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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Our financial highlights for the year ended 31 December 2018 are:

- Total revenues and other income rose 23% year-on-year, to US$1,726 million
- Profit before tax was US$685 million, up 24% year-on-year, and net profit after tax was US$620 million
- Earnings per Share of US$0.89 and net assets per Share of US$6.05
- Total assets increased 14% year-on-year, to US$18 billion at 31 December 2018
- Raised US$2.7 billion in new financing and ended the year with a debt to equity ratio of 3.0 times
- Maintained strong liquidity with US$243 million in total cash and short-term deposits, and US$3.6 billion in undrawn committed credit facilities at 31 December 2018
- Cash collection from airline customers of 100%
- Board recommended a final dividend for 2018 of US$0.1845 per Share, pending approval at the AGM to be held on 29 May 2019. The final dividend will be payable to Shareholders registered at the close of business on the record date, being 6 June 2019, bringing the total dividend for 2018 to US$0.3129[1] per Share

Capitalised terms used but not defined in this announcement are found in pages 82 to 84.

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

[1] Includes interim dividend of US$0.1284 per Share paid to Shareholders registered at the close of business on 5 October 2018.

* *For identification purposes only.*

Exhibit 1: Net Profit After Tax ("NPAT"), US$' m

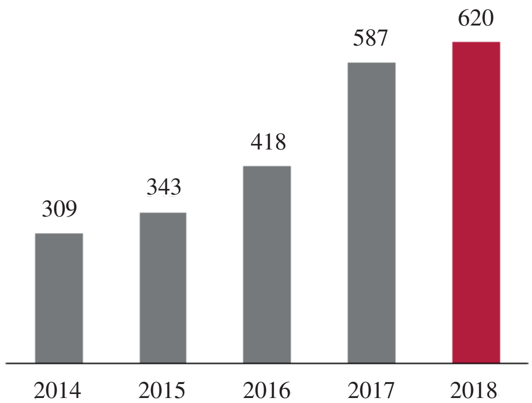


Exhibit 2: Total Assets, US$' b

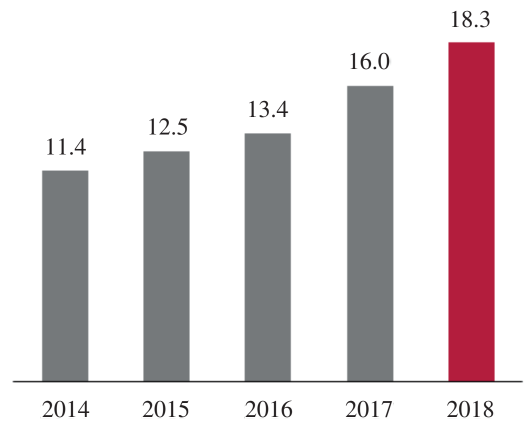


Exhibit 3: Financial highlights

	Year ended 31 December		
	2018	2017	Change[1]
	US$'m	*US$'m*	*%*
Statement of Profit or Loss			
Revenues and other income	**1,726**	1,401	23.2
Costs and expenses	**(1,040)**	(850)	22.5
Profit before income tax	**685**	551	24.3
Net profit after income tax	**620**	587	5.8
	As at 31 Dec 2018	As at 31 Dec 2017	Change[1]
	US$'m	*US$'m*	*%*
Statement of Financial Position			
Cash and short-term deposits	**243**	305	(20.4)
Total current assets	**257**	572	(55.1)
Total non-current assets	**17,999**	15,468	16.4
Total assets	**18,256**	16,040	13.8
Total current liabilities	**1,709**	1,724	(0.9)
Total non-current liabilities	**12,349**	10,497	17.6
Total liabilities	**14,057**	12,221	15.0
Net Assets	**4,199**	3,819	10.0
Financial ratios			
Net assets per share (US$)[2]	**6.05**	5.50	
Gearing (times)[3]	**3.0**	2.9	

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

2 Net assets per share is calculated by dividing net assets by total number of shares outstanding at 31 December 2018, and 31 December 2017, in the respective columns. Number of shares outstanding at 31 December 2018 and 31 December 2017 was 694,010,334.

3 Gearing is calculated by dividing gross debt by total equity at 31 December 2018, and 31 December 2017, in the respective columns.

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

As at 31 December 2018, BOC Aviation:

- Had a total fleet of 511 aircraft owned, managed and on order[1], with an average aircraft age of 3.0 years and an average remaining lease term of 8.3 years for the 303 owned aircraft fleet, weighted by net book value
- Leased aircraft to 93 airlines in 37 countries and regions
- Had taken delivery of 55 aircraft (including five acquired by airline customers on delivery) in 2018
- Signed 92 lease commitments in 2018
- Sold 34 owned and seven managed aircraft in 2018
- Had an order book of 183 aircraft[1]
- Recorded aircraft utilisation of 99.9% for the year ended 31 December 2018

---

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

Exhibit 4: Aircraft Portfolio at 31 December 2018, by number of aircraft

Aircraft Type	Owned Aircraft	Managed Aircraft	Aircraft on Order[1]	Total
Airbus A320CEO family	130	8	0	138
Airbus A320NEO family	24	0	62	86
Airbus A330CEO family	12	4	0	16
Airbus A330NEO family	0	0	12	12
Airbus A350 family	6	0	2	8
Boeing 737NG family	98	8	2	108
Boeing 737 MAX family	5	0	90	95
Boeing 777-300ER	19	3	3	25
Boeing 777-300	0	1	0	1
Boeing 787 family	4	0	12	16
Freighters	5	1	0	6
Total	**303**	**25**	**183**	**511**

Exhibit 5: Net book value of aircraft by region[2]

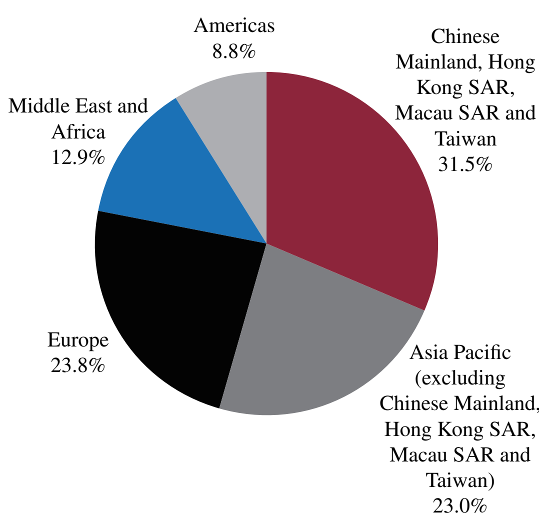
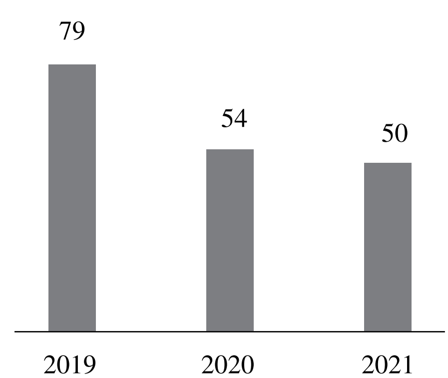


Exhibit 6: Committed aircraft deliveries by number of aircraft[1]



---

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

2 Based on the jurisdiction of the primary obligor under the relevant operating leases. Excludes two Airbus A320 aircraft off lease at 31 December 2018 which were delivered to a customer in the Americas in January 2019.

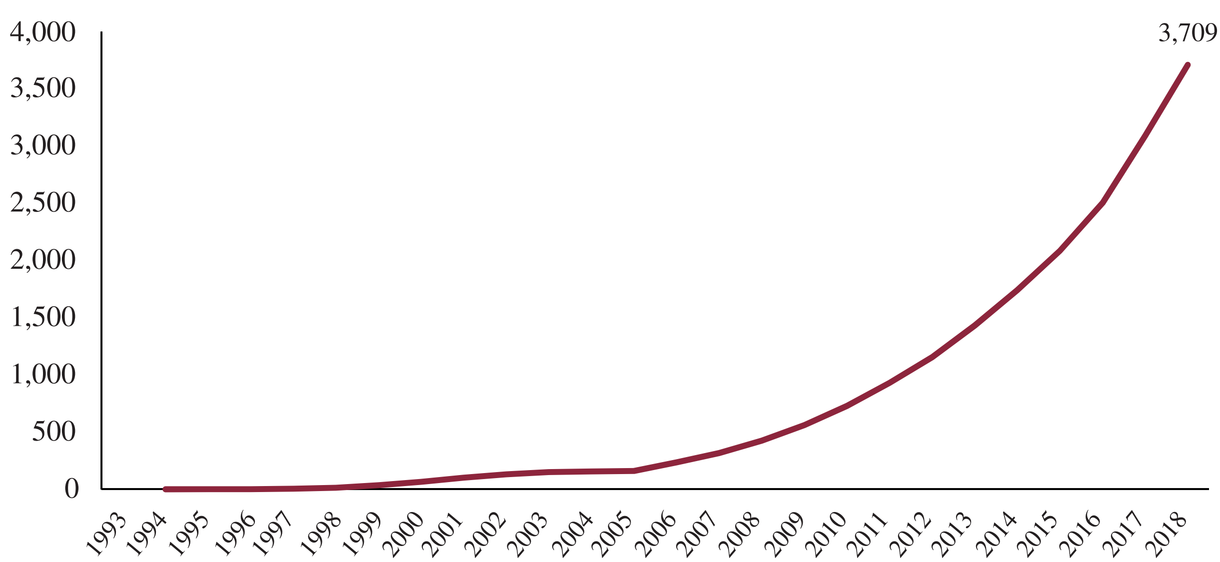
OUR 25 YEARS IN REVIEW

BOC Aviation's journey began when it was formed as Singapore Aircraft Leasing Enterprise (S.A.L.E.) in November 1993 as an equal joint venture between Singapore Airlines and a leasing company based in the USA. S.A.L.E. was initially founded to arrange and manage aircraft operating leases in which its joint venture partners and others would invest. The original partners played important roles in establishing S.A.L.E. in the market through their combined expertise in the areas of aircraft acquisition, technical services, leasing and onward sales of aircraft. This expertise was gradually brought in-house after the entry of Temasek Holdings and GIC as shareholders in November 1997. It was during this initial phase of our development, with a largely Singaporean shareholder base, that our core management team was built, providing a platform for our future growth and development.

In December 2006, Bank of China acquired 100% of our shares and S.A.L.E. was rebranded as BOC Aviation. Bank of China remained our sole shareholder for nearly a decade, until in June 2016 when the evolution of our ownership continued with the listing of our shares on the Hong Kong Stock Exchange. Public investors now hold 30% of the Company. Our IPO was the largest aircraft operating lessor offering in history.

The Company has been consistently profitable throughout its history. Since inception, we have produced US$3.7 billion in net profit after tax and have distributed over US$670 million to our shareholders.

Exhibit 7: Cumulative NPAT, US$'m



Before our IPO we had drawn paid up capital of only US$608 million. In 2016, we raised fresh equity of US$550 million and have now expanded into a company with a market capitalisation of US$5.1 billion as at 31 December 2018. Not only has our profit grown steadily, we have also been able to maintain an industry-leading return on equity, which has averaged 15% since our acquisition by Bank of China 12 years ago.

Our earnings and returns have been impressive not just in terms of magnitude, but also in their stability and consistency across industry cycles. They have been achieved against a backdrop of constant competition and frequent cyclical volatility. We have successfully navigated five economic and industry downturns in our 25 years and have established ourselves at the forefront of the aircraft operating leasing industry.

We attribute our longevity to the strong, long-term relationships we have built with customers, manufacturers, financiers, shareholders and other business partners, and to the professionalism and dedication of our directors and our employees. We have also adhered to our business model, which is primarily focused on investing in young, in-demand aircraft purchased at good prices, financing these investments efficiently, and placing them on long term leases with good quality airlines.

MILESTONE TIMELINE 1993-2018

1993

- S.A.L.E. established with 50:50 ownership between Singapore Airlines and Boullioun Aviation Services

1994

- Co-arranged and managed for investors the purchase and leaseback of one 767-300ER aircraft with China Southern Airlines

1995

- Purchased first three aircraft on balance sheet, three Boeing 767-300ERs
- Sold first aircraft with lease attached
- Pioneered Aircraft Leasing Scheme incentive for aircraft leasing companies in Singapore

1996

- Placed first order for new aircraft with Airbus - 12 firm A320s and 12 options

1997

- Placed first order with Boeing - six firm 777s and 10 options
- Temasek and GIC each became 14.5% shareholders

1999

- Placed second order with Airbus for 20 firm A320s and 18 options

2000

- Launched S.A.L.E.'s first bond issue

2001

- First overseas office established in London

2004

- WestLB AG took over Boullioun Aviation Services's shareholding in S.A.L.E.

2005

- Placed first 737 order with Boeing for 20 of the 737NG family

2006

- Bank of China acquired 100% of S.A.L.E. on 15 December 2006

2007

- Name changed to BOC Aviation

2008

- Net profit after tax exceeded US$100 million

2009

- Assets reached US$5 billion as owned fleet exceeded 100 aircraft

2010

- Placed order for 30 Airbus A320s and 8 Boeing 777-300ERs

2011

- Owned fleet exceeded 150 aircraft

2012

- Inaugural investment grade credit ratings of A- from Fitch and BBB from S&P
- Established our first rated Euro Medium Term Note Programme, listed on SGX
- Issued first rated benchmark bond in Reg S format

2013

- Total assets exceeded US$10 billion
- Owned fleet exceeded 200 aircraft for the first time

2014

- Owned and managed fleet reached 250
- Net profit after tax exceeded US$300 million

2015

- Upgraded to A- by S&P
- Established our Global Medium Term Note Program and issued first 144A benchmark bond
- Closed US$1 billion ABS lease portfolio sale, first ever by an Asian lessor
- Opened office in Tianjin
- Announced orders for 22 Boeing 737NG family and 30 Airbus A320 family aircraft

2016

- Largest ever aircraft operating leasing company initial public offering
- Established our first syndicated revolving credit facility of US$1.5 billion

2017

- Delivery of first Airbus A320NEO aircraft
- Record of 74 aircraft deliveries, largest number by Airbus and Boeing to any aircraft operating lessor in 2017
- Issued first dual tranche bond of US$1 billion

2018

- 25th anniversary on 25th November
- Delivery of first Boeing 737 MAX aircraft
- Net profit exceeded US$600 million for the year and cumulative earnings since inception passed US$3.7 billion

CHAIRMAN'S STATEMENT

I am pleased to announce that the profitability of our Company continued to hit new highs in 2018, a year in which we celebrated our 25th anniversary. In 2018 alone, our profit before tax rose 24% to US$685 million, and our net profit after tax reached US$620 million. Over the course of our 25 year history, we have generated in excess of US$3.7 billion in cumulative net profit after tax for the Company's shareholders.

Total revenues and other income rose in 2018 to US$1.7 billion and our total assets exceeded US$18 billion as at 31 December 2018, year-on-year increases of 23% and 14%, respectively. Consistent with our 35% pay-out target, our Board has recommended a final dividend of US$0.1845 per Share. This will bring the total dividend for 2018 to US$0.3129 per Share, a 6% increase from 2017, in line with the growth in our net profit after tax.

The Company is committed to maintaining its record of sound corporate governance. In 2018, the Board and Board Committees functioned effectively, supporting the Company's engagement with all stakeholders, and effectively safeguarding the interests of shareholders and stakeholders. The broad range of experience and diversified backgrounds that characterise the BOC Aviation Board continue to be amongst the Company's strengths. During the year, Mr. Chen Siqing and his replacement on the Board, Mr. Liu Qiang, both stepped down as Chairman of the Company due to a change of job, and Mr. Gao Zhaogang resigned as Non-executive Director of the Company due to a change of job. On behalf of the Board, I thank them for their outstanding contributions and all their efforts, and I also would like to extend a warm welcome to Mr. Wang Zhiheng who has joined the Board.

We continue to be a top-five global aircraft operating leasing company and the largest aircraft leasing company based in Asia-Pacific, by value of owned fleet. We aim to fully leverage the BOC Group's strengths in globalisation and diversification and develop synergies and collaboration within the BOC Group and with our business partners. In 2018 our owned, managed and on-order fleet grew to 511, with the owned and managed fleet leased to 93 airlines in 37 countries and regions. During the year we added 17 new customers and extended our portfolio to cover 6 new countries and regions. The Belt and Road Initiative is evident in the growth and development of our fleet: more than 75% of our owned fleet, by net book value, is currently leased to airlines domiciled in Belt and Road Initiative countries and regions.

We were again rated a "Most Honoured Company" in *Institutional Investor's* APAC ex-Japan Executive Team Leader survey in 2018 – our second such accolade in only our second full year as a listed company. Meanwhile, *Airline Economics* awarded us "Debt Deal of the Year" for our US$350 million seven year floating rate note issue.

Cooperation with the BOC Group also hit a new high in 2018 as we further aligned ourselves with its growth strategies. We built on our partnership to drive greater volumes of business between the BOC Group and airlines, suppliers and other aviation industry counterparties.

We have achieved much over the past quarter century and – on behalf of the Board and our management team – I would like to thank you, our shareholders, for your ongoing support. Our focus is now firmly on building on the success of the outstanding platform that exists today.

Sun Yu
Chairman

CHIEF EXECUTIVE'S COMMENTS

2018 was another year of strong earnings for BOC Aviation and our fourteenth straight year of sequential increases in net profit after tax. We also delivered a return on equity of 15.5%, above our 12-year average return on equity of 15%.

The aircraft operating leasing industry continues to produce sound earnings and retains a solid growth outlook. Our airline customers demonstrated significant earnings and growth resilience in 2018 despite fluctuating oil prices and local currencies. This was based on a seventh year of above-trend passenger demand growth, which rose 6.5%, again driven by robust growth rates in our Asian markets, and supported an industry-wide load factor of 81.9%, which is close to record capacity utilisation. The International Air Transport Association (IATA) anticipates that airline earnings will have exceeded US$30 billion for the fourth year in a row in 2018 and is predicting a rise in net profit after tax for the sector to US$35.5 billion in 2019.

We delivered 55 aircraft to our airline customers in 2018, including five aircraft acquired by airlines upon delivery, taking our owned, managed and on-order fleet to a new high of 511. Deliveries were lower than 2017's record 74, in part reflecting delivery delays affecting six aircraft on account of aerospace industry supply chain issues. We also sold 34 aircraft from our owned fleet, ending the year with 303 owned aircraft - a net increase of 16. Our owned fleet remained one of the youngest of the world's major aircraft operating lessors, with a weighted average age of three years and our weighted average remaining lease term of 8.3 years continues to be one of the longest in the aircraft operating lease industry.

Appraiser valuations continue to recognise our fleet's hidden value. The average of five independent appraisers' aggregate value of our fleet totaled US$16.6 billion on a full-life, current market value basis, which compared with a net book value of US$15.0 billion, representing an 11% premium over net book value.

Our capital expenditure commitments stood at US$9.2 billion at the end of 2018, a 17% increase over 2017 as we have added new positions to our delivery skyline, with US$3.4 billion of capital investment already contracted for 2019. Our future committed rental revenue from owned aircraft and aircraft scheduled to be delivered rose to US$16 billion as at 31 December 2018. We believe that the scale and visibility of future lease rental revenues is one of our company's strengths.

In 2018 we continued to be very active in the loan and bond markets, raising over US$2.7 billion, including US$1.7 billion in the debt capital markets. As at 31 December 2018, our cash and undrawn lines of credit totaled US$3.8 billion. Active hedging helped mitigate the effects of rising interest rates and contributed to the stability of our net lease yield, which at 8.3% was little changed from the previous year.

Management and other employees became investors in BOC Aviation for the first time in its history during 2018 under the RSU Plan, awards of which will be satisfied with Shares purchased in the secondary market, further increasing management's alignment with Shareholders.

During 2018, BOC Aviation continued to be active across a range of environmental and charitable programmes. When Indonesia suffered numerous natural disasters, the largest of which was September's earthquake and accompanying tsunami in Palu, BOC Aviation stepped up its community participation not only through a direct donation, but also by coordinating commitments from our airline partners to provide disaster relief support.

We completed our 25th year on a high note and enter 2019 welcoming our newly-appointed Chairman, Mr Sun Yu to the Board. In 2019, we anticipate further growth as sustained passenger demand growth and lower oil prices should lead to more demand for leased aircraft. Building on the lessons of the last quarter of a century, we are aiming to achieve greater heights in the years ahead.

Robert Martin
Managing Director and Chief Executive Officer

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 2018, we have:

- Purchased and committed to purchase more than 800 aircraft with an aggregate purchase price of more than US$44 billion

- Executed more than 860 leases with more than 160 airlines in 57 countries and regions

- Sold 330 owned and managed aircraft

We benefit from a low average cost of debt, which was 3.3% in 2018, 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 80 banks and we have raised nearly US$25 billion in debt financing since 1 January 2007.

We have strong liquidity including access to US$3.6 billion in undrawn committed lines of credit as at 31 December 2018.

Our Senior Management team remains highly experienced, international and stable, with most of the team having extensive experience working in the aircraft financing industry.

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 and also reflected the impact of higher US Dollar LIBOR on our floating rate leases.

Exhibit 8: Revenue breakdown, % 2018

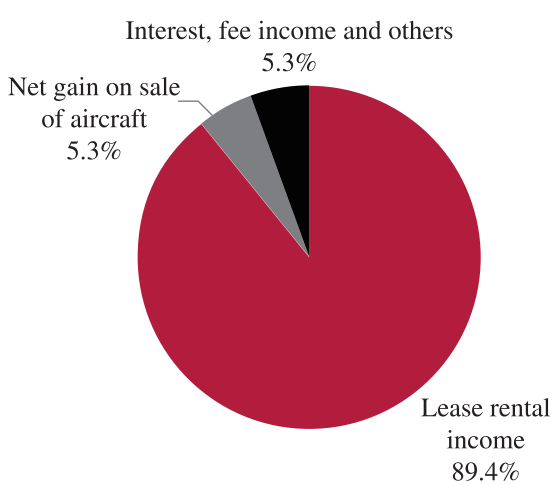
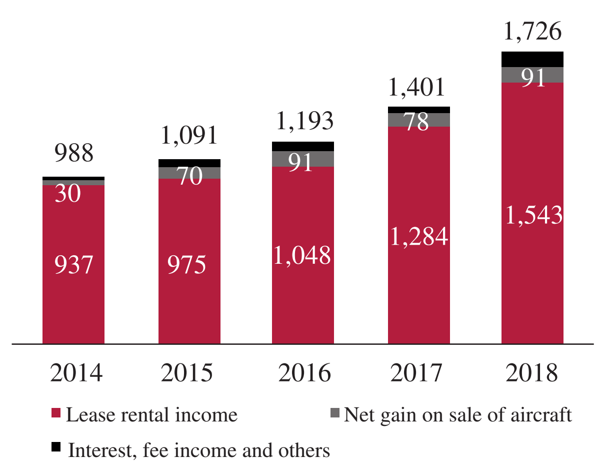
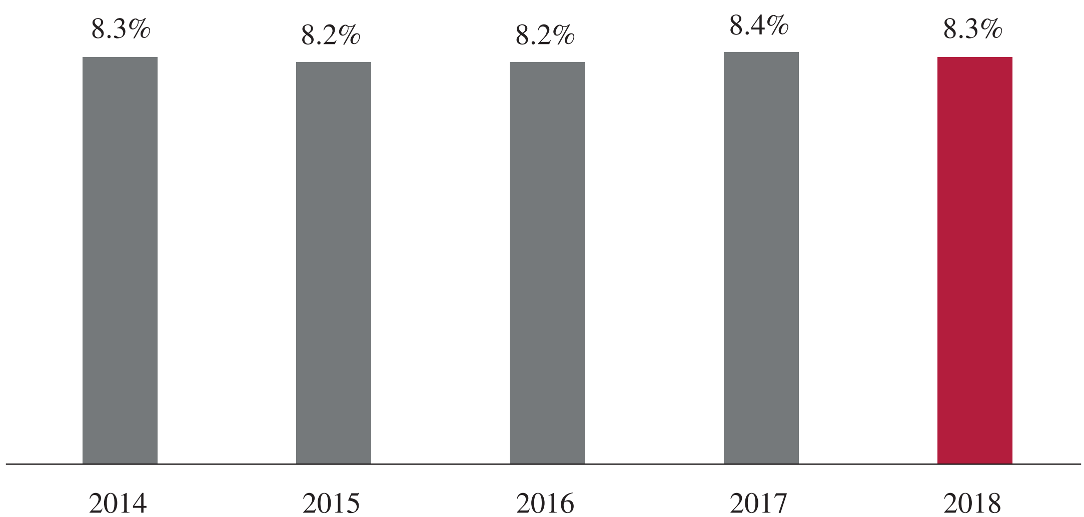


Exhibit 9: Revenue breakdown, US$'m



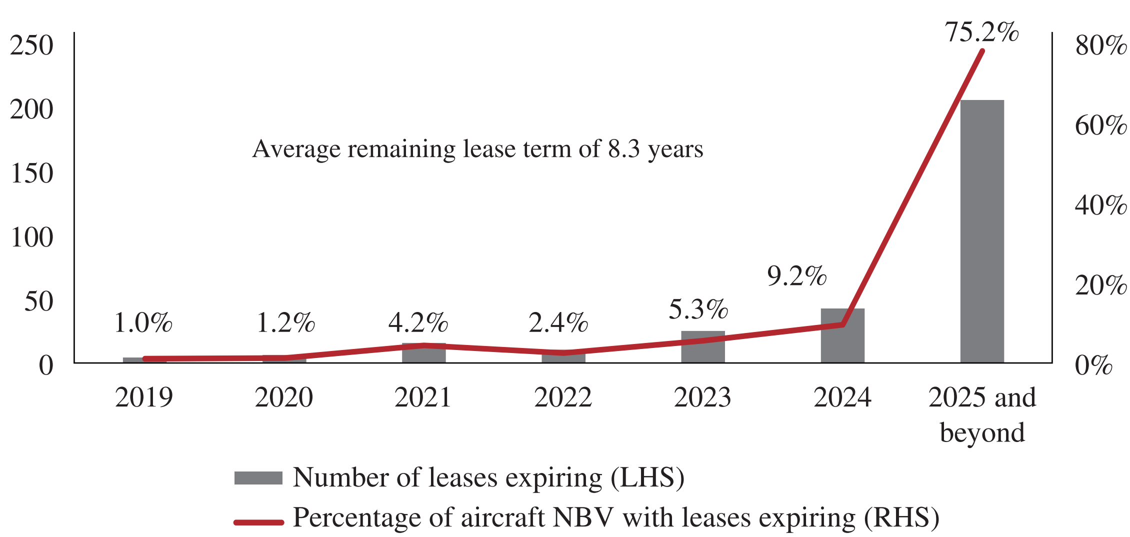
We maintained a stable net lease yield (defined as lease rental income less finance expenses divided by period average net book value of aircraft), which was in line with the range achieved over the last five years.

Exhibit 10: Net lease yield, %



Our lease rental revenue is contracted on a long term basis. Lease expiries on 75% of our portfolio occur in 2025 or beyond, with leases on only 1% of our portfolio expiring in 2019.

Exhibit 11: Lease expiries as % of portfolio[1] as at 31 December 2018



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

Operating expenses

Aircraft costs (comprising depreciation and impairment charges) and finance expenses remain the largest components of our operating costs and have consistently represented around 85% of our total operating costs. Depreciation increased, reflecting growth in the fleet, with no impairment charges incurred for the year.

Exhibit 12: Operating cost breakdown, % 2018

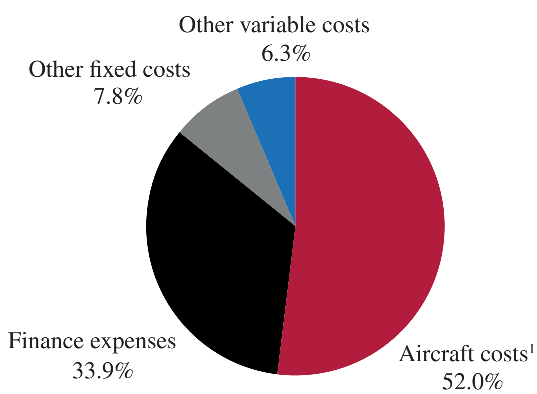
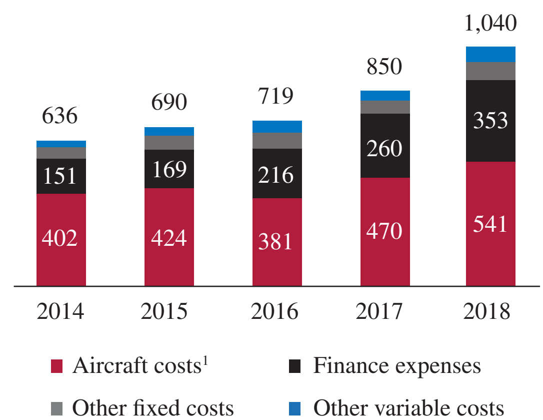
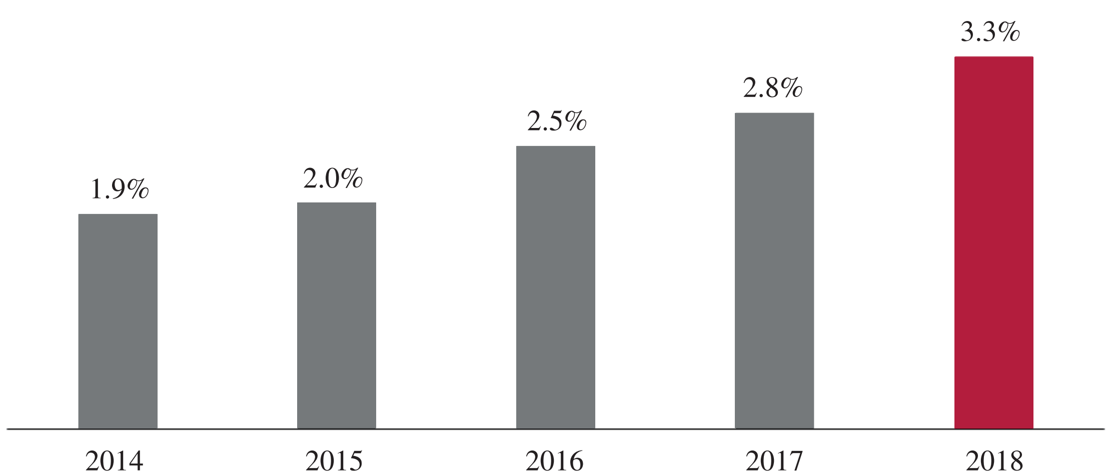


Exhibit 13: Operating cost breakdown, US$'m



Our average cost of debt rose to 3.3% from 2.8% in 2017. This reflected the combined effect of higher USD LIBOR on our floating interest rate debt and an increase in the proportion and amount of our fixed rate debt and interest rate hedging as at 31 December 2018 compared with 31 December 2017.

Exhibit 14: Average cost of debt, %



[1] Aircraft costs comprise depreciation and impairment charges.

Net Profit After Tax

In 2018, our earnings rose to US$620 million, continuing our pattern of producing consistent year on year improvements and marking 25 years of unbroken profitability.

Our effective tax rate for 2018 reduced to 9.5% in 2018 from 10.1% in 2017, excluding the US$91 million adjustment for net deferred tax liabilities in the USA as a consequence of changes in its tax code in 2017.

Exhibit 15: Effective tax rate, %

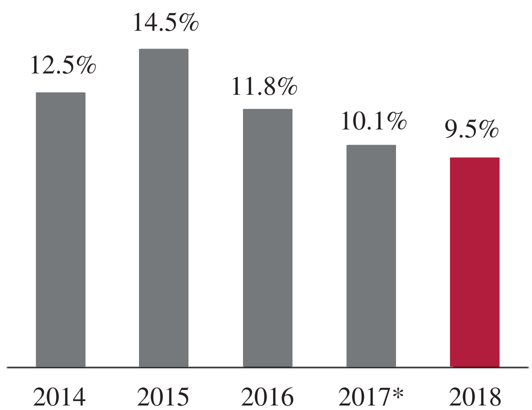
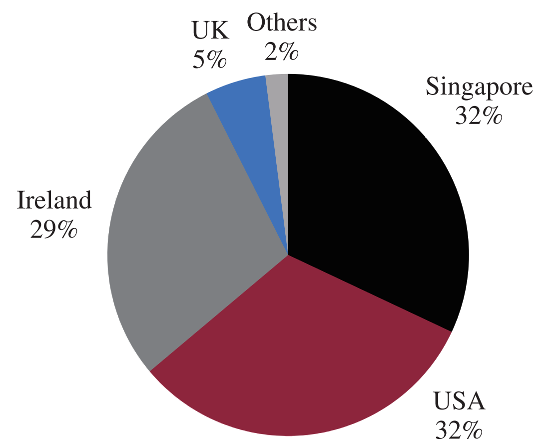


Exhibit 16: Income tax expense by jurisdiction, % 2018



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

Assets and Equity

Our total assets increased by US$2.3 billion to US$18.3 billion, with aircraft representing the largest component. This was driven by the investment of retained earnings, asset sales proceeds and additional borrowings into aircraft as our owned fleet rose by a net 16 aircraft. The full life, current market appraised value of our fleet based on the average of five independent appraisers was in excess of US$1.6 billion over its book value, representing a premium of 11%.

Exhibit 17: Total Assets vs. Fleet NBV, US$'b

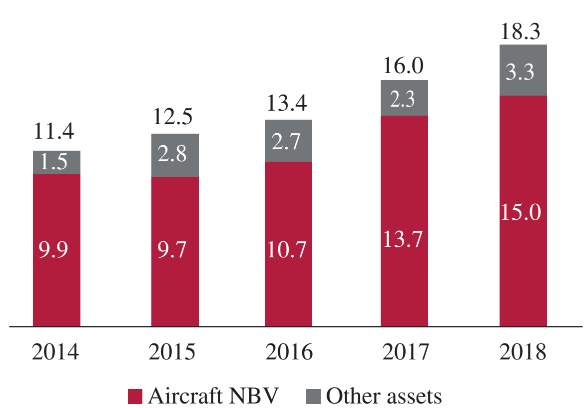
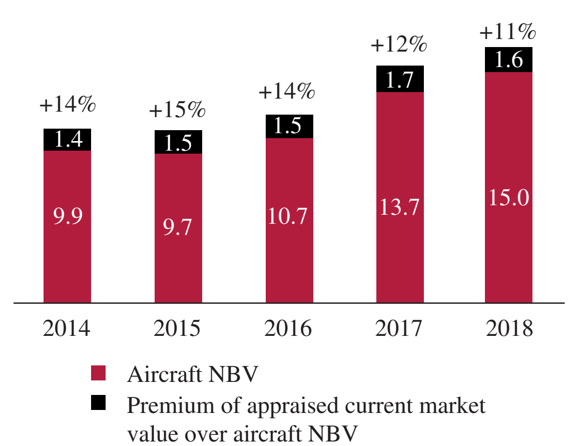


Exhibit 18: Aircraft NBV vs. appraised value[1], US$'b



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

The net book value of our fleet rose 9% to US$15.0 billion, reflecting the purchase of 50 new aircraft onto our balance sheet. Retained earnings increased our equity base by over US$380 million to US$4.2 billion and our gross debt to equity ratio rose to 3.0 times as at 31 December 2018. A strong FY2018 net profit after tax of US$620 million resulted in an ROE of 15.5%.

Exhibit 19: 2018 aircraft NBV evolution, US$'b

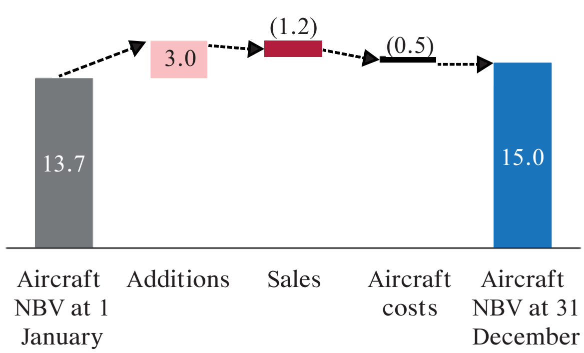
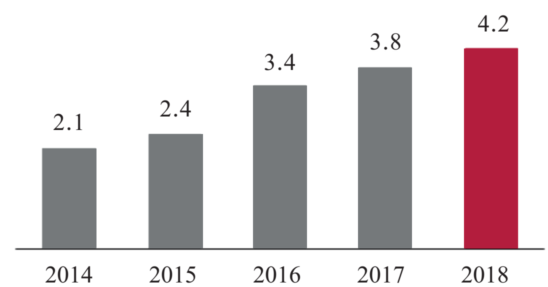


Exhibit 20: Total equity, US$'b



Our balance sheet growth is driven by our capital expenditure programme, the majority of which comprises investment in aircraft and pre-delivery payments. This was weighted towards the tail end of the year, reflecting aircraft manufacturer delivery delays. Our orderbook of 183 aircraft as at 31 December 2018 accounted for over US$9.2 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 over US$1.8 billion in 2018, as we took on additional debt to fund investment in new aircraft, reflecting the enlarged fleet.

Exhibit 21: Total liabilities, US$'b

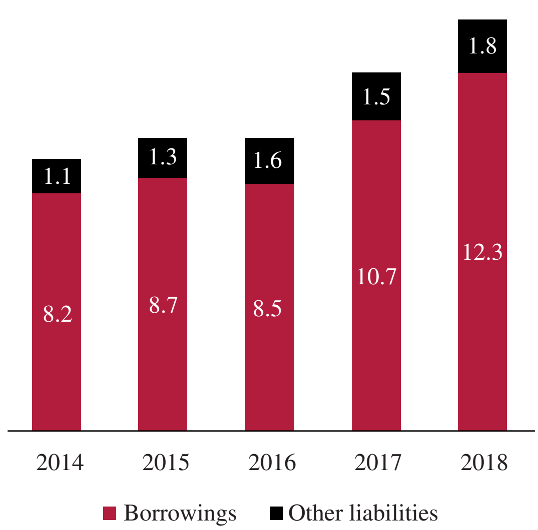
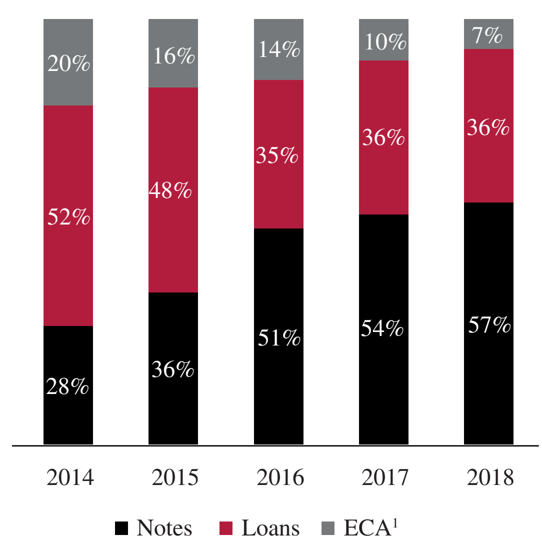


Exhibit 22: Sources of debt, %



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

The proportion of both our leases and our debt financing that is contracted on a fixed rate basis rose in 2018 as more of our airline customers sought certainty in a rising interest rate environment. We have reflected this fixed rate lease preference in our funding mix. A greater proportion of our corporate debt than our lease portfolio remains on floating rates, however, and we manage any mismatch between the two through interest rate hedges[1], which limits the impact of interest rate movements on our earnings[2].

Exhibit 23: Fixed vs. floating rate leases[3], %

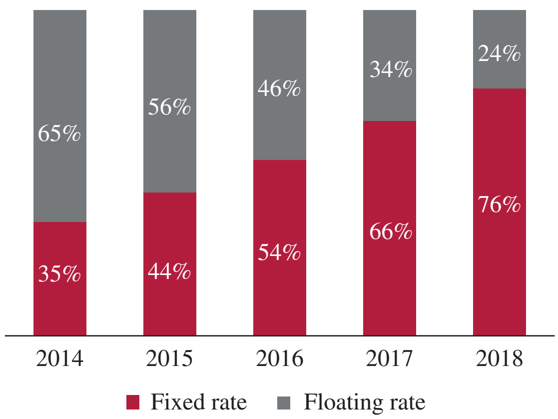
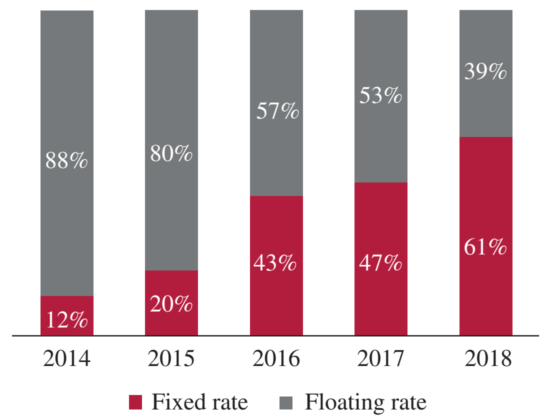


Exhibit 24: Fixed vs. floating rate debt, %



Significant Events after 31 December 2018

On 27 February 2019, Mr. Sun Yu was appointed as a Non-executive Director, Chairman of the Board and Chairman of the Nomination Committee. For further details, please refer to the Company's announcement dated 27 February 2019 on the websites of the Stock Exchange and the Company.

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 Mr. Sun Yu will expire at the forthcoming AGM. Mr. Sun Yu, being eligible, offers himself for re-election.

Business Environment

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

1 Hedged approximately 80% of mismatched fixed interest rate exposure as at 31 December 2018.

2 A 25 basis points increase in interest rates on our floating rate leases, deposits and debt, holding all other variables constant, would decrease our annual net profit after tax by approximately US$2.8 million based on lease portfolio, short-term deposits and debt composition as at 31 December 2018.

3 By net book value excluding aircraft off lease.

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. In 2018, IATA estimates that passenger traffic grew at 6.5%, above the long-term average growth rate of 5.0%, with IATA also projecting passenger traffic growth above average growth rates in 2019. Airline cashflows and profitability were very strong in 2018, with a global net profit of US$32.3 billion anticipated. This remains close to the best earnings performance in the airline sector's history and has been significantly influenced by the profitability of US airlines. However, 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. 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. There are close to 800 airlines in the world, but fewer than 150 airlines meet our target customer criteria.

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. Short-term US Dollar interest rates continued to rise in 2018, plateauing towards the end of the year, while long-term rates have dropped from their November 2018 highs. US Dollar liquidity remains generally available for aircraft investors from a number of sources, including banks and the capital markets. This supports asset values, and contributes to investor demand for our aircraft; however, it also puts upward pressure on financing costs and puts greater pressure on lease margins, risks we address through our mix of floating-rate and fixed-rate leases and our interest rate hedging policy. External shocks to the financial system, or an unexpectedly rapid increase in interest rates, could adversely affect the cost or availability of financing to potential buyers of leased aircraft and affect our ability to generate gains on sale.

The aircraft operating lease industry remains highly competitive, with new players entering the market and many existing lessors expanding aggressively. 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 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 is increasingly strong 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 24% over the past five years to 26 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 15% to 21% at a time when production rates for both Airbus and Boeing are also increasing. We expect more deliveries to lessors and production increases to continue into 2020 and 2021. This could result in downward pressure on net lease yields for those future lease placements.

Supply in our addressable market, being aircraft with 100 or more seats, has remained relatively stable. In part, this can be attributed to the fact that this market remains effectively an Airbus and Boeing duopoly. In the single-aisle market, Boeing and Airbus are in the early part of the production cycle for new technology aircraft and are increasing production rates. It remains to be seen whether the supply chain will be able to support all of the planned increases, given corporate guidance from Boeing and Airbus, in particular, point to a combined increase in total commercial production in 2019 of approximately 10%. If demand for aircraft fails to keep up because of factors such as US-China trade friction or Brexit, we could see oversupply. This 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.

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 new 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 68 to 79 in the Environmental, Social and Governance Report in this announcement.

Forward-Looking Statements

Certain statements contained in this announcement 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 2018 was US$620 million, representing an increase of 5.8% compared with the year ended 31 December 2017. The profit before income tax rose 24.3% to US$685 million in 2018 compared with 2017. Earnings growth was mainly driven by the increase in lease rental income. Total costs and expenses have largely kept 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			
	2018	2017	Change	Change
	US$'000	*US$'000*	*US$'000*	*%*
Lease rental income	**1,542,539**	1,283,587	258,952	20.2
Interest and fee income	**80,753**	29,622	51,131	172.6
Other income:				
Net gain on sale of aircraft	**90,822**	77,754	13,068	16.8
Others	**11,485**	9,778	1,707	17.5
Total revenues and other income	**1,725,599**	1,400,741	324,858	23.2
Depreciation of plant and equipment	**542,834**	460,496	82,338	17.9
Impairment of aircraft	**—**	10,600	(10,600)	(100.0)
Finance expenses	**353,035**	259,714	93,321	35.9
Staff costs	**91,543**	72,276	19,267	26.7
Other operating costs and expenses	**52,962**	46,519	6,443	13.9
Total costs and expenses	**(1,040,374)**	(849,605)	190,769	22.5
Profit before income tax	**685,225**	551,136	134,089	24.3
Income tax (expense)/credit	**(64,786)**	35,511	100,297	282.4
Profit for the year	**620,439**	586,647	33,792	5.8

Revenues and other income

Our total revenues and other income increased 23.2% to US$1.7 billion from US$1.4 billion in 2017, primarily due to an increase in lease rental income as described below.

Lease rental income

Our lease rental income increased by 20.2% to US$1.5 billion compared with US$1.3 billion in 2017. The rise in lease rental income was mainly due to the full year impact from lease rental income of aircraft assets added in 2017, the lease rental income from additions in aircraft assets in 2018 which saw 9.4% growth in net book value to US$15.0 billion as at 31 December 2018 from the end of 2017, as well as to a lesser extent, an increase in rentals from floating rate leases as a result of the increase in USD LIBOR.

Interest and fee income

Our interest and fee income more than doubled to US$81 million in 2018 from US$30 million in 2017. The increase was primarily due to an increase in fees from pre-delivery payments transactions.

Net gain on sale of aircraft

33 aircraft (excluding one aircraft on finance lease on which receivables were prepaid) were sold in 2018 compared with 31 (including one aircraft leased under a finance lease) in 2017, resulting in a net gain on sale of aircraft that rose by 16.8% to US$91 million in 2018 from US$78 million in 2017.

Costs and expenses

The increase in total costs and expenses was in line with the increase in total revenues and other income. The increase was primarily due to an increase in depreciation and finance expenses which are described below.

Depreciation of plant and equipment

Depreciation of plant and equipment increased by 17.9% to US$543 million in 2018 compared with US$460 million in 2017, mainly due to an increase in aircraft assets whose net book value increased to US$15.0 billion as at 31 December 2018 from US$13.7 billion as at 31 December 2017.

Impairment of aircraft

There was no impairment charge in 2018 as the recoverable amount of our aircraft assets was in excess of their respective book values.

Finance expenses

Finance expenses increased by 35.9% to US$353 million in 2018 from US$260 million in 2017. This was primarily due to the combined effect of (i) a 14.0% increase in our total indebtedness to US$12.5 billion as at 31 December 2018 from US$10.9 billion as at 31 December 2017 and (ii) an increase in our average cost of debt to 3.3% in 2018 from 2.8% in 2017. The increase in the average cost of debt arose from the effect of higher USD LIBOR on our floating rate debt and an increase in the proportion and amount of our fixed rate debt and interest rate hedging as at 31 December 2018 compared with 31 December 2017.

Staff costs

Staff costs increased by 26.7% to US$92 million in 2018 from US$72 million in 2017 mainly due to higher provisions of variable bonus in line with employee incentive plans tied to financial performance for the year ended 31 December 2018. In addition, the costs in relation to the awards granted in May 2018 under the RSU Plan, which is part of the long term incentive plan, are amortised over the circa three-year vesting period from the date of grant in 2018. In the previous year there was no provision for RSUs.

Other operating costs and expenses

Other operating costs and expenses increased by 13.9% to US$53 million in 2018 from US$47 million in 2017, which was reflective of the increase in our business activities.

Profit before income tax and pre-tax profit margin

Profit before income tax increased by 24.3% to US$685 million in 2018 from US$551 million in 2017. Our pre-tax profit margin increased to 39.7% in 2018 from 39.3% in 2017.

Income tax (expense)/credit

We recognised an income tax expense of US$65 million in 2018 compared with an expense of US$55 million in 2017. However, we reported an income tax credit of US$36 million in 2017, mainly due to a US$91 million adjustment for net deferred income tax liabilities in our US subsidiary as a result of a decrease in the federal corporate tax rate in the USA to 21% from 35%, which was enacted in December 2017. Excluding this one-off tax adjustment, the effective tax rate for 2017 was 10.1%. The reduction in federal tax rate in the USA continued to benefit us in 2018 as the effective tax rate for 2018 was 9.5%.

Profit for the year

As a result of the foregoing, our profit after tax for the year increased by 5.8% to US$620 million in 2018 from US$587 million in 2017.

STATEMENT OF FINANCIAL POSITION ANALYSIS

Our total assets increased by 13.8% to US$18.3 billion as at 31 December 2018 from US$16.0 billion as at 31 December 2017. Our total equity increased by 10.0% to US$4.2 billion as at 31 December 2018 compared with 31 December 2017.

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

	31 December 2018	31 December 2017	Change	Change
	US$'000	*US$'000*	*US$'000*	*%*
Plant and equipment and assets held for sale	**17,973,481**	15,672,698	2,300,783	14.7
Cash and short-term deposits	**242,983**	305,293	(62,310)	(20.4)
Derivative financial instruments	**16,972**	22,023	(5,051)	(22.9)
Other assets	**22,787**	39,847	(17,060)	(42.8)
Total assets	**18,256,223**	16,039,861	2,216,362	13.8
Loans and borrowings and finance lease payables	**12,278,727**	10,740,375	1,538,352	14.3
Maintenance reserves	**732,133**	558,503	173,630	31.1
Security deposits and non-current deferred income	**329,597**	273,755	55,842	20.4
Derivative financial instruments	**123,748**	100,586	23,162	23.0
Trade and other payables	**156,923**	136,858	20,065	14.7
Other liabilities	**436,069**	411,027	25,042	6.1
Total liabilities	**14,057,197**	12,221,104	1,836,093	15.0
Net assets	**4,199,026**	3,818,757	380,269	10.0
Total equity	**4,199,026**	3,818,757	380,269	10.0

Plant and equipment and assets held for sale

We had plant and equipment and assets held for sale of US$18.0 billion as at 31 December 2018, which increased by 14.7% from US$15.7 billion as at 31 December 2017 due to net additions of 17 aircraft (excluding one aircraft on finance lease on which receivables were prepaid) in 2018. Additions to the aircraft fleet were achieved through a combination of orders with Airbus and Boeing and purchase and leaseback transactions with our airline customers.

Aircraft constituted the largest component, amounting to US$15.0 billion and US$13.7 billion as at 31 December 2018 and 31 December 2017, respectively, representing 83.2% and 87.2% of our total plant and equipment and assets held for sale as at the same dates. Aircraft pre-delivery payments constituted 16.8% and 12.8% of our total plant and equipment and assets held for sale as at 31 December 2018 and 31 December 2017, respectively.

Trade receivables

Included in other assets was US$8.0 million of trade receivables, of which US$5.1 million was contractually deferred by mutual agreement and interest bearing and the remaining US$2.9 million was not past due.

Cash and short-term deposits

Our cash and short-term deposits, which were mainly denominated in US Dollar, declined to US$243 million as at 31 December 2018 from US$305 million as at 31 December 2017. The decrease in cash and short-term deposits was mainly due to the total cash outflows from capital expenditure in 2018 being greater than the total net cash inflows from operating activities, financing activities and proceeds from sales of aircraft.

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 2018 and 31 December 2017 respectively. Under assets, our derivative financial instruments decreased to US$17 million as at 31 December 2018 from US$22 million as at 31 December 2017. Under liabilities, our derivative financial instruments increased to US$124 million as at 31 December 2018 from US$101 million as at 31 December 2017. The movements in derivative financial assets and liabilities were primarily due to an increase in interest rate swap contracts entered into by the Group in 2018 and movements in marked-to-market values of the derivative financial instruments.

Trade and other payables

Our trade and other payables increased by 14.7% to US$157 million as at 31 December 2018 compared with US$137 million as at 31 December 2017, primarily due to an increase in accrued interest expenses mainly as a result of additional loans raised to finance capital expenditure in 2018.

Loans and borrowings and finance lease payables

Our loans and borrowings and finance lease payables increased by 14.3% to US$12.3 billion as at 31 December 2018 from US$10.7 billion as at 31 December 2017 to finance an increase in capital expenditure. The increase in borrowings included the issuance of US$1.7 billion of notes under our Global Medium Term Note Program, the drawing down of US$400 million in term loans and a net increase of US$644 million in drawings under our revolving credit facilities. US$1.2 billion in borrowings was repaid due to maturity of notes, and as part of regular loan repayments and loan prepayments.

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 2018, the Company had no material contingent liabilities as at 31 December 2018.

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.

During 2018, we raised US$2.7 billion in new debt compared with US$2.9 billion in 2017. US$1.7 billion was raised through issuance of notes under our Global Medium Term Note Program and the remainder from unsecured term loans, including a US$750 million term loan that was unutilised as at 31 December 2018 and was available to be utilised in 2019. We had also utilised US$1.4 billion under our committed revolving credit facilities as at 31 December 2018.

These debt raising activities contributed to an increase in our total indebtedness that was proportionately greater than the increase in our total equity, resulting in an increase in our gearing ratio as set out in the table below:

	31 December 2018	31 December 2017
	US$'m	*US$'m*
Gross debt	**12,476**	10,939
Total equity	**4,199**	3,819
Gearing (times)	**3.0**	2.9

Gross debt comprises our loans and borrowings and finance lease payables before adjustments for 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$243 million and US$3.6 billion in undrawn committed credit facilities as at 31 December 2018, comprising the unutilised portion of our revolving credit facilities and a US$750 million term loan that was unutilised as at 31 December 2018.

Indebtedness

	31 December 2018 *US$'m*	31 December 2017 *US$'m*
Secured		
Term loans (including finance lease payables)	**879**	1,290
Export credit agency supported financing	**808**	1,042
Total secured debt	**1,687**	2,332
Unsecured		
Term loans	**2,185**	1,895
Revolving credit facilities	**1,439**	795
Medium term notes	**7,165**	5,917
Total unsecured debt	**10,789**	8,607
Total indebtedness	**12,476**	10,939
Less: debt discount, debt premium, debt issue costs and fair value and revaluation adjustments	**(197)**	(199)
Total debt	**12,279**	10,740
Number of aircraft pledged as security (including aircraft held under finance lease)	**71**	91
Net book value of aircraft pledged as security (including aircraft held under finance lease)	**3,259**	3,968

Of the total indebtedness, the amount of debt at fixed rates, including floating rate debt swapped to fixed rate liabilities, amounted to US$7.6 billion as at 31 December 2018 compared with US$5.1 billion as at 31 December 2017.

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 2018 as set out in the table below:

	31 December 2018	31 December 2017
Secured debt/total assets	**9.2%**	14.5%
Secured debt/total indebtedness	**13.5%**	21.3%

As at 31 December 2018, the debt repayment profile was as follows:

Debt repayment profile

	31 December 2018
	US$'b
2019	**1.5**
2020	**2.0**
2021	**2.6**
2022	**2.1**
2023	**2.1**
2024 and beyond	**2.2**
Total	**12.5**

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 2018.

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 United States Dollar, our functional currency.

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 Rating. 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 and sources of funding

Our estimated cash outflows based on aircraft capital expenditure commitments as at 31 December 2018 are set out below:

	31 December 2018
	US$'b
2019	**3.4**
2020	**3.0**
2021	**2.8**
Total	**9.2**

Our aircraft purchase commitments as at 31 December 2018 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 80 financial institutions as at 31 December 2018. We have US$3.6 billion in committed unsecured credit facilities including a US$2 billion facility from Bank of China which matures in April 2022.

Aircraft Purchase Mandate

Under the terms of the current Aircraft Purchase Mandate, the Directors are authorised to purchase from Airbus up to 100 single-aisle or single-aisle equivalent aircraft of certain aircraft types with an aggregate aircraft list price of not more than US$10.7 billion. The directors are also authorised to purchase from Boeing up to 100 single-aisle or single-aisle equivalent aircraft of certain aircraft types with an aggregate aircraft list price of not more than US$11.0 billion.

From 1 January 2018 to 14 October 2018, the Group has committed to purchase a cumulative number of 45 single-aisle or single-aisle equivalent aircraft from Airbus and 23 single-aisle or single-aisle equivalent aircraft from Boeing with an aggregate 2018 list price of approximately US$5.0 billion and US$2.6 billion respectively pursuant to the Aircraft Purchase Mandate.

Amendments to Chapter 14 of the Listing Rules which took effect on 15 October 2018 provided Qualified Aircraft Lessors (as defined in the Listing Rules) with exemption from specific announcement, circular and/or Shareholder approval requirements previously applicable to Notifiable Transactions (as defined in the Listing Rules) in respect of Qualified Aircraft Leasing Activities (as defined in the Listing Rules).

The Board confirms that the Company is a listed issuer actively engaged in aircraft leasing with aircraft operators as a principal business in its ordinary and usual course of business and the Company is therefore a Qualified Aircraft Lessor (as defined in the Listing Rules). As acquisition of aircraft is a Qualified Aircraft Leasing Activity (as defined in the Listing Rules), purchases from Airbus and Boeing are now exempt from Shareholder approval. As such, the Company will not be seeking Shareholder approval for the renewal of the Aircraft Purchase Mandate at the forthcoming AGM.

Employees

As at 31 December 2018 and 31 December 2017, we had 169 and 151 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 grant under the RSU Plan was made in May 2018 and the RSU award is amortised over the vesting period of approximately three years commencing from the date of grant.

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 2018 and 31 December 2017, our staff costs were US$92 million and US$72 million respectively, representing approximately 5.3% and 5.2% of the Group's total revenues and other income of each year.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the year ended 31 December 2018, 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 46. 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. 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, and Chairman of Bank of China (UK) Limited since December 2018. He graduated from Nankai University with a Master's degree in Economics in 1998.

Mr. WANG Jian

Deputy Managing Director, Vice Chairman, Executive Director and a member of the Strategy and Budget Committee, aged 59. Mr. Wang was appointed as Deputy Managing Director, Vice Chairman, Executive Director and a member of the Strategy and Budget Committee in June 2017.

Mr. Wang was the General Manager of SME Services Department of BOC immediately before his appointment as an Executive Director of the Company in June 2017. Mr. Wang has successively held the positions of the Deputy General Manager of BOC Milan Branch and the Deputy General Manager of the Corporate Banking Department of BOC. From December 2006 to June 2012, Mr. Wang was a non-executive director of the Company. Mr. Wang was appointed as General Manager of SME Services Department of BOC in March 2014.

Mr. Wang graduated from Renmin University of China in January 2001 with a Master's degree in International Finance.

Mr. Robert James MARTIN

Managing Director, Chief Executive Officer, Executive Director and a member of the Strategy and Budget Committee, aged 54.

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 51. 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 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 46. 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. 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.

Mr. WANG Zhiheng

Non-executive Director, a member of the Nomination Committee and the Remuneration Committee, aged 45. 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 joined BOC in 1999. Between April 2002 and December 2010, he successively served as Deputy Head of Corporate Planning Division of Corporate Banking Unit, Head of Management of Domestic Executives of Human Resources Department and the Deputy General Manager of Human Resources Department of BOC. From December 2010 to September 2018, Mr. Wang successively held the positions as 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.

Ms. ZHU Lin

Non-executive Director, a member of Audit Committee and the Risk Committee, aged 45. Ms. Zhu was appointed as a Non-Executive Director in January 2014.

Ms. Zhu joined BOC in July 1997 and is currently the Deputy General Manager of Credit Management Department of BOC. Ms. 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. Ms. Zhu has been a member of the Chinese Institute of Certified Public Accountants since July 1997.

Mr. DAI Deming

Independent Non-executive Director, Chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee, aged 56. Mr. Dai was appointed as an Independent Non-executive Director in May 2016.

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

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. (stock code: 000825) (which is listed on the Shenzhen Stock Exchange) from May 2011 to October 2016, Beijing Xinwei Telecom Technology Group Co., Ltd. (stock code: 600485) (which is listed on the Shanghai Stock Exchange) from September 2014 to August 2016 and Beijing Capital Development Co. Ltd. (stock code: 600376) (which is listed on the Shanghai Stock Exchange) from September 2015 to May 2018.

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 63. 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 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 63. 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) (which are listed on the Stock Exchange) from January 2008 to March 2011. 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.

Dr. YEUNG Yin Bernard

Independent Non-executive Director, a member of the Nomination Committee and the Strategy and Budget Committee, aged 65. Dr. Yeung was appointed as an Independent Non-executive Director in December 2016. Dr. Yeung has been the Dean and Stephen Riady Distinguished Professor at National University of Singapore ("NUS") Business School since 2008. Dr. Yeung has more than 30 years of research and teaching experience in finance, economics and business.

Dr. Yeung has various major public appointments. He is the President of Asia Bureau of Finance and Economics Research, a member of the third Advisory Board of Antai College of Economics and Management of Shanghai Jiao Tong University, a council member of Advisory Council of Economics and Management School of Wuhan University, a member of the advisory board of Healthway Medical Corporation Limited, the Honorary Dean of Business School of Global Commercial Newspapers Union, and the Honorary Dean of Mapletree Training & Development Centre Foshan, China. Dr. Yeung was the president of Association of Asia-Pacific Business Schools from 2009 to 2010. He was also a member of the main & first sub-committee of Singapore Economic Strategies Committee in 2009, and a member of Social Science Research Council in Singapore from 2016 to 2017.

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 31.

Mr. WANG Jian

Please refer to his biography on page 31.

Mr. PHANG Thim Fatt

Deputy Managing Director and Chief Financial Officer, aged 62. 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).

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 49. Mr. Townend joined the Company in January 2001 as Structured Finance Director and was appointed as the Chief Commercial Officer in July 2004. He is currently based in London and oversees all revenue activities in Europe, Americas and Africa and is primarily responsible for airline leasing and sales within the region. 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. GAO Jinyue

Chief Commercial Officer (Asia Pacific and the Middle East), aged 61. Mr. Gao joined the Company as a non-executive director in December 2006 and was appointed as the Chief Commercial Officer in December 2014. He is responsible for overseeing all revenue activities within the Asia Pacific and the Middle East and is primarily responsible for airline leasing and sales within the region. He joined BOC in July 1986 and held various senior positions in BOC Head Office including Vice General Manager of Global Finance Department. Mr. Gao was also the General Manager of BOC, Hong Kong branch. Mr. Gao graduated with a postgraduate degree in International Finance from Wuhan University in the PRC and a Master in Public Administration degree from the John F. Kennedy School of Government in Harvard University in the United States.

Company Secretary

Ms. ZHANG Yanqiu Juliana

Company Secretary, aged 34. 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 2018. 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 2018.

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.

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 2018 annual general meeting on 30 May 2018 in Hong Kong.

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 environmental, social and governance ("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.

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 31 to 34 of this announcement. A list of Directors is set out on page 48 of this announcement.

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

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 the date of this announcement, 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 adopted a Board nomination policy with effect from 1 January 2019. 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 2018, 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.

Changes in composition of the Board and Board committees

From 1 January 2018 to the date of this announcement, the changes in composition of the Board and Board Committees are listed below:

Effective date	**Director**	**Change**
16 March 2018	Mr. Chen Siqing	resigned as a Non-executive Director, Chairman of the Board and Chairman of the Nomination Committee
16 March 2018	Mr. Liu Qiang	appointed as a Non-executive Director, Chairman of the Board and Chairman of the Nomination Committee
18 September 2018	Mr. Liu Qiang	resigned as a Non-executive Director, Chairman of the Board and Chairman of the Nomination Committee
22 October 2018	Mr. Gao Zhaogang	resigned as a Non-executive Director, a member of the Remuneration Committee and a member of the Nomination Committee
22 October 2018	Mr. Wang Zhiheng	appointed as a Non-executive Director, a member of the Remuneration Committee and a member of the Nomination Committee
27 February 2019	Mr. Sun Yu	appointed as a Non-executive Director, Chairman of the Board and Chairman of the Nomination Committee

Save as disclosed above, there were no other changes to the composition of the Board and Board Committees from 1 January 2018 to the date of this announcement.

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 terms of office of Mr. Sun Yu and Mr. Wang Zhiheng will expire at the forthcoming AGM. Each of Mr. Sun Yu and Mr. Wang Zhiheng, being eligible, offers himself 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. Robert James Martin, Mr. Liu Chenggang, Mr. Fu Shula and Dr. Yeung Yin Bernard shall retire by rotation at the forthcoming AGM. Each of Mr. Robert James Martin, Mr. Liu Chenggang, Mr. Fu Shula and Dr. Yeung Yin Bernard, being eligible, offers himself for re-election.

Board meeting process and attendance

Four Board meetings were held during the year ended 31 December 2018, 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 with all Non-executive Directors and at their request, the Chairman will meet with any Non-executive Directors (including Independent Non-executive Directors), in the absence of Executive Directors and Senior Management, at least once annually before a regular Board meeting.

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
- 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

The following table provides relevant details concerning attendance at Board and Board Committee meetings for year ended 31 December 2018, and other matters:

	Meetings Attended/Held							Continuous Professional Development
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Strategy & Budget Committee	2018 Annual General Meeting	Type of Training (Note)
Non-executive Directors								
Chen Siqing (Note 2)	1/1	N/A	N/A	N/A	N/A	N/A	N/A	Note 1
Liu Qiang (Note 2)	2/2	N/A	N/A	1/1	N/A	N/A	1/1	Note 1
Gao Zhaogang (Note 2)	2/3	N/A	0/1	1/1	N/A	N/A	0/1	Note 1
Li Mang	3/4	N/A	N/A	N/A	3/4	4/4	1/1	Note 1
Liu Chenggang	4/4	2/2	N/A	N/A	N/A	4/4	1/1	Note 1
Wang Zhiheng (Note 2)	1/1	N/A	N/A	N/A	N/A	N/A	N/A	Note 1
Zhu Lin	4/4	2/2	N/A	N/A	4/4	N/A	1/1	Note 1
Executive Directors								
Robert James Martin	4/4	N/A	N/A	N/A	N/A	4/4	1/1	Note 1
Wang Jian	4/4	N/A	N/A	N/A	N/A	4/4	1/1	Note 1
Independent Non-executive Directors								
Dai Deming	4/4	2/2	1/1	1/1	N/A	N/A	1/1	Note 1
Fu Shula	4/4	2/2	1/1	1/1	N/A	N/A	1/1	Note 1
Antony Nigel Tyler	4/4	2/2	N/A	N/A	4/4	4/4	1/1	Note 1
Yeung Yin Bernard	4/4	N/A	N/A	1/1	N/A	4/4	1/1	Note 1
Average Attendance	96%	100%	67%	100%	92%	100%	91%	

Notes:

1. 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.

2. Attendance is stated by reference to the number of board or committee meetings held during each Director's tenure as board or committee members. Please refer to the section headed "Changes in Composition of the Board and Board Committees" in this Corporate Governance Report on page 42 for details of Directors who resigned or were appointed during the year ended 31 December 2018.

3. Certain Directors did not attend certain Board or Board Committee meetings due to other business commitments.

Training and professional development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. 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. Please refer to the table above for details.

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 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 Internal Control Committee have primary oversight of these matters in the day-to-day management of the Company.

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 2018 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.

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.

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 the date of this announcement:

Director	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Strategy and Budget Committee
Mr. Sun Yu			C		
Mr. Robert James Martin					M
Mr. Wang Jian					M
Mr. Li Mang				M	M
Mr. Liu Chenggang	M				C
Mr. Wang Zhiheng		M	M		
Ms. Zhu Lin	M			M	
Mr. 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

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 2018 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 2017
- 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 2018
- 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 2019, 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

The Nomination Committee held one meeting during the year ended 31 December 2018, supplemented by the circulation of written resolutions, and its main work included its:

- handling of matters in relation to the resignation and appointment of Directors
- 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 2018 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 2019

- 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

- 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.

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 2018 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 certain regional commercial aviation markets
- 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

The Strategy and Budget Committee held four meetings during the year ended 31 December 2018 and its main work included the following:

- considering and recommending to the Board for approval the final dividend for full-year 2017
- considering and recommending to the Board for approval the interim dividend for the six-month period ending 30 June 2018
- reviewing and reporting to the Board on developments in market conditions and opportunities relevant to the Company's business
- reviewing and recommending to the Board for approval the 2019 budget
- reviewing and recommending to the Board for approval the Company's 2017 Corporate Scorecard result and certain metrics for the Company's short-term and long-term incentive plans

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.

- The **Investment Committee** evaluates prospective aircraft acquisition, lease placement and sales activities on referral from the Revenue Committee. 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 Chief Operating Officer.

- 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 Chief Operating 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 and renewed, 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 2018 to update her skills and knowledge.

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 2018.

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 2018, the total fees charged by EY and its affiliates were US$0.7 million, of which US$0.4 million was for audit services, US$0.1 million was for audit related services mainly relating to the Company's issuance of notes under its Global Medium Term Note Program and US$0.2 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 audit or where EY's understanding of the Group's business was beneficial in improving efficiency and effectiveness. The percentage of fee ratio between non-audit related services versus audit services and audit related services was 45.3%, while the percentage of fee ratio between audit related services and non-audit related services versus audit services was 86.0%. The Audit Committee is satisfied that the non-audit services (comprising audit related and non-audit related services) provided by EY in 2018 did not affect the independence of EY.

Investor relations

The Board and Senior Management recognise their responsibility to represent the interests of all Shareholders. Frequent and regular communication with Shareholders 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 2018, he and members of Senior Management have participated in numerous meetings, calls, 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 or filing 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 2018. 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 2018 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 2018.

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

Annual General Meeting

The AGM will be held on 29 May 2019 in Hong Kong.

Results

The financial performance of the Group for the year ended 31 December 2018 and the financial position of the Group and the Company at that date are set out in the financial statements in the Appendix A to this announcement.

Dividends

The Board has recommended a final dividend of US$0.1845 per Share for the year ended 31 December 2018, amounting to approximately US$128.0 million, subject to the approval of Shareholders at the AGM. If approved, the final dividend will be paid on 14 June 2019 to Shareholders whose names appear on the Register of Members of the Company on the record date, being 6 June 2019. 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$0.1284 per Share declared in August 2018, the total dividend payout for the year ended 31 December 2018 would be US$0.3129 per Share, representing a total distribution to Shareholders of approximately US$217.2 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 24 May 2019 to 29 May 2019 (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 23 May 2019.

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 4 June 2019 to 6 June 2019 (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 3 June 2019.

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 80 of this announcement.

Plant and equipment

Details of plant and equipment of the Group as at 31 December 2018 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 2018, the Company donated a total of US$0.04 million for charitable purposes. 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 2018. Save for the purchase of 1,299,300 Shares at a total consideration of approximately HK$60.6 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 2018.

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 2018 to the date of this announcement.

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 22 to the financial statements.

Distributable reserves

The distributable reserves of the Company as at 31 December 2018, calculated according to the Companies Act (Cap. 50 of the laws of Singapore), amounted to approximately US$1,592 million and are set out as retained earnings in the Company's statement of financial position in the financial statements.

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 2018.

Directors

A list of Directors in office at the date of this statement is set out on page 48 of this announcement.

The changes in Board composition, and the biographical details of the Directors and their terms of office are set out on pages 31 to 34 and pages 42 to 43 of this announcement.

In accordance with Article 90 of the Constitution, Mr. Robert James Martin, Mr. Liu Chenggang, Mr. Fu Shula and Dr. Yeung Yin Bernard will retire at the forthcoming AGM. In addition, Mr. Sun Yu and Mr. Wang Zhiheng 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 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 2018 and as at 31 December 2018, 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.

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 2018 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) will purchase Shares of the Company from the market and will hold 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.

The Company made the first grant of awards under the RSU Plan on 4 May 2018. Details of the RSUs granted and outstanding under the RSU Plan as at 4 May 2018 are as set out below:

RSU Participants	Position	Number of Shares underlying the RSUs granted in May 2018	Number of Shares underlying the RSUs forfeited during 2018	Number of Shares underlying RSUs outstanding at 31 December 2018	Approximate percentage of the total issued share capital (%)
Mr. Robert James MARTIN	Executive Director	199,373	—	199,373	0.03
Mr. WANG Jian*	Executive Director	34,890	—	34,890	0.01
Directors of subsidiaries of the Company	Subsidiary Directors	291,280	—	291,280	0.04
Employees of the Group other than Executive Directors and Subsidiary Directors	—	773,757	26,220	747,537	0.11
Total		1,299,300	26,220	1,273,080	0.18

* *Pro-rated based on his appointment as Executive Director effective 1 June 2017.*

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 4 May 2018, please refer to the Company's announcement dated 4 May 2018 on the websites of the Stock Exchange and the Company.

Directors' and Chief Executive Officer's Interests in Shares and Debentures

As at 31 December 2018, interests or short positions of the Directors or the Chief Executive Officer of the Company 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 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	199,373	0.03
Mr. WANG Jian	34,890	0.01

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.

Substantial Shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2018, 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

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.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2018, 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.

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 2018.

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 2018 or subsisted as at 31 December 2018.

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 2018 or subsisted as at 31 December 2018.

Major customers

In the year of 2018, the five largest customers of the Group accounted for less than 30% of the total of lease rental income of the Group.

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 98% of total capital expenditure (excluding purchase and leaseback transactions) in 2018. Together with three other suppliers, the total purchases from the five largest suppliers of the Group accounted for approximately 99% 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 2018 (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 2018:

A. Bank deposits

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

The Group had bank deposit accounts with the Macau, 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 2018 was approximately US$145 million and it had not exceeded the cap of US$500 million during the year ended 31 December 2018.

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 2018 was US$146 million and it had not exceeded the cap of US$500 million during the year ended 31 December 2018.

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 2018 and no secured loans with BOC Group (other than the BOCHK Holdings Group) were outstanding as at 31 December 2018.

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 for the year ended 31 December 2018 was nil and it had not exceeded the cap of US$500 million for the year ended 31 December 2018.

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 2018 and no secured loans with BOCHK were outstanding as at 31 December 2018.

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 2018 was nil and it had not exceeded the cap of US$500 million for the year ended 31 December 2018.

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 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 announcement;

(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 2018 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.

The Company confirms that it has complied with the requirements of Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which any Group member was a party during the year ended 31 December 2018. 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 2018. 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.

Debentures issued

In 2018, 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$300,000,000	5 years
Senior Unsecured Notes	US$500,000,000	3 years
Senior Unsecured Notes	US$350,000,000	7 years
Senior Unsecured Notes	US$500,000,000	5 years
Senior Unsecured Notes	US$90,000,000	5 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 2018.

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, 13 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Overview

This Environmental, Social and Governance Report for 2018 demonstrates our efforts to report 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 will 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. At 31 December 2018, our orderbook comprised 183 new aircraft, including the fuel-efficient, new technology Airbus A320NEO and Boeing 737 MAX families.

In 2018, 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 of laws or regulations applicable by us 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 37 to 54 under the section headed "Corporate Governance Report" in this announcement for details of the corporate governance policy and practices of the Company and our internal governance framework.

Environmental policies and practices

BOC Aviation commits to promoting efficient use of resources and reduction of unnecessary 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 contributes to reduced carbon emissions. BOC Aviation's owned and managed fleet was leased to 93 airlines worldwide in 37 countries and regions as at 31 December 2018, including airlines under the TUI Group, Juneyao Airlines, Air New Zealand, Alaska Airlines, Sichuan Airlines, Thai Airways and Finnair, which were highly ranked in the annual atmosfair Airline Index for 2018 that compares and ranks the carbon efficiency of the 200 largest airlines of the world. atmosfair[1] is a German non-profit organisation, founded in 2005 and actively contributes to Co_2 mitigation by promoting, developing and financing renewable energies in over 15 countries worldwide.

1 Source: atmosfair (https://www.atmosfair.de/en/air_travel_and_climate/atmosfair_airline_index/)

We are increasingly building a more efficient fleet. In 2018, we took delivery of our first Boeing 737 MAX 8 aircraft and Airbus A321NEO aircraft, two of the newest technology aircraft. More than 95% of our orderbook comprises new technology aircraft, including the Airbus A320NEO and the Boeing 737 MAX family, the Airbus A330NEO, Airbus A350 and the Boeing 787 family, which are expected to deliver significant fuel efficiency improvements over the current technology models.

As production ramps up for the new models, we are steadily transitioning to the NEO and MAX aircraft types, especially, given our focus on narrowbody aircraft.

Aircraft type as at 31 December 2018	**2019**	**2020**	**2021**
Airbus A320NEO family	34	19	9
Airbus A330NEO family	6	4	2
Airbus A350 family	2	0	0
Boeing 737NG family	2	0	0
Boeing 737 MAX family	26	25	39
Boeing 777-300ER	0	3	0
Boeing 787 family	9	3	0
Total	**79**	**54**	**50**

In addition, we promote a sustainable environment by using electronic communication (where possible) 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 of resources and increasing efficiency, the implementation of E-communication is also a way to support the environment by reducing deforestation and carbon emissions. We intend to continue our electronic communication in the future. Our employees also use video conferencing facilities regularly to avoid unnecessary travel.

Our most important strategy for promoting a sustainable environment is to build a fleet of the most fuel-efficient aircraft. We also emphasise responsible resource-consumption. Our employees are primarily based in Singapore and operate from rented office space where most resource consumption is low and not tracked as part of our rental agreements. Due to the nature of our industry and business operations, most of the Environmental KPIs[1] proposed by the Hong Kong Stock Exchange are irrelevant to our business operations, except for power and paper consumption where the former continued to decline in 2018 and the latter rose slightly on expanded business activities. The total amount of paper recycled, on the other hand, increased at a faster pace than paper consumption and

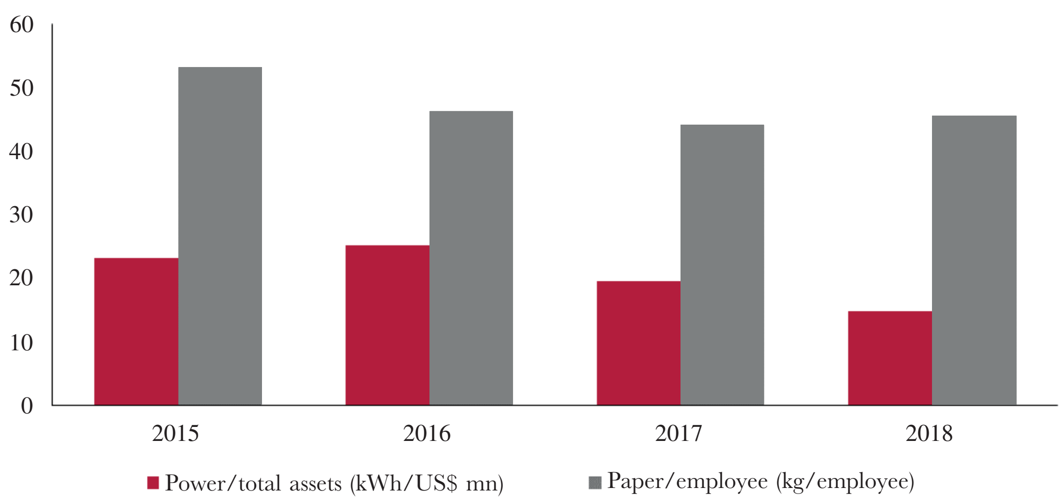
1 How to Prepare an ESG Report? – Appendix 2 Reporting Guidance on Environmental KPIs (by the Stock Exchange)

doubled in 2018. Further, given that more than 80% of our employees are based in Singapore, we have presented the relevant figures for the Singapore office only. The figures are laid out 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.

Category	**Unit**	**2018**	**2017**	**2016**
Power	kWh	272,116	314,770	339,621
Office paper	tonnes	7.7	6.7	7.0
Paper recycled	30L bins	108	50	42
Total assets	US$ million	18,256	16,040	13,445

Resource metrics have improved when measured against the scale of our business. Power consumption per dollar invested in assets fell 24% relative to 2017, while paper consumed per employee was little changed.

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. In addition, the Group's day-to-day operations are subject to a more limited set of environmental laws and regulations. Thus far, 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.

The Group has not received any material fines or penalties associated with the breach of any environmental laws or regulations since the commencement of the Group's operations.

Human resources policies and practices

As a global aviation 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 more than a dozen nationalities employed by BOC Aviation. We offer competitive salaries and provides 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 2018, our employee bonus grants included 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 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 are a young company with a diverse workforce, almost half of which is below the age of 40, with an almost equal balance of male and female employees that has remained consistent over the review period.

Total workforce by gender	**2018**	**2017**	**2016**
Female	85 (50%)	79 (52%)	77 (51%)
Male	84 (50%)	72 (48%)	75 (49%)
Total	**169**	**151**	**152**

Total workforce by age group	**2018**	**2017**	**2016**
Below 40	77 (46%)	72 (48%)	67 (44%)
40-49	60 (36%)	54 (36%)	55 (36%)
50-54	19 (11%)	13 (9%)	17 (11%)
55-62	13 (7%)	12 (7%)	12 (7.9%)
Above 62	0	0	1 (1.1%)
Total	**169**	**151**	**152**

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

Total workforce by geography	**2018**	**2017**	**2016**
Singapore (Headquarters)	138	128	129
China	4	3	2
Ireland	8	6	9
UK	16	11	9
USA	3	3	3
Total	**169**	**151**	**152**

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. The Company actively plans for succession for Senior Management and other key roles in 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. In 2018, we conducted close to 1,900 hours in external and internal training sessions to enhance our employees' competencies and business knowledge, and held one group-wide company offsite event to align all employees with the business strategy and to provide Company-wide training.

The Company invested in the development of our talents and conducted an average of 13 hours per employee training session in 2018.

Gender	**Average hours per training session**	**Total number of employee training sessions**
Female	11	85
Male	16	63
	13	**148**

The greatest amount of training was focused on developing the younger employee groups, with those below the age of 50 accounting for more than 80% of the training hours conducted.

Age	Average hours per training session	Total number of employee training sessions
Below 40	9	93
40-49	15	49
50-54	63	5
55-62	3	1
Above 62	0	0
	13	**148**

Training featured across all employee categories, with substantial training hours committed to developing those in Management and Professional categories. Employees in these categories received over 90% of the training conducted, around 10% points higher than 2017.

Employee category	Average hours per training session	Total number of employee training sessions
Senior Management	26	2
Management	29	17
Professional	10	120
Executive/Administrative	9	9
	13	**148**

Total average employee number growth was around 11% in 2018, stable in 2017 and 10% in 2016. The increase in headcount in 2018 was slower than assets growth.

Net hires	2018	2017	2016
Hired	26	19	23
Turnover	8	20	8
Net change	18	-1	15
Net change as % employees	**10.7%**	**-0.6%**	**9.9%**

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.

Following an annual assessment by the Nomination Committee conducted prior to the publication of this report, the Board considers its current structure, size and composition. It also evaluates whether it is monitoring management practices in a balanced and independent fashion that complements the Company's corporate strategy.

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 2018, 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.

The Directors believe that in the year ended 31 December 2018, the Group has been in compliance with:

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

In 2018, 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 (or "OEMs") that BOC Aviation does business with include aerospace support services providers such as BE Aerospace, Rockwell Collins, Honeywell, and Zodiac.

The Company also engages third-party suppliers on an as-required basis including (1) maintenance, repair and overhaul (or "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 2018, 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	10	19	5	0
MRO	6	12	8	1
Parts	1	2	0	0
Services/others	1	4	1	0
Total	**18**	**37**	**14**	**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.

Our employees are made aware of anti-money laundering/counter-financing of terrorism risks as well as our commitment to data protection. In 2018, all employees completed an online compliance training programme with results reported to the Internal Control Committee, which is responsible for the oversight of the Company's fraud risk management, anti-bribery and sanction policies.

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.

Fraud risk management framework

We have a robust fraud risk management policy setting out our fraud risk prevention, investigation and remediation processes and establishing our whistleblower and non-retaliation policies. Our Internal Control Committee, chaired by the Chief Operating Officer, 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.

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. We have a dedicated Compliance Officer in-house to enforce the anti-bribery policy, and our Chief Operating Officer is responsible for the overall oversight as Chairperson of the Internal Control Committee. In 2018, there was no legal case regarding corrupt practices brought against the Company or its employees.

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 (the "FCPA"), and other federal statutes and regulations, including those established by the Office of Foreign Assets Control ("OFAC"). In addition, the UK Bribery Act of 2010 (the "Bribery Act") 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 25-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 2018, there were no material violation of sanctions related laws or regulations and we received no complaints of any sanction related laws or regulations.

Anti-money laundering

We have an anti-money laundering policy 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 anti-money laundering 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. 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" 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 "know your customer" policy 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. In addition, 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.

Whistleblowing

We have a whistleblower policy in place to promote 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 also launched 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.

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 keep up with, and where possible, 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 support 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 2018, Palu in Central Sulawesi, Indonesia, was hit by a 7.4 magnitude earthquake that triggered a tsunami, with news reports stating that more than 2,000 people were feared dead. BOC Aviation donated US$25,000 to Airlink's efforts in supporting the victims of the earthquake in Palu. We also helped to spearhead a donation drive to rally support amongst industry counterparts, which was achieved through email, LinkedIn postings, and promoting Airlink's efforts at industry conferences and public speaking platforms. BOC Aviation also helped connect Airlink with key airline chief executives in the APAC region to provide more avenues for transporting humanitarian aid and supplies into Palu. In addition to BOC Aviation's own donation, we helped Airlink raise more than US$15,000 through our industry network. BOC Aviation also continued to support Airlink via the Airline Economics Gala Awards dinners in Dublin (January 2018) and Hong Kong (November 2018).

In 2018, BOC Aviation held its inaugural Corporate Social Responsibility activity, where we partnered with the Waterways Watch Society to help clean the Kallang and Singapore River. The initiative was well-supported by employees, 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.

During the year, we donated US$10,000 to The Sovereign Art Foundation (SAF) Limited for its 2018 Gala Dinner. The SAF is a registered charity in Hong Kong, supporting art programmes for children within community centres in Asia (Hong Kong, Cambodia, Nepal, Mongolia and Vietnam), predominantly helping victims of poverty, human trafficking, hard labour, sexual abuse, drugs or violence. Donations raised at the SAF Gala Dinner went to charities including SAF's *Make It Better project in Hong Kong, Child Welfare Scheme* in Nepal, *Christina Noble Children's Foundation* in Vietnam and Mongolia, *M'Lop Tapang* in Cambodia, and Hagar International, an organisation restoring the lives of women and children in Afghanistan, Cambodia and Vietnam who have experienced extreme human rights abuse. More details are available on SAF's website at https://www.sovereignartfoundation.com.

We also provided US$5,000 in support to Orbis, which is an international non-profit organisation working to eliminate avoidable blindness. Orbis is a pioneer in the prevention and treatment of blindness for over 30 years in 92 countries. Orbis operates the world's only Flying Eye Hospital on board an MD-10, a state-of-the-art teaching hospital that travels around the world to share knowledge and develop skills with communities that need it most. In 2017, Orbis trained 62,381 eye care specialists and community workers, conducted over five million screenings and eye examinations, and provided more than eight million medical and optical treatments and nearly 100,000 laser procedures and surgeries. Please visit Orbis' homepage at www.orbis.org for more information.

We were also a proud sponsor of the International Society of Transport Aircraft Trading (ISTAT)'s Charity Day at the Farnborough Air Show 2018. 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.

Closer to home we contributed S$5,000 as a donation to the Singapore Community Chest when we participated in CAAS Aviation Community Charity Golf 2018 Event. All donations raised 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.

FIVE YEAR FINANCIAL SUMMARY

The financial highlights of the Group for the financial years 2014 to 2018 are summarised below:

	2018	2017	2016	2015	2014
	US$'m	*US$'m*	*US$'m*	*US$'m*	*US$'m*
Statement of Profit or Loss					
Revenues and other income	1,726	1,401	1,193	1,091	988
Costs and expenses	(1,040)	(850)	(719)	(690)	(636)
Profit before income tax	685	551	474	401	352
Net profit after income tax	**620**	**587**	**418**	**343**	**309**
Statement of Financial Position					
Cash and short-term deposits	243	305	558	507	367
Total current assets	257	572	820	754	386
Total non-current assets	17,999	15,468	12,625	11,720	11,017
Total assets	**18,256**	**16,040**	**13,445**	**12,474**	**11,403**
Total current liabilities	1,709	1,724	1,190	1,215	1,044
Total non-current liabilities	12,349	10,497	8,873	8,819	8,262
Total liabilities	**14,057**	**12,221**	**10,063**	**10,034**	**9,306**
Net assets	**4,199**	**3,819**	**3,382**	**2,440**	**2,097**
Financial ratios					
Net assets per share (US$)[1]	6.05	5.50	4.87	4.14	3.55
Gearing (times)[2]	3.0	2.9	2.6	3.7	4.0

1 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 2018 was 694,010,334 and at 31 December 2014 and 31 December 2015 was 589,908,834.

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

CORPORATE INFORMATION

As at 13 March 2019

Board of Directors

Chairman
SUN Yu*

Vice Chairman
WANG Jian

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
WANG Jian

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)
GAO Jinyue

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 announcement, 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 2018. The meeting will be held on 29 May 2019
"Airbus"	Airbus S.A.S., a societe par actions simplifiee duly created and existing under French law
"Aircraft Purchase Mandate"	Each of (a) the general mandate granted to the Directors by the Shareholders on 30 May 2018 to purchase aircraft from Airbus and Boeing, the terms of which are set out in the notice of annual general meeting of the Company dated 24 April 2018 and (b) where the context permits, the general mandate granted to the Directors by the Shareholders on 31 May 2017 to purchase aircraft from Airbus and Boeing, the terms of which are set out in the notice of annual general meeting of the Company dated 26 April 2017
"Annual Report"	The annual report of the Company for the financial year ended 31 December 2018 which contains, among others, the audited financial statements for the financial year ended 31 December 2018 and the Directors' Statement
"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
"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
"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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT, ANNUAL REPORT AND AGM

The final results announcement was published on the websites of the Company at www.bocaviation.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The AGM is scheduled to be held on 29 May 2019. The notice of the AGM and the 2018 Annual Report, including our audited financial statements for the year ended 31 December 2018, will be dispatched and made available to the Shareholders in due course.

By order of the Board
BOC Aviation Limited
Zhang Yanqiu Juliana
Company Secretary

Hong Kong, 13 March 2019

As at the date of this announcement, the Board comprises Mr. Sun Yu as Chairman and Non-executive Director, Mr. Robert James Martin and Mr. Wang Jian as Executive Directors, Mr. Li Mang, Mr. Liu Chenggang, Mr. Wang Zhiheng and Ms. Zhu Lin as Non-executive Directors and Mr. Dai Deming, Mr. Fu Shula, Mr. Antony Nigel Tyler and Dr. Yeung Yin Bernard as Independent Non-executive Directors.

BOC AVIATION LIMITED AND
ITS SUBSIDIARY COMPANIES

(Incorporated in Singapore. Registration No. 199307789K)

FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

Contents

DIRECTORS' STATEMENT

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 2018.

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 2018 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 (appointed on 27 February 2019)
Wang Jian	Vice-Chairman and Deputy Managing Director
Robert James Martin	Managing Director and Chief Executive Officer
Li Mang	Non-executive Director
Liu Chenggang	Non-executive Director
Wang Zhiheng	Non-executive Director (appointed on 22 October 2018)
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 subsidiaries. An independent trustee will purchase shares of the Company from the market and will hold 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 first grant under the RSU Plan was made in May 2018 and the RSU award is accounted for over the vesting period of approximately three years commencing from the date of grant.

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
Wang Jian	–	34,890

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
13 March 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 2018, 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 2018 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 plant and equipment - aircraft

The carrying value of aircraft in plant and equipment was significant to the audit because the aircraft carrying value of US$14,958 million as at the end of the reporting period was material to the financial statements, representing over 80% of the Group's total assets. During the year ended 31 December 2018, 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 comparing lease rental rates 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

13 March 2019

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the financial year ended 31 December 2018

	Note	Group 2018 US$'000	Group 2017 US$'000
Revenues			
Lease rental income	42(a)	**1,542,539**	1,283,587
Interest and fee income	4	**80,753**	29,622
Other income:			
Net gain on sale of aircraft	5	**90,822**	77,754
Others		**11,485**	9,778
		1,725,599	1,400,741
Costs and expenses			
Depreciation of plant and equipment	12	**542,834**	460,496
Finance expenses	6	**353,035**	259,714
Amortisation of deferred debt issue costs	7	**23,186**	20,929
Amortisation of lease transaction closing costs		**194**	146
Staff costs	8	**91,543**	72,276
Marketing and travelling expenses		**5,384**	5,052
Other operating expenses	10	**24,198**	20,392
Impairment of aircraft	12	**–**	10,600
		(1,040,374)	(849,605)
Profit before income tax		**685,225**	551,136
Income tax (expense)/credit	11	**(64,786)**	35,511
Profit for the year attributable to owners of the Company		**620,439**	586,647

Earnings per share attributable to owners of the Company:

	Note	2018	2017
Basic earnings per share (US$)	41	**0.89**	0.85
Diluted earnings per share (US$)	41	**0.89**	0.85

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Note	Group	
		2018	2017
		US$'000	US$'000
Profit for the year		**620,439**	586,647
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	**(10,718)**	6,219
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax	29	**(9,022)**	(1,651)
Total comprehensive income for the year attributable to owners of the Company		**600,699**	591,215

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 2018

	Note	Group 2018 US$'000	Group 2017 US$'000
Non-current assets			
Plant and equipment	12	**17,973,481**	15,434,163
Lease transaction closing costs		**1,286**	1,088
Derivative financial instruments	13	**14,379**	22,023
Trade receivables	14	**909**	–
Finance lease receivables	36(c)(ii)	**–**	10,375
Deferred income tax assets	26	**146**	141
Other non-current assets		**9,291**	–
		17,999,492	15,467,790
Current assets			
Derivative financial instruments	13	**2,593**	–
Trade receivables	14	**7,075**	5,467
Finance lease receivables	36(c)(ii)	**–**	5,625
Prepayments		**2,451**	2,972
Other receivables	15	**1,629**	14,179
Short-term deposits	16	**152,936**	162,235
Cash and bank balances	17	**90,047**	143,058
Assets held for sale	18	**–**	238,535
		256,731	572,071
Total assets		**18,256,223**	16,039,861
Current liabilities			
Derivative financial instruments	13	**1,536**	38,003
Trade and other payables	19	**156,923**	136,858
Deferred income	20	**63,569**	66,651
Income tax payables		**599**	956
Loans and borrowings	21	**1,438,258**	1,419,443
Finance lease payables	22	**–**	33,478
Security deposits	24	**47,623**	29,022
		1,708,508	1,724,411
Net current liabilities		**(1,451,777)**	(1,152,340)
Total assets less current liabilities		**16,547,715**	14,315,450

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Note	Group 2018 US$'000	Group 2017 US$'000
Non-current liabilities			
Derivative financial instruments	13	**122,212**	62,583
Loans and borrowings	21	**10,840,469**	9,262,814
Finance lease payables	22	**–**	24,640
Security deposits	24	**221,529**	199,900
Deferred income	20	**60,445**	44,833
Maintenance reserves	25	**732,133**	558,503
Deferred income tax liabilities	26	**304,800**	296,339
Other non-current liabilities	27	**67,101**	47,081
		12,348,689	10,496,693
Total liabilities		**14,057,197**	12,221,104
Net assets		**4,199,026**	3,818,757
Equity attributable to owners of the Company			
Share capital	28	**1,157,791**	1,157,791
Retained earnings		**3,037,898**	2,639,874
Statutory reserves		**63**	9
Share-based compensation reserves		**1,931**	–
Hedging reserves	29	**1,343**	21,083
Total equity		**4,199,026**	3,818,757
Total equity and liabilities		**18,256,223**	16,039,861

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		Company	
	Note	**2018**	2017
		US$'000	US$'000
Non-current assets			
Plant and equipment	12	**10,335,964**	8,899,925
Lease transaction closing costs		**711**	727
Derivative financial instruments	13	**14,379**	22,023
Trade receivables	14	**909**	–
Amounts due from subsidiary companies	32	**1,029,400**	758,260
Investments in subsidiary companies	33	**747,427**	747,428
Other non-current assets		**8,195**	–
		12,136,985	10,428,363
Current assets			
Derivative financial instruments	13	**2,593**	–
Trade receivables	14	**838**	2,704
Prepayments		**1,593**	1,394
Other receivables	15	**49,051**	21,472
Short-term deposits	16	**105,929**	134,235
Cash and bank balances	17	**13,331**	50,747
Assets held for sale	18	**–**	229,550
		173,335	440,102
Total assets		**12,310,320**	10,868,465
Current liabilities			
Derivative financial instruments	13	**1,536**	38,003
Trade and other payables	19	**106,106**	100,881
Deferred income	20	**42,366**	35,668
Loans and borrowings	21	**439,644**	854,703
Finance lease payables	22	**–**	33,478
Security deposits	24	**16,505**	18,285
Finance lease payable to subsidiary companies	31	**108,027**	107,895
		714,184	1,188,913
Net current liabilities		**(540,849)**	(748,811)
Total assets less current liabilities		**11,596,136**	9,679,552

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Note	Company 2018 US$'000	Company 2017 US$'000
Non-current liabilities			
Derivative financial instruments	13	**122,212**	62,583
Loans and borrowings	21	**7,662,543**	6,069,237
Finance lease payables	22	**–**	24,640
Security deposits	24	**125,861**	116,105
Deferred income	20	**30,060**	25,914
Maintenance reserves	25	**319,801**	245,874
Deferred income tax liabilities	26	**93,065**	72,430
Finance lease payable to subsidiary companies	31	**443,790**	555,911
Other non-current liabilities	27	**56,975**	40,073
		8,854,307	7,212,767
Total liabilities		**9,568,491**	8,401,680
Net assets		**2,741,829**	2,466,785
Equity attributable to owners of the Company			
Share capital	28	**1,157,791**	1,157,791
Retained earnings		**1,591,555**	1,304,926
Share-based compensation reserves		**1,657**	–
Hedging reserves	29	**(9,174)**	4,068
Total equity		**2,741,829**	2,466,785
Total equity and liabilities		**12,310,320**	10,868,465

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 2018

		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 2017		1,157,791	2,207,855	7	–	16,515	3,382,168
Profit for the year		–	586,647	–	–	–	586,647
Transfers to statutory reserves		–	(2)	2	–	–	–
Other comprehensive income for the year, net of tax	29	–	–	–	–	4,568	4,568
Total comprehensive income for the year		–	586,645	2	–	4,568	591,215
Transactions with owners of the Company:							
Dividends	34	–	(154,626)	–	–	–	(154,626)
At 31 December 2017 and 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		**1,157,791**	**3,037,898**	**63**	**1,931**	**1,343**	**4,199,026**

* 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 2018

	Note	Group 2018 US$'000	Group 2017 US$'000
Cash flows from operating activities:			
Profit before income tax		**685,225**	551,136
Adjustments for:			
Depreciation of plant and equipment	12	**542,834**	460,496
Impairment of aircraft	12	**–**	10,600
Plant and equipment written off		**62**	–
Amortisation of deferred debt issue costs	7	**23,186**	20,929
Amortisation of lease transaction closing costs		**194**	146
Interest and fee income	4	**(80,753)**	(29,622)
Net gain on sale of aircraft	5	**(90,822)**	(77,754)
Finance expenses	6	**353,035**	259,714
Share-based compensation	8	**1,931**	–
Maintenance reserves written off	25	**(47)**	(1,341)
Operating profit before working capital changes		**1,434,845**	1,194,304
Decrease/(increase) in receivables		**16,557**	(26,986)
Increase/(decrease) in payables		**11,457**	(6,490)
Increase in maintenance reserves		**181,959**	85,930
Decrease in deferred income		**(3,082)**	(23,051)
Cash generated from operations		**1,641,736**	1,223,707
Security deposits received, net		**55,842**	17,613
Lease transaction closing costs paid		**(431)**	(588)
Income tax paid, net		**(55,929)**	(801)
Interest and fee income received		**81,454**	31,447
Net cash flows from operating activities		**1,722,672**	1,271,378
Cash flows from investing activities:			
Purchase of plant and equipment		**(4,143,287)**	(4,433,480)
Proceeds from sale of plant and equipment		**1,421,651**	1,239,171
Net cash flows used in investing activities		**(2,721,636)**	(3,194,309)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the financial year ended 31 December 2018

	Note	Group 2018 US$'000	Group 2017 US$'000
Cash flows from financing activities:			
Proceeds from loans and borrowings		**2,140,000**	2,626,229
Repayment of loans and borrowings and finance lease payables		**(1,247,380)**	(1,318,478)
Increase in borrowings from revolving credit facilities, net		**644,000**	795,000
Finance expenses paid		**(361,330)**	(257,605)
Debt issue costs paid		**(16,275)**	(20,779)
Dividends paid	34	**(222,361)**	(154,626)
Decrease in cash and bank balances - encumbered		**50,424**	186,589
Increase in cash and bank balances - encumbered		**(7,228)**	(85,271)
Net cash flows from financing activities		**979,850**	1,771,059
Net decrease in cash and cash equivalents		**(19,114)**	(151,872)
Cash and cash equivalents at beginning of year		**241,847**	393,719
Cash and cash equivalents at end of year	30	**222,733**	241,847

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 2018, the Group's and the Company's current liabilities exceeded its current assets by US$1,451.8 million (2017: US$1,152.3 million) and US$540.8 million (2017: US$748.8 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 Singapore Financial Reporting Standards (International) ("SFRS(I)") as issued by the Singapore Accounting Standards Council ("ASC"), which the Group adopted on 1 January 2018. Refer to Note 2.2 for information on the first-time adoption of SFRS(I).

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 First-time adoption of SFRS(I)

On 29 December 2017, the ASC issued SFRS(I), Singapore's equivalent of the IFRS which is available for application by Singapore-incorporated companies for annual periods beginning on or after 1 January 2018. Following the introduction and adoption of this new financial reporting framework, the Group has chosen to comply with both IFRS and SFRS(I).

2.3 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 2018. 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 9/SFRS(I) 9 *Financial Instruments* and IFRS 15/SFRS(I) 15 *Revenue from Contracts with Customers* on 1 January 2018. The nature of the changes in these financial reporting standards are described below:

<u>IFRS 9/SFRS(I) 9 *Financial Instruments*</u>

IFRS 9/SFRS(I) 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting.

The classification of financial assets under this standard is based on their contractual cash flow characteristics and the business model under which they are held, and eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The changes of this standard did not result in a change in the classification and measurement of financial assets of the Group.

The impairment requirements in this standard are based on an expected credit loss model and replaces the IAS 39 incurred loss model. This standard requires the Group to record expected credit losses on its trade and other receivables, finance lease receivables, short-term deposits and cash and bank balances, either on a 12-month or lifetime basis. As the Group has a rigorous counterparty selection and monitors closely the credit risks arising from the financial assets as detailed in Note 39(c), the changes of this standard did not have a material impact on the financial statements for the year ended 31 December 2018.

The new hedge accounting rules under IFRS 9/SFRS(I) 9 aligns the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting as this standard introduces a more principle-based approach. The above change did not have a significant impact on the current hedging relationships entered into by the Group.

<u>IFRS 15/SFRS(I) 15 *Revenue from Contracts with Customers*</u>

Under IFRS 15/SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. This standard specifically states that lease contracts within the scope of IFRS 16/SFRS(I) 16 Leases are outside the scope of this standard.

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

2.3 Changes in accounting policies (cont'd)

IFRS 15/SFRS(I) 15 *Revenue from Contracts with Customers (cont'd)*

As the Group derives its revenue primarily from lease rentals under lease contracts within the scope of IFRS 16/SFRS(I) 16 Leases, the adoption of this standard did not have a material impact on the financial statements for the year ended 31 December 2018.

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

Standards and Interpretation	Content	Applicable for financial year beginning on or after
IFRS 16/SFRS(I) 16	Leases	1 January 2019
IFRIC 23/SFRS(I) INT 23	Uncertainty over Income Tax Treatments	1 January 2019
Improvements to IFRS/SFRS(I) (December 2017)		
Amendments to IAS 12/ SFRS(I) 1-12	Income Tax Consequences of Payments on Financial Instruments Classified as Equity	1 January 2019
Amendments to IAS 23/ SFRS(I) 1-23	Borrowing Costs Eligible for Capitalisation	1 January 2019

Based on a preliminary assessment using currently available information, the Group does not expect the adoption of the above standards and interpretation 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 and interpretation on the effective date.

The nature of the impending changes in accounting policies on adoption of IFRS 16/SFRS(I) 16 is described below:

IFRS 16/SFRS(I) 16 *Leases*

IFRS 16/SFRS(I)16 replaces existing lease accounting guidance. This standard does not change the classification of leases for lessors except for more disclosures in the financial statements.

This standard eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

As the Group is primarily a lessor engaging in leasing aircraft, the Group does not expect the changes of this standard to have a material impact on the financial statements in the period of initial application.

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

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies as at 31 December 2018. 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.

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.

2.5 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 entities 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.

2.6 Plant and equipment

(a) Aircraft

Purchased aircraft on operating lease to airline operators are included under 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.

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

2.6 Plant and equipment (cont'd)

(a) Aircraft (cont'd)

The Group accounts for aircraft leased as finance leases if the lease agreements give the Group rights approximating to ownership when the Group is the lessee. The assets are capitalised under plant and equipment as if they had been purchased outright 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. The corresponding lease commitment is included under liabilities. Lease payments consist of principal and interest elements and the interest is charged to profit or loss. Depreciation on the relevant asset 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.

(b) Aircraft pre-delivery payments

Pre-delivery payments are recognised under 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) Depreciation

Aircraft are depreciated on a straight-line basis over 25 years with 15% residual value at the end of 25th year for the first 12 years. The remaining value at the end of 12th year is depreciated using 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. The estimated useful lives of these plant and equipment are as follows:

Office renovations	- 3 to 5 years
Furniture, fittings and office equipment	- 1 to 3 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 plant and equipment.

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

2.6 Plant and equipment (cont'd)

(e) Disposal

An item of 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.

2.7 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.

2.8 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.

2.9 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)

2.10 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.

2.11 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)

2.11 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)

2.11 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.

2.12 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)

2.12 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.

2.13 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)

2.13 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.

Hedging relationships designated under IAS 39 *Financial Instruments* that were still existing as at 31 December 2017 are treated as continuing hedges and hedge documentations were aligned accordingly to the requirements of IFRS 9/SFRS(I) 9 *Financial Instruments*.

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.

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

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

(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.

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.

2.14 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.

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

2.16 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.

2.17 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 ceases when the aircraft is delivered. All other borrowing costs are expensed in the period they occur.

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

2.19 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.

2.20 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.

(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) of the RSU Plan.

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

2.21 Leases

(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 2.22. 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.

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

Finance leases, which effectively transfer to the Group or the Company substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised 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 and disclosed under Note 36. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group or the Company will obtain ownership of the leased asset by the end of the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership during the lease term are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

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

2.22 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 step 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) Lease termination fees

Lease termination fees are recognised based on contractual agreement with the relevant lessee.

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

2.23 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.

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

2.23 Taxes (cont'd)

(b) Deferred income tax (cont'd)

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.

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.

2.24 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)

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

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.

(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.

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

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

(e) Classification of leases (cont'd)

(ii) Operating lease – As lessee

The Group has entered into leases of office and facilities space, and copiers whereby the Group has determined that the lessor has retained substantially all risks and rewards incidental to ownership. Accordingly, these leases are not recognised as plant and equipment on the Group's statement of financial position.

(iii) 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 transaction as a sale of aircraft and finance lease receivables on the statement of financial position.

(iv) Finance lease – As lessee

The Group has entered into aircraft leases whereby the Group has determined that it has assumed all the risks and rewards of ownership. Accordingly, the Group has recorded these aircraft as plant and equipment 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 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 2018 was US$1,172.0 million (2017: US$1,200.1 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 tax planning strategies.

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. Significant accounting judgements and estimates (cont'd)

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 25th year for the first 12 years. The remaining value at the end of 12th year is depreciated using 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$23.7 million (2017: US$21.3 million). Such a decrease in the useful lives of the Group's aircraft could affect the Group's annual profit before tax in future.

(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 2018 US$'000	Group 2017 US$'000
Interest income from short-term deposits and bank balances	**3,668**	2,709
Fee income from aircraft pre-delivery payments	**66,209**	21,657
Lease management fee income	**3,392**	3,787
Remarketing fee income	**5,574**	850
Others	**1,910**	619
	80,753	29,622

5. Net gain on sale of aircraft

	Note	Group 2018 US$'000	Group 2017 US$'000
Proceeds from sale of aircraft*		**1,304,906**	1,196,722
Maintenance reserves released	25	**2,621**	–
Net book value of aircraft classified as:			
Plant and equipment		**(695,779)**	(522,587)
Assets held for sale	18	**(518,236)**	(594,103)
Expenses		**(2,690)**	(2,278)
		90,822	77,754

* Included an amount of nil (2017: US$91.8 million) received from a related company.

6. Finance expenses

	Group 2018 US$'000	Group 2017 US$'000
Interest expense and other charges on:		
Loans and borrowings	**352,804**	258,236
Finance leases	**231**	1,478
	353,035	259,714

7. Amortisation of deferred debt issue costs

	Note	Group 2018 US$'000	Group 2017 US$'000
Arising from:			
Loans and borrowings	21	**23,007**	20,860
Finance lease payables	22	**179**	69
		23,186	20,929

8. Staff costs

	Group 2018 US$'000	Group 2017 US$'000
Salaries, bonuses and other staff costs	**86,274**	68,305
Employers' defined contributions	**3,338**	3,971
Share-based compensation	**1,931**	–
	91,543	72,276

Share-based compensation (equity-settled)

The Group has adopted a Restricted Share Unit Long Term Incentive Plan. The Restricted Share Units ("RSU") in respect of a financial year are granted in the following year and vest in the third year following the end of such financial year.

During the year ended 31 December 2018, the Group granted 1,299,300 RSUs at a fair value of HK$46.61 per share (then equivalent to US$5.94 per share). The fair value of RSUs 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. As at 31 December 2018, the RSUs granted but not vested was 1,273,080 due to forfeiture of 26,220 RSUs.

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**
2018					
Chairman, Non-executive director[1]					
Sun Yu[2]	–	–	–	–	–
Executive directors					
Wang Jian (Vice-Chairman)	–	536	385	–	921
Robert James Martin	–	1,059	6,420	–	7,479
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[3]	–	–	–	–	–
Zhu Lin	–	–	–	–	–
	305	**1,669**	**6,805**	**–**	**8,779**

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
2017					
Chairman, non-executive director[1]					
Chen Siqing[4]	–	–	–	–	–
Executive directors					
Wang Jian (Vice-Chairman) [5]	–	335	–	–	335
Wang Genshan (Vice-Chairman) [6]	–	228	2,029	–	2,257
Robert James Martin	–	1,039	5,160	–	6,199
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]					
Gao Zhaogang[7]	–	–	–	–	–
Li Mang	–	–	–	–	–
Liu Chenggang	–	–	–	–	–
Zhu Lin	–	–	–	–	–
	305	1,676	7,189	–	9,170

[1] In 2017 and 2018, 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] Appointed on 22 October 2018
[4] Resigned on 16 March 2018
[5] Appointed on 1 June 2017
[6] Resigned on 31 May 2017
[7] Resigned 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 2018 and 2017, the five individuals whose emoluments were the highest in the Group include one (2017: two) executive director whose emoluments are reflected in Note 9(a).

The emoluments paid to the remaining four (2017: three) individuals during the year ended 31 December 2018 and 2017 were as follows:

	2018	2017
	US$'000	US$'000
Salaries, allowances and other benefits	**2,414**	1,821
Discretionary bonus	**7,839**	5,048
Employers' defined contributions	**376**	318
	10,629	7,187

The number of such individuals whose emoluments paid during the year ended 31 December 2018 and 2017 fell within the following bands:

	2018	2017
HK$15,000,001 to HK$15,500,000	**1**	1
HK$19,000,001 to HK$19,500,000	**1**	–
HK$19,500,001 to HK$20,000,000	**–**	1
HK$20,500,001 to HK$21,000,000	**–**	1
HK$23,000,001 to HK$23,500,000	**1**	–
HK$25,000,001 to HK$25,500,000	**1**	–

During the year ended 31 December 2018 and 2017, 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 2018 and 2017 fell within the following bands:

	2018	2017
HK$2,500,001 to HK$3,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$9,000,001 to HK$9,500,000	**–**	1
HK$11,000,001 to HK$11,500,000	**1**	–
HK$15,000,001 to HK$15,500,000	**–**	1
HK$17,500,001 to HK$18,000,000	**–**	1
HK$19,000,001 to HK$19,500,000	**1**	–
HK$19,500,001 to HK$20,000,000	**–**	1
HK$20,500,001 to HK$21,000,000	**–**	1
HK$23,000,001 to HK$23,500,000	**1**	–
HK$25,000,001 to HK$25,500,000	**1**	–
HK$48,000,001 to HK$48,500,000	**–**	1
HK$58,500,001 to HK$59,000,000	**1**	–

10. Other operating expenses

	Group	
	2018	2017
	US$'000	US$'000
General office expenses	**4,895**	4,266
Operating lease expenses	**2,250**	2,609
Technical services expenses	**3,867**	2,756
Professional fees	**5,189**	5,541
Auditors' remuneration	**393**	381
Net foreign exchange losses/(gains)[1]	**413**	(50)
Other taxes and expenses	**7,191**	4,889
	24,198	20,392

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

[1] Included foreign exchange gain of US$12.5 million (2017: exchange loss of US$50.9 million) in revaluation of financial liabilities which were offset by fair value loss of US$12.5 million (2017: fair value gain of US$50.9 million) in derivative financial instruments.

11. Income tax expense/(credit)

The major components of income tax expense/(credit) for the year ended 31 December 2018 and 2017 are:

	Group	
	2018	2017
	US$'000	US$'000
Current income tax		
Singapore	**(40)**	(40)
Foreign	**56,377**	1,415
Over provision in respect of prior years	**(7)**	(17)
	56,330	1,358
Deferred income tax		
Singapore	**21,207**	16,426
Foreign	**(11,930)**	46,694
Over provision in respect of prior years	**(821)**	(8,989)
Reduction in US tax rate	**–**	(91,000)
	8,456	(36,869)
	64,786	(35,511)

11. Income tax expense/(credit) (cont'd)

A reconciliation between tax expense/(credit) and the product of accounting profit multiplied by the applicable corporate tax rate for the year ended 31 December 2018 and 2017 is as follows:

	Group	
	2018	2017
	US$'000	US$'000
Profit before income tax	**685,225**	551,136
Tax at the Singapore tax rate of 17% (2017:17%)	**116,488**	93,693
Adjustments:		
Different tax rates in foreign jurisdictions	**17,726**	12,658
Effects of Aircraft Leasing Scheme incentive on Company's results	**(72,172)**	(44,437)
Income not subject to tax	**(388)**	(102)
Expenses not deductible for tax purposes	**3,329**	2,293
Others	**631**	390
Over provision in respect of prior years, net	**(828)**	(9,006)
	64,786	55,489
Reduction in US tax rate[1]	–	(91,000)
	64,786	(35,511)

[1]Following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017 which amongst other measures, reduced the US federal corporate income tax rate to 21%, the Group has re-measured its net deferred tax liabilities as at 31 December 2017 and recognised a reduction of deferred tax liabilities of US$91.0 million.

12. Plant and equipment

Group	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Total US$'000
Cost:					
At 1 January 2017	11,825,450	2,166,578	1,261	9,363	14,002,652
Additions	3,054,048	1,391,638	468	2,043	4,448,197
Disposals/reductions	(625,115)	(42,449)	(126)	(23)	(667,713)
Transfers	1,511,490	(1,511,490)	–	–	–
Transfer to assets held for sale	(723,853)	–	–	–	(723,853)
Adjustments	(437)	–	–	–	(437)
At 31 December 2017 and 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	**16,764,092**	**3,013,699**	**1,893**	**13,183**	**19,792,867**

12. 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	Total US$'000
Accumulated depreciation and impairment:					
At 1 January 2017	1,388,386	–	1,032	8,634	1,398,052
Charge for the year	458,939	–	154	1,403	460,496
Disposals	(102,528)	–	(126)	(23)	(102,677)
Impairment of aircraft	10,600	–	–	–	10,600
Transfer to assets held for sale	(141,788)	–	–	–	(141,788)
At 31 December 2017 and 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	**1,806,420**	–	**1,073**	**11,893**	**1,819,386**
Net book value:					
At 31 December 2017	13,427,974	2,004,277	543	1,369	15,434,163
At 31 December 2018	**14,957,672**	**3,013,699**	**820**	**1,290**	**17,973,481**

12. 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**	**Total US$'000**
Cost:					
At 1 January 2017	6,801,505	79,664	1,016	9,180	6,891,365
Additions	3,590,861	131,476	256	1,987	3,724,580
Disposals/reductions	(299,056)	(42,449)	(126)	(23)	(341,654)
Transfer to subsidiary companies	–	(38,750)	–	–	(38,750)
Transfer to assets held for sale	(485,567)	–	–	–	(485,567)
Adjustments	12	–	–	–	12
At 31 December 2017 and 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	**10,818,503**	**516,997**	**1,668**	**12,749**	**11,349,917**

12. 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**	**Total US$'000**
Accumulated depreciation and impairment:					
At 1 January 2017	703,362	–	926	8,469	712,757
Charge for the year	282,212	–	82	1,360	283,654
Disposals	(52,667)	–	(126)	(23)	(52,816)
Impairment of aircraft	6,400	–	–	–	6,400
Transfer to assets held for sale	(99,934)	–	–	–	(99,934)
At 31 December 2017 and 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	**1,001,480**	**–**	**967**	**11,506**	**1,013,953**
Net book value:					
At 31 December 2017	8,768,382	129,941	264	1,338	8,899,925
At 31 December 2018	**9,817,023**	**516,997**	**701**	**1,243**	**10,335,964**

12. Plant and equipment (cont'd)

(a) *Impairment of assets*

As at 31 December 2018, the accumulated impairment loss on the Group's and the Company's plant and equipment was nil (2017: US$4.7 million).

The impairment loss in 2017 represented the write-down of the aircraft book value to recoverable amount. The recoverable amount was determined based on the management's best estimate of aircraft values from appraisers' valuation or value in use or estimated selling prices based on signed letter of intent to sell the aircraft. The estimated future cash flows of the aircraft were discounted to their present value using pre-tax discount rate to calculate the value in use.

Movement of accumulated impairment loss provision:

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
At 1 January	**4,700**	4,800	**4,700**	2,200
Impairment loss	**–**	10,600	**–**	6,400
Utilised	**(4,700)**	(10,700)	**(4,700)**	(3,900)
At 31 December	**–**	4,700	**–**	4,700

(b) *Assets held under finance leases*

The net book value of aircraft owned by the Group and Company held under finance lease arrangements amounted to nil (2017: US$93.1 million) and US$1,294.7 million (2017: US$1,431.2 million) respectively.

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

Extract from Consolidated Statement of Cash Flows

	Group	
	2018	2017
	US$'000	US$'000
Cash flows from investing activities		
Purchase of plant and equipment	**(4,143,287)**	(4,433,480)
Proceeds from sale of plant and equipment	**1,421,651**	1,239,171
Net cash flows used in investing activities	**(2,721,636)**	(3,194,309)

12. Plant and equipment (cont'd)

(c) Reconciliation of capital expenditure in plant and equipment to net cash flows used in investing activities (cont'd)

	Group	
	2018	2017
	US$'000	US$'000
Cash flows from investing activities		
Additions of aircraft	**(1,698,738)**	(3,054,048)
Additions of aircraft pre-delivery payments	**(2,471,401)**	(1,391,638)
Additions of other plant and equipment	**(2,393)**	(2,511)
Proceeds from sale of aircraft	**1,304,906**	1,196,722
Reductions of aircraft pre-delivery payments upon delivery of aircraft to airlines	**116,745**	42,449
Adjustments for capitalised borrowing costs	**29,245**	14,717
Net cash flows used in investing activities	**(2,721,636)**	(3,194,309)

(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 finance lease arrangements in Note 12(b), that have been charged for loan facilities granted (Note 21 and Note 22) 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$3,258.5 million (2017: US$3,968.4 million) and US$1,977.7 million (2017: US$2,307.2 million) respectively.

(e) Capitalisation of borrowing costs

The borrowing costs capitalised as cost of aircraft amounted to US$29.2 million (2017: US$14.7 million). The rate used to determine the amount of borrowing costs for capitalisation ranged from 2.8% to 3.2% (2017: 2.6% to 2.7%) per annum.

13. Derivative financial instruments

	Group and Company					
	2018			2017		
	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	**–**	**–**	**–**	492,225	–	(38,003)
Interest rate swaps	**600,000**	**2,593**	**(1,536)**	–	–	–
		2,593	**(1,536)**		–	(38,003)
Non-current:						
Cross-currency interest rate swaps	**875,019**	**2,859**	**(99,733)**	875,019	5,008	(59,506)
Interest rate swaps	**2,890,000**	**11,520**	**(22,479)**	1,300,000	17,015	(3,077)
		14,379	**(122,212)**		22,023	(62,583)

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 item.

13. Derivative financial instruments (cont'd)

The following hedging instruments used by the Group 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)
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 the exposure to changes in the fair values of the Group's fixed rate 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 the exposure to changes in the fair values of the Group's fixed rate 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 borrowings (cash flow hedge). Under these cross-currency interest rate swaps, the Group receives non-US Dollar principal with 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 related 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**	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Trade receivables (current)	**7,075**	5,467	**838**	2,704
Trade receivables (non-current)	**909**	–	**909**	–

Trade receivables are recognised at their original invoice amounts which represent their fair values on initial recognition and are generally received monthly in advance. Included in the current and non-current portion of the Group's trade receivables was an amount of US$4.2 million (2017: US$2.8 million) and US$0.9 million (2017: nil) respectively which were contractually deferred by mutual agreement and interest bearing.

None of the trade receivables was past due or impaired as at 31 December 2018 (2017: US$1.4 million were past due for less than 30 days but not impaired). These trade receivables are generally secured by cash security deposits or letters of credit.

15. Other receivables

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Deposits	**596**	608	**567**	579
Sundry receivables	**636**	12,473	**242**	5,876
Accrued income	**397**	1,098	**6,920**	3,460
Amounts due from subsidiary companies	**–**	–	**41,322**	11,557
	1,629	14,179	**49,051**	21,472

Sundry receivables 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	**2018**	2017	**2018**	2017
		US$'000	US$'000	**US$'000**	US$'000
Unencumbered	30	**152,936**	162,235	**105,929**	134,235

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 2.0% (2017: 1.1%) and 2.2% (2017: nil) per annum respectively.

As at 31 December 2018, fixed deposits placed with the intermediate holding company for the Group and the Company amounted to US$45.0 million (2017: nil). As at 31 December 2018, fixed deposits placed with other related party amounted to US$12.0 million for the Group (2017: US$146.0 million) and nil for the Company (2017: US$118.0 million).

17. Cash and bank balances

	Note	Group		Company	
		2018	2017	**2018**	2017
		US$'000	US$'000	**US$'000**	US$'000
Encumbered		**20,250**	63,446	**8,313**	33,636
Unencumbered	30	**69,797**	79,612	**5,018**	17,111
		90,047	143,058	**13,331**	50,747

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$33.8 million (2017: US$42.4 million) and US$0.6 million (2017: US$13.2 million) respectively, placed in daily sweep accounts which are available upon demand.

As at 31 December 2018, the Group's cash and bank balances included an amount of US$11.4 million (2017: US$8.4 million) placed with the intermediate holding company.

Cash and bank balances were denominated in United States Dollar except for the following:

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Australian Dollar	**151**	166	**–**	–
Chinese Yuan	**7,146**	4,303	**–**	–
Euro	**1,666**	1,691	**1,064**	1,106
Hong Kong Dollar	**314**	308	**314**	308
Japanese Yen	**969**	1,718	**–**	–
Malaysian Ringgit	**93**	148	**–**	–
Sterling Pound	**33**	802	**–**	–
Singapore Dollar	**50**	773	**50**	773
	10,422	9,909	**1,428**	2,187

18. Assets held for sale

As at 31 December 2018 and 2017, the Group's and Company's aircraft which met the criteria to be classified as assets held for sale were as follows:

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Plant and equipment – aircraft				
At beginning of year	**238,535**	250,573	**229,550**	92,969
Additions	**279,701**	582,065	**50,493**	385,633
Disposals	**(518,236)**	(594,103)	**(280,043)**	(249,052)
At end of year	**–**	238,535	**–**	229,550

19. Trade and other payables

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Trade payables	**258**	2,519	**–**	144
Sundry payables	**2,728**	9,751	**1,380**	2,256
Accrued interest expenses	**76,521**	58,863	**61,221**	50,118
Accrued maintenance reserve payables	**7,271**	1,610	**738**	523
Accrued technical expenses	**1,926**	2,162	**629**	862
Staff costs related accruals	**44,070**	49,471	**36,440**	42,170
Other accruals and liabilities	**24,149**	12,482	**2,621**	2,111
Amounts due to subsidiary companies	**–**	–	**3,077**	2,697
	156,923	136,858	**106,106**	100,881

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	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Current	**256**	2,464	**–**	144
1 – 30 days	**–**	–	**–**	–
31 – 60 days	**–**	–	**–**	–
61 – 90 days	**–**	–	**–**	–
More than 90 days	**2**	55	**–**	–
	258	2,519	**–**	144

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	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Current:				
Medium term notes	**300,000**	492,225	**300,000**	492,225
Loans	**1,150,566**	975,074	**142,239**	401,728
Medium term notes discount (net of premium)	**(241)**	79	**(241)**	79
Fair value and revaluation adjustments	**(1,536)**	(38,003)	**(1,536)**	(38,003)
Deferred debt issue costs	**(10,531)**	(9,932)	**(818)**	(1,326)
	1,438,258	1,419,443	**439,644**	854,703
Non-current:				
Medium term notes	**6,865,019**	5,425,019	**6,865,019**	5,425,019
Loans	**4,160,037**	3,988,387	**936,035**	738,274
Medium term notes discount (net of premium)	**(9,639)**	(12,334)	**(9,639)**	(12,334)
Fair value and revaluation adjustments	**(106,498)**	(61,469)	**(106,498)**	(61,469)
Deferred debt issue costs	**(68,450)**	(76,789)	**(22,374)**	(20,253)
	10,840,469	9,262,814	**7,662,543**	6,069,237
Total loans and borrowings	**12,278,727**	10,682,257	**8,102,187**	6,923,940

21. Loans and borrowings (cont'd)

The deferred debt issue costs relating to the obtaining of the loans are analysed as follows:

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Cost:				
At beginning of year	**158,608**	151,840	**32,536**	28,137
Additions	**15,403**	15,125	**8,061**	8,853
Fully amortised costs written off	**(11,640)**	(8,357)	**(2,554)**	(4,454)
Adjustments	**(136)**	–	**(124)**	–
At end of year	**162,235**	158,608	**37,919**	32,536
Accumulated amortisation:				
At beginning of year	**71,887**	59,384	**10,957**	9,642
Charge for the year (Note 7)	**23,007**	20,860	**6,324**	5,769
Fully amortised costs written off	**(11,640)**	(8,357)	**(2,554)**	(4,454)
At end of year	**83,254**	71,887	**14,727**	10,957
Net book value:				
At end of year	**78,981**	86,721	**23,192**	21,579
Deferred debt issue costs, net	**78,981**	86,721	**23,192**	21,579
Less: Current portion	**(10,531)**	(9,932)	**(818)**	(1,326)
Non-current portion	**68,450**	76,789	**22,374**	20,253

21. Loans and borrowings (cont'd)

The table below summarises the maturity profile of the gross loans and borrowings before adjustments for debt issue costs, fair value, revaluations and discounts/premiums to medium term notes at the end of each year for the Group and 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**
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**
2017					
Medium term notes	492,225	300,000	2,863,962	2,261,057	5,917,244
Loans	975,074	1,104,650	2,439,153	444,584	4,963,461
Total gross loans and borrowings	1,467,299	1,404,650	5,303,115	2,705,641	10,880,705

	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**
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**
2017					
Medium term notes	492,225	300,000	2,863,962	2,261,057	5,917,244
Loans	401,728	142,239	396,387	199,648	1,140,002
Total gross loans and borrowings	893,953	442,239	3,260,349	2,460,705	7,057,246

21. Loans and borrowings (cont'd)

As at 31 December 2018, secured loans amounted to US$1,686.6 million (2017: US$2,273.5 million) and US$523.3 million (2017: US$665.0 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 2018		
		Maturity (Year)	Outstanding amounts US$'000	Amounts swapped to US$ and floating rates US$'000	Amounts swapped to US$ and fixed rates 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**

21. Loans and borrowings (cont'd)

(a) Medium term notes (cont'd)

			Group and Company 2017		
		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	4.2% to 5.5%	2018 to 2024	782,404	742,404	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	4,550,000	500,000	–
			5,917,244	1,615,897	251,347

As at 31 December 2018, an amount of US$1,123.7 million (2017: US$1,615.9 million) in medium term notes of the Group and the Company has been swapped to floating rate liabilities and US Dollar (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$1,021.4 million (2017: US$1,511.1 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 1.9% to 4.9% (2017: 2.0% to 4.0%) per annum during the year.

Effects of fair value hedges on the notes in 2018 were as follows:

	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 2018, an amount of US$251.3 million (2017: 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 Dollar 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 gain of US$2.4 million (31 December 2017: US$4.1 million) on these cross-currency interest rate swaps was recognised in hedging reserve while the balance amount was recognised in profit or loss.

21. Loans and borrowings (cont'd)

(a) Medium term notes (cont'd)

As at 31 December 2018, an amount of US$1,440.0 million (2017: nil) 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$14.9 million (2017: nil) 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.

(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 3.1% (2017: 2.2%) 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 2019 and 2025 (2017: 2018 and 2025).

As at 31 December 2018, loans due to related parties by the Group were US$735.3 million (2017: US$375.8 million).

As at 31 December 2018, loans outstanding amounting to US$1,550 million (2017: US$800 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$7.2 million (2017: gain of US$0.5 million) was accounted for in hedging reserve.

As at 31 December 2018, the Group and Company had unutilised unsecured committed revolving credit facilities of US$2,841 million (2017: US$3,355 million) and US$2,170 million (2017: US$2,240 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$118.7 million (2017: US$218.2 million) in undrawn commitments which are provided by other related parties as part of committed syndicated revolving credit facilities which mature between 2019 and 2021. The Group and Company had committed long-term credit facilities pending the provision of new replacement aircraft as collateral of nil (2017: US$37.1 million) and nil (2017: US$16.1 million) respectively.

As at 31 December 2018, the Group had a committed unutilised unsecured term loan facility of US$750 million (2017: US$300 million), of which US$145 million (2017: US$300 million) was provided by related parties.

22. Finance lease payables

	Group and Company	
	2018	2017
	US$'000	US$'000
Current:		
Finance lease payables	–	33,526
Deferred debt issue costs	–	(48)
Finance lease payables, net	–	33,478
Non-current:		
Finance lease payables	–	24,771
Deferred debt issue costs	–	(131)
Finance lease payables, net	–	24,640
Total finance lease payables, net	–	58,118

The finance lease payables are secured by a charge over leased assets (Note 12). During the year, interest on the leases ranged from 1.9% to 3.6% (2017: 1.7% to 3.6%) per annum.

The deferred debt issue costs relating to finance lease payables are analysed as follows:

		Group and Company	
	Note	**2018**	2017
		US$'000	US$'000
Cost:			
At beginning of year and at end of year		**504**	504
Accumulated amortisation:			
At beginning of year		**325**	256
Charge for the year	7	**179**	69
At end of year		**504**	325
Net book value:			
At end of year		–	179
Deferred debt issue costs, net		–	179
Less: Current portion		–	(48)
Non-current portion		–	131

22. Finance lease payables (cont'd)

The table below summarises the maturity profile of the finance lease payables before adjustments for debt issue costs at the end of each year.

	Group and Company				
	One year or less US$'000	**One to two years US$'000**	**Two to five years US$'000**	**Over five years US$'000**	**Total US$'000**
2018	–	–	–	–	–
2017	33,526	2,285	22,486	–	58,297

23. Reconciliation of movement of financial liabilities to net cash flows from financing activities

Extracted from Consolidated Statement of Cash Flows

	Group	
	2018 US$'000	2017 US$'000
Cash flows from financing activities		
Proceeds from loans and borrowings	**2,140,000**	2,626,229
Repayment of loans and borrowings and finance lease payables	**(1,247,380)**	(1,318,478)
Increase in borrowings from revolving credit facilities, net	**644,000**	795,000
Finance expenses paid	**(361,330)**	(257,605)
Debt issue cost paid	**(16,275)**	(20,779)
	1,159,015	1,824,367
Cash flows used in other financing activities	**(179,165)**	(53,308)
Net cash flows from financing activities	**979,850**	1,771,059

23. Reconciliation of movement of financial liabilities to net cash flows from financing activities (cont'd)

	Note	Group					
				Non-cash changes			
		2017	Cash flows	Fair value and revaluation adjustments	Amortisation /accretion	Re-classification	2018
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'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/premium (net)							
- current		79	–	–	–	(320)	**(241)**
- non-current		(12,334)	(1,008)	–	3,383	320	**(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**
Finance lease payables							
Finance lease payables							
- current		33,526	(33,526)	–	–	–	**–**
- non-current		24,771	(24,771)	–	–	–	**–**
Deferred debt issue costs							
- current		(48)	–	–	48	–	**–**
- non-current		(131)	–	–	131	–	**–**
	22	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**

23. Reconciliation of movement of financial liabilities to net cash flows from financing activities (cont'd)

	Note	Group					
				Non-cash changes			
		2016	Cash flows	Fair value and revaluation adjustments	Amortisation /accretion	Re-classification	2017
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Loans and borrowings							
Medium term notes							
- current		500,000	(500,000)	(38,003)	–	492,225	454,222
- non-current		3,755,489	1,954,632	145,654	–	(492,225)	5,363,550
Medium term notes discount/premium (net)							
- current		–	–	–	–	79	79
- non-current		(9,572)	(5,654)	–	2,971	(79)	(12,334)
Loans							
- current		412,451	(412,451)	–	–	975,074	975,074
- non-current		3,878,322	1,085,139	–	–	(975,074)	3,988,387
Deferred debt issue costs							
- current		(10,206)	–	–	10,206	(9,932)	(9,932)
- non-current		(82,250)	(15,125)	–	10,654	9,932	(76,789)
Liabilities associated with assets held for sale							
- loans		14,963	(14,963)	–	–	–	–
	21	8,459,197	2,091,578	107,651	23,831	–	10,682,257
Finance lease payables							
Finance lease payables							
- current		9,606	(9,606)	–	–	33,526	33,526
- non-current		58,297	–	–	–	(33,526)	24,771
Deferred debt issue costs							
- current		(69)	–	–	69	(48)	(48)
- non-current		(179)	–	–	–	48	(131)
	22	67,655	(9,606)	–	69	–	58,118
Trade and other payables							
Accrued interest expenses		45,183	(257,605)	(175)	271,460	–	58,863
	19	45,183	(257,605)	(175)	271,460	–	58,863
Total		8,572,035	1,824,367	107,476	295,360	–	10,799,238

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$139.9 million (2017: US$110.5 million) and US$74.4 million (2017: US$73.9 million) respectively.

25. Maintenance reserves

		Group		Company	
	Note	**2018**	2017	**2018**	2017
		US$'000	US$'000	**US$'000**	US$'000
At beginning of year		**558,503**	470,020	**245,874**	180,271
Contributions		**232,526**	192,064	**124,164**	101,151
Utilisation		**(18,324)**	(11,282)	**(6,594)**	(1,206)
Transfer to buyers		**(37,904)**	(90,958)	**(19,466)**	(27,390)
Transfer to subsidiary companies		**–**	–	**(15,958)**	(5,611)
Release to profit or loss for excess written off		**(47)**	(1,341)	**(47)**	(1,341)
Release to profit or loss upon sale of aircraft	5	**(2,621)**	–	**–**	–
Release to profit or loss upon sale of aircraft to subsidiary companies		**–**	–	**(8,172)**	–
At end of year		**732,133**	558,503	**319,801**	245,874

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$220.9 million (2017: US$196.7 million) and US$103.1 million (2017: US$83.1 million) respectively.

26. Deferred income tax assets and liabilities

	Group		Company	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Deferred income tax liabilities, net	**304,800**	296,339	**93,065**	72,430
Deferred income tax assets, net	**(146)**	(141)	**–**	–
	304,654	296,198	**93,065**	72,430

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	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Gross deferred tax liabilities	**399,112**	378,694	**118,411**	98,230
Gross deferred tax assets	**(94,458)**	(82,496)	**(25,346)**	(25,800)
Net deferred tax liabilities	**304,654**	296,198	**93,065**	72,430

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 2017	478,259	11,683	38	489,980
(Credited)/charged to profit or loss	(104,729)	(7,392)	835	(111,286)
At 31 December 2017 and 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	**391,397**	**6,055**	**1,660**	**399,112**

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 2017	(148,562)	(5,918)	(3,226)	(157,706)
Charged/(credited) to profit or loss	73,522	(433)	1,328	74,417
Others	793	–	–	793
At 31 December 2017 and 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	**(83,770)**	**(7,396)**	**(3,292)**	**(94,458)**

	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 2017	102,341	11,683	38	114,062
(Credited)/charged to profit or loss	(8,713)	(7,392)	273	(15,832)
At 31 December 2017 and 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	**112,077**	**6,055**	**279**	**118,411**

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 2017	(44,822)	(4,030)	(387)	(49,239)
Charged/(credited) to profit or loss	23,385	(65)	119	23,439
At 31 December 2017 and 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	**(20,161)**	**(4,727)**	**(458)**	**(25,346)**

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			
	2018		2017	
	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	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Interest rate and foreign currency risk:				
At beginning of year	**21,083**	16,515	**4,068**	–
Effective portion of changes in fair value of cash flow hedges:				
- Interest rate swaps	**(14,871)**	1,905	**(16,460)**	–
- Cross-currency interest rate swaps	**4,153**	4,314	**4,153**	4,314
	(10,718)	6,219	**(12,307)**	4,314
Net change in fair value of cash flow hedges reclassified to profit or loss:				
- Interest rate swaps	**(7,240)**	(1,405)	**847**	–
- Cross-currency interest rate swaps	**(1,782)**	(246)	**(1,782)**	(246)
	(9,022)	(1,651)	**(935)**	(246)
	(19,740)	4,568	**(13,242)**	4,068
At end of year	**1,343**	21,083	**(9,174)**	4,068

30. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Note	Group 2018 US$'000	Group 2017 US$'000
Short-term deposits	16	**152,936**	162,235
Cash and bank balances	17	**69,797**	79,612
		222,733	241,847

31. Finance lease payable to subsidiary companies

	Company 2018 US$'000	Company 2017 US$'000
Current:		
Finance lease payables	**112,922**	112,881
Deferred debt issue costs	**(4,895)**	(4,986)
Finance lease payables, net	**108,027**	107,895
Non-current:		
Finance lease payables	**462,980**	580,034
Deferred debt issue costs	**(19,190)**	(24,123)
Finance lease payables, net	**443,790**	555,911
Total finance lease payables, net	**551,817**	663,806

31. Finance lease payable to subsidiary companies (cont'd)

The finance lease payable to subsidiary companies are secured by a charge over leased assets (Note 12). Interest on the leases ranged from 1.5% to 4.1% (2017: 1.1% to 2.8%) per annum.

The deferred debt issue costs relating to finance lease payable to subsidiary companies are analysed as follows:

	Company	
	2018	2017
	US$'000	US$'000
Cost:		
At beginning of year	**59,265**	60,521
Fully amortised cost written off	**(1,230)**	(1,285)
Transfers	**178**	29
At end of year	**58,213**	59,265
Accumulated amortisation:		
At beginning of year	**30,156**	25,806
Charge for the year	**5,297**	5,611
Fully amortised cost written off	**(1,230)**	(1,285)
Transfers	**(95)**	24
At end of year	**34,128**	30,156
Net book value:		
At end of year	**24,085**	29,109
Deferred debt issue costs, net	**24,085**	29,109
Less: Current portion	**(4,895)**	(4,986)
Non-current portion	**19,190**	24,123

31. Finance lease payable to subsidiary companies (cont'd)

The table below summarises the maturity profile of the finance lease payable to subsidiary companies before adjustments for debt issue costs at the end of each year.

	Company				
	One year or less US$'000	**One to two years US$'000**	**Two to five years US$'000**	**Over five years US$'000**	**Total US$'000**
2018	**112,922**	**116,095**	**283,136**	**63,749**	**575,902**
2017	112,881	116,140	331,083	132,811	692,915

32. Amounts due from subsidiary companies

The amounts due from subsidiary companies of US$1,029.4 million (2017: US$758.3 million) are interest bearing, non-trade related and unsecured. The interest ranged from 2.5% to 3.2% (2017: 2.5% to 2.7%) per annum.

33. Investments in subsidiary companies

	Company	
	2018 US$'000	2017 US$'000
Equity investments at cost:		
At beginning of year	**747,428**	733,928
Additions	–	25,000
Dissolutions	**(1)**	(11,500)
At end of year	**747,427**	747,428

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 2018	Percentage of equity held	
					2018	2017
					%	%
[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
[2,5]	BOCA Leasing (Bermuda) Limited	Bermuda	In dissolution process	US$100	**100**	100
[2,5]	Acme Leasing Three Limited	Cayman Islands	In dissolution process	–	**–**	100
[2,5]	Bluebell Leasing Limited	Cayman Islands	In dissolution process	–	**–**	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 2018	Percentage of equity held	
					2018	2017
					%	%
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	SALE Cayman (35073) Limited	Cayman Islands	Leasing of aircraft	US$100	**100**	100
2,5	SALE Cayman (VLE2) 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 2018	Percentage of equity held	
					2018	2017
					%	%
[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	Dormant	US$275,000	**100**	100

33. Investments in subsidiary companies (cont'd)

	Name	Country of incorporation	Principal activities	Paid up capital as at 31 December 2018	Percentage of equity held	
					2018	2017
					%	%
	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]	ACME Lease Holdings LLC	United States	Dissolved	–	**–**	–
[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 2018	Percentage of equity held	
					2018	2017
					%	%
	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]	BOC Aviation (France) 2 SARL	France	Leasing of aircraft	€1,000	**100**	100
[2]	BOC Aviation (France) 4 SARL	France	Dissolved	–	**–**	100
[2]	BOC Aviation (France) 5 SARL	France	Leasing of aircraft	€1,000	**100**	100
[2]	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]	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 2018	Percentage of equity held 2018 %	2017 %
	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
	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 and Note 22).
[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 2018, these companies have completed their dissolution processes.

34. Dividends

	Group and Company	
	2018 **US$'000**	2017 US$'000
Declared and paid during the year:		
Final dividend for 2017: US$0.192 (2016: US$0.119) per share	**133,250**	82,587
Interim dividend for 2018: US$0.1284 (2017: US$0.1038) per share	**89,111**	72,039
	222,361	154,626
Proposed as at 31 December:		
Final dividend for 2018: US$0.1845 (2017: US$0.192) per share	**128,045**	133,250

The directors declared an interim dividend of US$0.1284 per ordinary share for the first half of 2018 amounting to approximately US$89.1 million.

On 13 March 2019, the directors proposed to recommend in the Annual General Meeting on 29 May 2019 a final dividend of US$0.1845 per ordinary share for the year ended 31 December 2018 amounting to approximately US$128.0 million, bringing the total dividend for 2018 to US$217.2 million (2017: US$205.3 million) or US$0.3129 (2017: US$0.2958) 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 2019.

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	
	2018	2017
	US$'000	US$'000
Income and expense		
(a) Intermediate holding company:		
Interest income	**230**	429
(b) Other related parties:		
Interest income	**166**	362
Interest expense	**19,063**	7,124

	Group	
	2018	2017
	US$'000	US$'000
Directors' and key executives' remuneration paid during the year		
(a) Directors of the Company:		
Salary, fees, bonuses and other costs	**8,779**	9,170
(b) Key executives (excluding executive directors):		
Salary, bonuses and other costs	**13,427**	11,468
CPF and other defined contributions	**376**	318
	13,803	11,786

As at 31 December 2018, US$20.2 million (2017: US$19.5 million) of deferred bonuses were payable to directors of the Company and key executives of the Group.

During the year ended 31 December 2018, the share-based compensation expense for directors of the Company and key executives of the Group amounted to US$0.3 million (2017: nil) and US$0.5 million (2017: nil) 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**	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**1,604,258**	1,422,158	**1,003,738**	875,345
After one year but not more than five years	**5,852,949**	5,158,185	**3,749,286**	3,294,224
After five years	**5,100,722**	4,912,322	**3,744,823**	3,490,284
	12,557,929	11,492,665	**8,497,847**	7,659,853

Future net minimum lease receivables committed for aircraft yet to be delivered are as follows:

	Group		**Company**	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**108,167**	157,077	**68,467**	76,805
After one year but not more than five years	**1,067,218**	1,305,834	**679,643**	735,956
After five years	**2,220,613**	2,355,602	**1,399,203**	1,313,770
	3,395,998	3,818,513	**2,147,313**	2,126,531

36. Commitments (cont'd)

(a) Operating lease commitments (cont'd)

(ii) Operating lease commitments - As lessee

Offices and other leases

The Group and the Company lease office and facilities space, and rental of copiers under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

Future minimum lease payments for the leases with initial or remaining terms of one year or more are as follows:

	Group		**Company**	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**2,300**	2,329	**1,935**	1,992
After one year but not more than five years	**5,093**	7,544	**4,647**	6,696
	7,393	9,873	**6,582**	8,688

(b) Capital expenditure commitments

As at 31 December 2018, the Group had committed to purchase various aircraft delivering between 2019 and 2021. The amount of future commitments under purchase agreements including assumed escalation to delivery was US$9,216.7 million (2017: US$7,901.3 million).

36. Commitments (cont'd)

(c) Finance lease commitments

(i) Finance lease commitments - As lessee

The Group and Company lease aircraft from third parties under finance leases. Title to aircraft will be transferred to the Group and the Company upon the Group and Company discharging fully their respective obligations under the lease agreements. There are no restrictions placed upon the Group and Company by entering into these leases.

		Group and Company			
		2018		2017	
	Note	**Minimum lease payments US$'000**	**Present value of payments US$'000**	Minimum lease payments US$'000	Present value of payments US$'000
Finance lease with third party:					
Within one year		–	–	34,820	33,526
After one year but not more than five years		–	–	27,337	24,771
Total minimum lease payments		–	–	62,157	58,297
Less: Amounts representing finance charges		–	–	(3,860)	–
	22	–	–	58,297	58,297

36. Commitments (cont'd)

(c) Finance lease commitments (cont'd)

(i) Finance lease commitments - As lessee (cont'd)

	Note	Company 2018 Minimum lease payments US$'000	Company 2018 Present value of payments US$'000	Company 2017 Minimum lease payments US$'000	Company 2017 Present value of payments US$'000
Finance lease with its subsidiary companies:					
Within one year		**131,178**	**112,922**	132,870	112,881
After one year but not more than five years		**434,722**	**399,231**	492,164	447,223
After five years		**65,358**	**63,749**	137,705	132,811
Total minimum lease payments		**631,258**	**575,902**	762,739	692,915
Less: Amounts representing finance charges		**(55,356)**	**–**	(69,824)	–
	31	**575,902**	**575,902**	692,915	692,915

36. Commitments (cont'd)

(c) Finance lease commitments (cont'd)

(ii) Finance lease commitments - As lessor

	Group			
	2018		2017	
	Minimum lease payments	**Present value of payments**	Minimum lease payments	Present value of payments
	US$'000	**US$'000**	US$'000	US$'000
Finance lease with third party:				
Within one year	–	–	6,364	5,625
After one year but not more than five years	–	–	10,847	10,375
Total minimum lease payments	–	–	17,211	16,000
Less: Amounts representing finance charges	–	–	(1,211)	–
	–	–	16,000	16,000

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 2018, the corporate guarantees for loans to subsidiary companies amounted to approximately US$4,232.3 million (2017: US$3,823.5 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), finance lease receivables (Note 36) and other non-current assets.

As at 31 December 2018, the financial assets measured at amortised cost for the Group and Company were US$254.2 million (2017: US$340.9 million) and US$1,201.0 million (2017: US$967.4 million) respectively.

Financial liabilities measured at amortised cost comprise trade and other payables (Note 19), loans and borrowings (Note 21), finance lease payables (Note 22), security deposits (Note 24), other non-current liabilities (Note 27) and finance lease payable to subsidiary companies (Note 31).

As at 31 December 2018, the financial liabilities measured at amortised cost for the Group and Company were US$12,770.3 million (2017: US$9,630.3 million) and US$8,959.5 million (2017: US$6,401.9 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.

38. Classification of financial instruments and their fair values (cont'd)

(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.

(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	
	2018	2017
	US$'000	US$'000
Medium term notes :		
Carrying amounts	**4,578,648**	4,274,312
Fair values	**4,492,516**	4,296,180

As at 31 December 2018, the fair value measurement 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$102.2 million (2017: US$102.2 million) with fair value of US$98.5 million (2017: US$100.5 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, finance lease payable to third parties 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 (2017: 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 80% (2017: 70%) of the Group's mismatched interest rate exposure.

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.

39. Financial risk management objectives and policies (cont'd)

(a) Interest rate risk (cont'd)

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 (2017: 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**	**Increase/ (decrease) on hedging reserve in equity**
		US$'000	**US$'000**
2018			
Increase in interest rate	**+25**	**(2,835)**	**23,319**
Decrease in interest rate	**-25**	**2,835**	**(23,630)**
2017			
Increase in interest rate	+25	(2,615)	3,561
Decrease in interest rate	-25	2,615	(3,563)

(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.

39. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

As at 31 December 2018, the Group had unutilised unsecured committed revolving credit facilities of US$2,841 million (2017: US$3,355 million), a committed unutilised unsecured term loan facility of US$750 million (2017: US$300 million) and committed long-term credit facilities pending the provision of new replacement aircraft as collateral of nil (2017: US$37.1 million).

As at 31 December 2018, approximately 12% (2017: 14%) of the Group's gross debt would have matured in less than one year.

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			
2018	**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	**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**

	Group			
2017	**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	136,858	–	–	136,858
Loans and borrowings	1,467,299	6,707,765	2,705,641	10,880,705
Estimated interest and net swap payments	305,016	812,818	280,925	1,398,759
Finance lease payables	33,526	24,771	–	58,297
Security deposits	29,022	36,172	208,561	273,755
Other non-current liabilities	–	47,081	–	47,081
Total undiscounted financial liabilities	1,971,721	7,628,607	3,195,127	12,795,455

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			
2018	**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	**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**
Finance lease payable 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**

	Company			
2017	**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	100,881	–	–	100,881
Loans and borrowings	893,953	3,702,588	2,460,705	7,057,246
Estimated interest and net swap payments	222,113	631,527	273,011	1,126,651
Finance lease payable to subsidiary companies	112,881	447,223	132,811	692,915
Finance lease payables	33,526	24,771	–	58,297
Security deposits	18,285	21,419	120,600	160,304
Other non-current liabilities	–	40,073	–	40,073
Total undiscounted financial liabilities	1,381,639	4,867,601	2,987,127	9,236,367

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, finance lease 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 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:

	2018		2017	
	US$'000	**%**	US$'000	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**3,762**	**47.1**	–	–
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**348**	**4.4**	2,390	43.7
Americas	**–**	**–**	2,763	50.5
Europe	**2,516**	**31.5**	13	0.3
Middle East and Africa	**1,358**	**17.0**	301	5.5
	7,984	**100.0**	5,467	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 and finance lease payables before adjustments for 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 2018 and 31 December 2017.

During the year ended 31 December 2018, the Group raised US$2.7 billion (2017: US$2.9 billion) in new debt. An amount of US$1.7 billion was raised through issuance of notes under the Global Medium Term Note Program and the remainder from unsecured term loans, including a US$750 million term loan that was unutilised as at 31 December 2018 and was available to be utilised in 2019. The Group also utilised US$1.4 billion under its committed revolving credit facilities as at 31 December 2018. These debt raising activities contributed to an increase in the Group's total indebtedness that was proportionately greater than the increase in the Group's total equity, resulting in an increase in the Group's gearing as set out in the table below.

	Group	
	2018	2017
	US$'000	US$'000
Gross debt	**12,475,622**	10,939,002
Total equity	**4,199,026**	3,818,757
Gearing (times)	**3.0**	2.9

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 2018 and 31 December 2017.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share:

	Group	
	2018	2017
	US$'000	US$'000
Earnings		
Earnings used in the computation of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**620,439**	586,647
	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares of basic and diluted earnings per share computation	**694,010**	694,010
Basic earnings per share (US$)	**0.89**	0.85
Diluted earnings per share (US$)	**0.89**	0.85

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 operators around the world. The distribution of lease rental income by operator's geographic region based on the jurisdiction of each airline customer under the relevant operating lease was as follows:

	2018		2017	
	US$'million	**%**	US$'million	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**378**	**24.5**	350	27.3
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**443**	**28.7**	363	28.3
Americas	**184**	**11.9**	200	15.5
Europe	**379**	**24.6**	307	23.9
Middle East and Africa	**159**	**10.3**	64	5.0
	1,543	**100.0**	1,284	100.0

Other than the lease rental income attributable to Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan which accounted for 28.7% of the total lease rental income for the year ended 31 December 2018 (2017: 28.3%), there was no other country concentration in excess of 10% of the total lease rental income.

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 operator's geographic region based on the jurisdiction of each airline customer under the relevant operating lease was as follows:

	2018		2017	
	US$'million	**%**	US$'million	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**3,424**	**22.9**	3,192	23.3
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**4,685**	**31.3**	4,139	30.3
Europe	**3,536**	**23.6**	3,311	24.2
Middle East and Africa	**1,918**	**12.8**	1,239	9.1
Americas and others*	**1,395**	**9.4**	1,786	13.1
	14,958	**100.0**	13,667	100.0

** Two aircraft were returned in November 2018 following an early termination of the leases. Both aircraft have been delivered to the next lessee in Americas subsequent to 31 December 2018.*

	Group	
Represented by:	**2018**	2017
	US$'million	US$'million
Plant and equipment (Note 12)	**14,958**	13,428
Assets held for sale (Note 18)	**–**	239
	14,958	13,667

Other than the net book value of aircraft leased to operators in Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan which accounted for 31.3% of the total net book value as at 31 December 2018 (2017: 30.3%), there was no other country concentration in excess of 10% of the total net book value.

43. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors passed on 13 March 2019.