted financial liabilities	**2,510,922**	**10,020,614**	**3,397,322**	**15,928,858**
2018				
Financial liabilities:				
Trade and other payables	156,923	–	–	156,923
Loans and borrowings	1,450,566	8,787,401	2,237,655	12,475,622
Estimated interest and net swap payments	411,958	1,049,134	217,891	1,678,983
Security deposits	47,623	33,534	248,440	329,597
Other non-current liabilities	–	67,101	–	67,101
Total undiscounted financial liabilities	2,067,070	9,937,170	2,703,986	14,708,226

39. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

Analysis of financial liabilities by remaining contractual maturities (cont'd)

	Company			
2019	**One year or less US$'000**	**One to five years US$'000**	**Over five years US$'000**	**Total US$'000**
Financial liabilities:				
Trade and other payables	**146,778**	**–**	**–**	**146,778**
Loans and borrowings	**1,328,653**	**5,981,054**	**2,859,310**	**10,169,017**
Estimated interest and net swap payments	**348,177**	**918,422**	**261,121**	**1,527,720**
Security deposits	**11,647**	**24,804**	**161,914**	**198,365**
Lease liabilities	**1,602**	**6,287**	**786**	**8,675**
Lease liabilities to subsidiary companies	**110,262**	**320,320**	**10,593**	**441,175**
Liabilities associated with assets held for sale	**30,667**	**–**	**–**	**30,667**
Other non-current liabilities	**–**	**34,888**	**–**	**34,888**
Total undiscounted financial liabilities	**1,977,786**	**7,285,775**	**3,293,724**	**12,557,285**
2018				
Financial liabilities:				
Trade and other payables	106,106	–	–	106,106
Loans and borrowings	442,239	5,704,091	2,096,963	8,243,293
Estimated interest and net swap payments	295,341	761,185	209,812	1,266,338
Lease liabilities to subsidiary companies	112,922	399,231	63,749	575,902
Security deposits	16,505	25,978	129,943	172,426
Other non-current liabilities	–	56,975	–	56,975
Total undiscounted financial liabilities	973,113	6,947,460	2,500,467	10,421,040

39. Financial risk management objectives and policies (cont'd)

(c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

The Group is exposed to credit risk in the carrying amounts of trade and other receivables, derivative financial instruments, short-term deposits and cash and bank balances. Typically, the Group's leasing arrangements require lessees to pay rentals in advance and to provide security deposits and in certain cases maintenance reserves. However, an early termination of a lease due to a credit event may expose the Group to consequential economic loss due to lower rentals being available from replacement lessees and also possible costs associated with repossession, repair and maintenance and transitioning of the aircraft to a new lessee.

The Group's objective is to seek continual revenue growth while minimising credit losses. The Group undertakes credit appraisals on all potential lessees before entering into new leases and reviews the credit status of lessees annually. The Group also reviews the credit standing of vendors where significant and/or long-term procurement contracts are being contemplated.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group's policy is to undertake deposit and derivative transactions with reputable financial institutions which command an investment grade rating, typically not lower than the equivalent of S&P Global Ratings credit rating of "A-".

(i) Exposure to credit risk

At the end of the year, the Group's maximum exposure to credit risk was represented by:

- the carrying amount of each class of financial assets recognised in the statement of financial position, including derivatives with positive fair values; and

- corporate guarantees provided by the Group to the lenders on loans taken up by subsidiary companies, and also in certain lease agreements entered into by subsidiary companies.

39. Financial risk management objectives and policies (cont'd)

(c) Credit risk (cont'd)

(ii) Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring individual debtor and regional exposure to its trade receivables, net of allowance for impairment losses, on an ongoing basis. The credit risk concentration profile of the Group's trade receivables by debtor's geographic region based on the jurisdiction of each debtor under the relevant contracts was as follows:

	2019		**2018**	
	US$'000	**%**	US$'000	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**5,014**	**27.5**	3,762	47.1
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**11,599**	**63.6**	348	4.4
Americas	**460**	**2.5**	–	–
Europe	**1,159**	**6.4**	2,516	31.5
Middle East and Africa	**–**	**–**	1,358	17.0
	18,232	**100.0**	7,984	100.0

(iii) Financial assets that were neither past due nor impaired

Trade and other receivables that were neither past due nor impaired were either creditworthy receivables with good payment records with the Group or receivables which were contractually deferred by mutual agreement or were less than the security deposits held by the Group. Cash and cash equivalents and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings.

(iv) Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14.

(d) Foreign currency risk

The Group has transactional currency exposures mainly arising from its borrowings that are denominated in a currency other than the functional currency of the Group.

All loans and borrowings which are denominated in Australian Dollar, Chinese Yuan, Hong Kong Dollar and Singapore Dollar are swapped into United States Dollar. Foreign currency exposure arises as the Group's revenues and principal assets are denominated in United States Dollar. The Group primarily utilises cross-currency interest rate swap contracts to hedge its financial liabilities denominated in Australian Dollar, Chinese Yuan, Hong Kong Dollar and Singapore Dollar.

As a result of the Group's hedging as described above, a movement in foreign currency exchange rate is not expected to have a material impact on the Group's financial statements.

40. Capital management

The primary objective of the Group's capital management is to maximise shareholder value given an optimal debt to equity structure.

The Group manages its capital structure through the use of equity and debt after taking into account its capital expenditure and financing requirements. To maintain or adjust the capital structure, the Group may request for additional capital from the shareholders, adjust dividend payments to the shareholders or return capital to the shareholders.

The Group monitors its gearing, which is gross debt divided by total equity. The Group ensures that it operates within the gearing covenant in its loan facilities and to maintain its investment grade credit rating. Gross debt comprises the Group's loans and borrowings before adjustments for deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes. Total equity refers to the equity attributable to owners of the Company.

There were no changes made in the objectives, policies and processes during the year ended 31 December 2019 and 31 December 2018.

During the year ended 31 December 2019, the Group issued US$2.1 billion (2018: US$1.7 billion) of notes under the Global Medium Term Note and utilised US$640 million (2018: US$1.4 billion) under its committed revolving credit facilities as at 31 December 2019. There was no significant change in the Group's gearing as set out in the table below.

	Group	
	2019	2018
	US$'000	US$'000
Gross debt	**13,513,276**	12,475,622
Total equity	**4,580,914**	4,199,026
Gearing (times)	**2.9**	3.0

41. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There were no dilutive potential ordinary shares as at 31 December 2019 and 31 December 2018.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share:

	Group	
	2019	2018
Earnings		
Earnings used in the computation of basic and diluted earnings per share (profit for the year attributable to owners of the Company) (US$'000)	**702,259**	620,439
Number of shares		
Weighted average number of ordinary shares of basic and diluted earnings per share computation ('000)	**694,010**	694,010
Basic earnings per share (US$)	**1.01**	0.89
Diluted earnings per share (US$)	**1.01**	0.89

42. Segmental analysis

All revenues are derived from the Group's principal activities of leasing and management of aircraft leases and other related activities. There is no known seasonality of the Group's contracted revenues. The main revenue and assets are analysed by geographical region as follows:

(a) Lease rental income

Lease rental income is derived from leasing of aircraft to various airline customers around the world. The distribution of lease rental income by geographic region based on the jurisdiction of each airline customer under the relevant operating lease was as follows:

	2019		2018	
	US$ million	**%**	US$ million	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**404**	**23.7**	378	24.5
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**501**	**29.4**	443	28.7
Americas	**153**	**9.0**	184	11.9
Europe	**457**	**26.8**	379	24.6
Middle East and Africa	**189**	**11.1**	159	10.3
	1,704	**100.0**	1,543	100.0

Other than the lease rental income attributable to airline customers in Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan which accounted for 29.4% of the total lease rental income for the year ended 31 December 2019 (2018: 28.7%), there was no other country concentration in excess of 10% of the total lease rental income in either 2019 or 2018.

42. Segmental analysis (cont'd)

(b) Net book value of aircraft

The distribution of net book value of aircraft (including assets held for sale) by geographic region based on the jurisdiction of each airline customer under the relevant operating lease was as follows:

	2019		2018	
	US$ million	**%**	US$ million	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**3,858**	**23.0**	3,424	22.9
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**5,136**	**30.6**	4,685	31.3
Americas	**1,152**	**6.9**	1,395	9.4
Europe	**4,534**	**27.1**	3,536	23.6
Middle East and Africa	**2,080**	**12.4**	1,918	12.8
	16,760	**100.0**	14,958	100.0

	Group	
Represented by:	**2019**	2018
	US$ million	US$ million
Property, plant and equipment (Note 12)	**16,436**	14,958
Assets held for sale (Note 18)	**324**	–
	16,760	14,958

The net book value of aircraft leased to airline customers in Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan accounted for 30.6% and in Qatar accounted for 10.4% of the total net book value as at 31 December 2019 (2018: Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan accounted for 31.3%). Other than as disclosed above, there was no other country concentration in excess of 10% of the total net book value in either 2019 or 2018.

43. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors passed on 11 March 2020.

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