CALC

China Aircraft Leasing Group Holdings Limited

(Incorporated under the laws of the Cayman Islands with limited liability)
Stock code : 01848

LEADING THE WAY

Interim Report 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. CHEN Shuang, *JP* *(Chairman of the Board)*
Mr. POON Ho Man *(Chief Executive Officer)*
Ms. LIU Wanting *(Deputy Chief Executive Officer)*

Non-executive Directors

Mr. TANG Chi Chun
Mr. GUO Zibin
Ms. CHEN Chia-Ling

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. CHOW Kwong Fai, Edward, *JP*

COMPOSITION OF COMMITTEES

Audit Committee

Mr. CHOW Kwong Fai, Edward, *JP* *(Chairman)*
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. GUO Zibin

Remuneration Committee

Mr. FAN Yan Hok, Philip *(Chairman)*
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Mr. CHOW Kwong Fai, Edward, *JP*

Nomination Committee

Mr. CHEOK Albert Saychuan *(Chairman)*
Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHOW Kwong Fai, Edward, *JP*

COMPANY SECRETARY

Ms. TAI Bik Yin

AUTHORISED REPRESENTATIVES

Ms. LIU Wanting
Ms. TAI Bik Yin

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISER

Linklaters

COMPANY'S WEBSITE

www.calc.com.hk

INVESTOR RELATIONS CONTACT

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REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

28th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS AND FINANCIAL INSTITUTIONS

The Export-Import Bank of China
China Construction Bank Corporation
China Everbright Bank Co., Ltd.
Credit Agricole Corporate and Investment Bank
Industrial and Commercial Bank of China (Asia) Limited
Shanghai Pudong Development Bank Co., Ltd.
Toronto-Dominion Bank
Bank of Communications Co., Ltd.
Bank of China Limited
China Development Bank
The Korea Development Bank
Chong Hing Bank Limited
Mega International Commercial Bank Co., Ltd.
China Merchants Bank Co., Ltd.
SinoPac Leasing Corp.
KDB Asia Limited
KEB Hana Bank
Dah Sing Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China Limited

STOCK CODE

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 01848

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW

Aircraft Leasing

During the first half of 2017, China Aircraft Leasing Group Holdings Limited ("CALC" or the "Company", together with its subsidiaries, the "Group") took delivery of nine aircraft, seven of them new, growing its fleet to 90 aircraft as at 30 June 2017.

The Group is expected to deliver 20 more aircraft in the second half of 2017, thereby expanding its fleet to no fewer than 110 aircraft by the end of 2017. CALC also expects to build on this as the year progresses through various means including portfolio trading, and purchase and leaseback agreements.

CALC has one of the youngest fleet with the longest average remaining lease term among its peers. Its fleet has an average age of 3.8 years and average remaining lease term of approximately nine years.

In line with its globalisation initiative, CALC continued to expand and diversify its customer portfolio in the first half of 2017, during which CALC fostered new relationships with airlines, including leading carriers in markets in which it operates, and widened its client base. All nine of the aircraft delivered in the first half of 2017 were leased to new customers, of which six were leased to overseas clients. As a result, CALC's client base increased from 16 airlines as at the end of 2016 to 20 airlines in eight countries and regions as at 30 June 2017.

In April 2017, CALC signed agreements with Airbus S.A.S. ("Airbus") for the pop-up orders of three A320 aircraft to be delivered this year. In addition, CALC entered into its first purchase order in June 2017 with The Boeing Company ("Boeing") for 50 new 737 MAX series aircraft, scheduled for delivery in stages up to 2023. This order includes 15 of the 737 MAX 10 model, making CALC among the inaugural customers of this latest version of Boeing's 737 jetliner. These arrangements not only mark a major step towards expanding and diversifying CALC's fleet, but also underscore Airbus and Boeing's vote of confidence in CALC's strong marketing and efficient placing capabilities.

With 90 aircraft in its current fleet and 138 very popular narrow-body aircraft on order as at 30 June 2017, together with portfolio trading and purchase and leasebacks, among other arrangements, CALC is looking to expand its fleet size to no fewer than 232 aircraft by the end of 2023. This aircraft portfolio has enabled CALC to provide a wider range of solutions to meet airline customers' varying demands in this dynamic market.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW (continued)

Financing

In March 2017, the Group took advantage of the low interest rate environment and issued its third US dollar senior unsecured bond, comprising US$300 million five-year and US$200 million seven-year bonds with coupon rates of 4.7% and 5.5% respectively. These bonds, with a longer maturity date and a reduced interest rate as compared with those previously issued, were over-subscribed among a wide range and diverse pool of investors. The issuance placed CALC in a healthier debt profile while boosting its working capital to support its fleet expansion strategy.

The Group continued to bolster its balance sheet. In May 2017, CALC repurchased convertible bonds in an aggregate principal amount of HK$155.2 million from China Everbright Financial Investments Limited.

During the first half of 2017, CALC completed the disposal of finance lease receivables for 10 aircraft. Since its foray in 2013, CALC has made disposal of finance lease receivables a regular transaction, thus increasing the efficiency with which it utilises equity and debt.

In the context of forecast US dollar interest rate hikes, CALC took an early step to arrange interest rate swaps for those aircraft loans with floating interest rates to mitigate the risk of interest rate fluctuations. As at 30 June 2017, only one out of 90 aircraft in CALC's fleet was subject to mismatch between fixed US dollar rental and US dollar long-term floating interest rate loan, excluding five aircraft being identified for disposal of finance lease receivables arrangements in the short term.

Aircraft Recycling International Limited ("ARI")

With 48% of its equity interest held by CALC, ARI is the first company in Asia to provide turnkey solutions for mid- to late-life aircraft. Its comprehensive used aircraft solutions include purchase and leasebacks, trading of aircraft components, teardown and recycling, maintenance, repair and overhaul, and aircraft conversion. ARI builds solutions for mid- to old-aged aircraft to maximise their value over the entirety of the aircraft's life spans.

ARI currently has 10 aircraft in its fleet, among which four are leased to Sichuan Airlines (one under a joint venture) while the other six are under negotiation for trade-out. The construction of an aircraft recycling facility in Harbin, the world's largest in scale, is progressing well and is expected to be completed by the fourth quarter of 2017.

In March 2017, ARI completed the acquisition of 100% equity interest in Universal Asset Management, Inc. ("UAM"), one of the world's leading global diversified aviation solutions providers based in Tennessee, US. This acquisition will create a global state-of-the-art aircraft life cycle solutions platform and further strengthen CALC's position as an aircraft full value chain solutions provider.

INTERIM BUSINESS REVIEW (continued)

Awards

In recognition of its outstanding services and effective financing solutions, CALC was named "Lessor of the Year of 2016" by Global Transport Finance, for a second time it has won this award. For its excellence in corporate governance, CALC was named "Best Investor Relations Company" and "Asia's Best CEO (Investor Relations)" by Corporate Governance Asia, as well as being honored in the "Quam IR Awards". CALC also won the "Most Promising New Stock Award" organised jointly by Finet and qq.com.

Passage of the Hong Kong Inland Revenue Amendment Bill for Aircraft Leasing Incentives

In June 2017, the Legislative Council passed the "Inland Revenue (Amendment) (No. 2) Bill 2017", which significantly reduces the effective tax rate for aircraft transactions in Hong Kong. This initiative is aimed at enhancing Hong Kong's competitiveness in the global aircraft leasing arena and attracting international lessors and aviation businesses to Hong Kong.

CALC welcomes the passage of the bill. Over the years, CALC has, through different channels, worked with the industry to relay to the government the industry's needs. CALC has been working closely with the aviation community to set up Hong Kong Aircraft Leasing and Aviation Finance Association. Mr. Chen Shuang, Chairman of CALC, is honored to be the first Chairman of the Association, while Mr. Poon Ho Man, CALC's CEO is acting as its Founding Chief Advisor. Capitalising on its expertise in global aviation finance and its past experience working with Tianjin government in developing the city into one of China's major leasing hubs, the Group hopes to play a role in establishing Hong Kong as an international aircraft leasing hub and aviation finance centre.

Meanwhile, CALC is planning to extend its leasing platforms to Hong Kong, in addition to the existing Dublin, Tianjin and Shanghai platforms, so as to bolster its strength in addressing the myriad needs of customers from different regions and further support its globalisation initiative.

Outlook

Looking ahead, CALC will remain focused on enhancing its reputation as an aircraft full value chain solutions provider that offers a combination of innovative, value-added solutions for clients. It will continue to develop its customer-centric business model and promote vertical integration within the Group. CALC's long-term fundamentals remain strong and the Group will capitalise on its momentum to move beyond the status quo.

CALC remains steadfast to its strategy of growing the Group's fleet and diversifying its global customer base. This year, CALC will celebrate its 100th aircraft delivery during the journey to strengthening its fleet to no fewer than 110 aircraft by year end, a phenomenal target benchmark that will be underpinned by its outstanding services. In addition to the disposal of finance lease receivables, CALC is seeking to establish the China Aircraft Global (CAG) venture with other institutional investors to serve as a brand new platform for aircraft leasing and transactions. Such moves are aimed at utilising the Group's equity and debt more effectively. With the development of ARI and UAM, CALC will be able to meet clients' need for fleet planning and asset management with more diverse and sophisticated solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

For the six months ended 30 June 2017, the Group delivered nine aircraft, which increased its fleet size to 90. Revenue and other income was HK$1,258.0 million, an increase of HK$231.4 million or 22.5% from the corresponding period last year. Profit for the period ended 30 June 2017 amounted to HK$248.7 million, an increase of HK$8.7 million or 3.6% compared with the corresponding period last year. This was mainly due to increased lease income from continued expansion of the scale of the Group's aircraft leasing business and gains from disposal of finance lease receivables generated during the period under review.

Total assets value was HK$34,028.7 million as at 30 June 2017, compared with HK$30,900.2 million as at 31 December 2016, an increase of HK$3,128.5 million or 10.1%. The increase in assets was mainly due to the increase in fleet size and a stronger cash position following the issuance of bonds and disposal of finance lease receivables during 2017. Total liabilities amounted to HK$30,974.2 million as at 30 June 2017, an increment of HK$3,117.4 million or 11.2% compared with the HK$27,856.8 million as at 31 December 2016.

The equity attributable to owners of the Company was HK$3,054.5 million as at 30 June 2017 compared with HK$3,043.3 million as at 31 December 2016, an increase of HK$11.2 million or 0.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF INCOME AND EXPENSES

	Unaudited		
	Six months ended 30 June		
	2017	2016	Change
	HK$'Million	HK$'Million	
Finance lease income	540.6	617.1	-12.4%
Operating lease income	340.3	176.7	92.6%
Total lease income	880.9	793.8	11.0%
Gain from disposal of finance lease receivables	289.6	145.1	99.6%
Government grants	49.4	81.9	-39.7%
Bank interest income	19.6	2.7	625.9%
Interest income from loans to an associate	12.4	–	N/A
Operating lease income on office premises from related parties	3.0	1.3	130.8%
Sundry income	3.1	1.8	72.2%
Other income	377.1	232.8	62.0%
Total revenue and other income	1,258.0	1,026.6	22.5%
Total expenses and losses	(915.2)	(691.4)	32.4%
Profit before income tax	342.8	335.2	2.3%
Income tax expenses	(94.1)	(95.2)	-1.2%
Profit for the period	248.7	240.0	3.6%

2. ANALYSIS OF INCOME AND EXPENSES (continued)

2.1 Total Revenue and Other Income

For the six months ended 30 June 2017, total revenue and other income amounted to HK$1,258.0 million compared with HK$1,026.6 million for the corresponding period last year, an increase of HK$231.4 million or 22.5%.

Total lease income from finance leases and operating leases for the six months ended 30 June 2017 was totalled HK$880.9 million, compared with HK$793.8 million for the six months ended 30 June 2016, an increase of HK$87.1 million or 11.0%. The decrease in finance lease income was due to disposal of finance lease receivables for 10 aircraft during the six months ended 30 June 2017. The growth in operating lease income was attributable to the increase in fleet size under operating leases from 10 aircraft as at 30 June 2016 to 25 aircraft as at 30 June 2017.

In addition, the Group recognised a total gain of HK$289.6 million from the disposal of finance lease receivables during the six months ended 30 June 2017, an increase of HK$144.5 million or 99.6% compared with HK$145.1 million for the six months ended 30 June 2016. During the period under review, the Group completed disposal of finance lease receivables for 10 aircraft (six months ended 30 June 2016: four aircraft). The rise in the number of disposal transactions underlines the ever-growing knowledge and confidence of investors in the aircraft leasing industry, as well as the increasing demand for USD-denominated aircraft finance products with stable return. Such transactions have played an important part in the Group's regular business and financing strategies, and it intends to continue pursuing them.

Government grants for the six months ended 30 June 2017 amounted to HK$49.4 million, compared with HK$81.9 million for the six months ended 30 June 2016, a decrease of HK$32.5 million or 39.7%.

2. ANALYSIS OF INCOME AND EXPENSES (continued)

2.2 Total Expenses and Losses

During the six months ended 30 June 2017, the Group had the following expenses and losses:

	Unaudited Six months ended 30 June 2017 HK$'Million	2016 HK$'Million	Change
Interest expenses	614.6	475.4	29.3%
Depreciation	131.4	69.8	88.3%
Other operating expenses	157.9	137.8	14.6%
Other losses	5.7	8.4	-32.1%
Share of loss of an associate	5.6	–	N/A
Total expenses and losses	915.2	691.4	32.4%

(a) *Interest Expenses*

For the six months ended 30 June 2017, interest expenses incurred by the Group amounted to HK$614.6 million compared with HK$475.4 million in the corresponding period last year, an increase of HK$139.2 million or 29.3%. This was mainly due to increased total borrowings as a result of the issuance of second and third bonds in August 2016 and March 2017, the issuance of medium-term notes in November 2016, and the full period effect of interest expenses incurred from the first bonds issued in May 2016.

(b) *Depreciation*

Depreciation on the Group's aircraft under operating leases, leasehold improvements and office equipment for the six months ended 30 June 2017 was HK$131.4 million compared with HK$69.8 million in the corresponding period last year, an increase of HK$61.6 million or 88.3%. This was mainly because the number of aircraft under operating leases increased from 10 aircraft as at 30 June 2016 to 25 as at 30 June 2017.

(c) *Other Operating Expenses*

Other operating expenses mainly represented salaries and bonuses; professional fees related to the aircraft leasing business; rentals and office administration expenses. The Group's globalisation strategy, which includes plans to diversify its overseas client base and expand overseas offices, led to an increase in manpower and business running costs.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 30 June 2017, the Group's total assets amounted to HK$34,028.7 million, compared with HK$30,900.2 million as at 31 December 2016, an increase of HK$3,128.5 million or 10.1%.

	Unaudited As at 30 June 2017 HK$'Million	Audited As at 31 December 2016 HK$'Million	Change
Finance leases receivables – net	**13,471.9**	15,031.0	-10.4%
Property, plant and equipment	**8,585.5**	6,214.1	38.2%
Interests in and loans to an associate	**1,152.1**	444.4	159.2%
Cash and bank balances	**6,762.1**	6,016.8	12.4%
Pre-delivery payments ("PDP") and other receivables	**3,963.1**	3,062.8	29.4%
Derivative financial assets	**94.0**	131.1	-28.3%
Total assets	**34,028.7**	30,900.2	10.1%

3.1.1 Finance Lease Receivables – Net and Property, Plant and Equipment

The majority of total assets as at 30 June 2017 represented finance lease receivables and property, plant and equipment.

Finance lease receivables represented the present value of minimum lease amount receivables from aircraft classified as finance leases and their residual values. Despite an increase in the fleet size under finance leases, there was a net decrease in finance lease receivables from HK$15,031.0 million as at 31 December 2016 to HK$13,471.9 million as at 30 June 2017 because the Group completed disposal of finance lease receivables for 10 aircraft during the six months ended 30 June 2017.

3. ANALYSIS OF FINANCIAL POSITION (continued)

3.1 Assets (continued)

3.1.1 Finance Lease Receivables – Net and Property, Plant and Equipment (continued)

Property, plant and equipment mainly represented the cost of aircraft classified as operating leases, net of their accumulated depreciation. During the six months ended 30 June 2017, seven of the newly delivered aircraft were classified as operating leases, resulting in an increase in property, plant and equipment.

	Finance leases	Finance lease receivables disposed	Total aircraft under finance leases	Total aircraft under operating leases	**Total fleet size**
As at 30 June 2016	49	11	60	10	**70**
– Disposed	(10)	10	–	–	**–**
– Delivered	3	–	3	8	**11**
As at 31 December 2016	42	21	63	18	**81**
– Disposed	(10)	10	–	–	**–**
– Delivered	2	–	2	7	**9**
As at 30 June 2017	34	31	65	25	**90**

3.1.2 Interests in and Loans to an Associate

Pursuant to the shareholders' loan agreement, the Group granted loans to ARI which are unsecured, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six-monthly intervals from the date of issue of the loan note. The increase in the amount of interests in and loans to an associate was due to the increase in loan amounts granted to ARI.

3.1.3 Cash and Bank Balances

Cash and bank balances increased by HK$745.3 million or 12.4% from HK$6,016.8 million as at 31 December 2016 to HK$6,762.1 million as at 30 June 2017, mainly due to proceeds from an issuance of bonds in aggregate amount of US$500.0 million in March 2017 and sales proceeds received from the disposal of finance lease receivables for 10 aircraft.

3. ANALYSIS OF FINANCIAL POSITION (continued)

3.2 Liabilities

As at 30 June 2017, the Group's total liabilities amounted to HK$30,974.2 million, compared with HK$27,856.8 million as at 31 December 2016, an increase of HK$3,117.4 million or 11.2%.

An analysis is given as follows:

	Unaudited As at 30 June 2017 HK$'Million	Audited As at 31 December 2016 HK$'Million	Change
Bank borrowings	15,356.5	17,834.7	-13.9%
Bonds	8,524.2	4,611.9	84.8%
Long-term borrowings	3,502.5	2,346.1	49.3%
Medium-term notes	764.3	740.1	3.3%
Deferred income tax liabilities	374.6	332.8	12.6%
Interest payables	220.9	153.4	44.0%
Convertible bonds	149.6	292.7	-48.9%
Derivative financial liabilities	18.6	15.0	24.0%
Income tax payables	8.5	43.3	-80.4%
Other payables and accruals	2,054.5	1,486.8	38.2%
Total liabilities	30,974.2	27,856.8	11.2%

3.2.1 Bank Borrowings

The analysis of bank borrowings is as follows:

	Unaudited As at 30 June 2017 HK$'Million	Audited As at 31 December 2016 HK$'Million	Change
Secured bank borrowings for aircraft acquisition financing	13,201.4	15,131.6	-12.8%
PDP financing	1,855.5	2,236.9	-17.1%
Working capital borrowings	299.6	466.2	-35.7%
Total bank borrowings	15,356.5	17,834.7	-13.9%

3. ANALYSIS OF FINANCIAL POSITION (continued)

3.2 Liabilities (continued)

3.2.1 Bank Borrowings (continued)

Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating US dollar ("US$") London Interbank Offered Rate ("LIBOR") rates. As at 30 June 2017, the bank borrowings were secured by, in addition to legal charges, the related aircraft leased to airline companies under either finance leases or operating leases; pledge of the shares of the subsidiaries owning the related aircraft; guarantees from certain companies of the Group; and pledge of deposits amounting to HK$51.9 million (31 December 2016: HK$51.7 million). The decrease in bank borrowings was mainly due to bank loan repayments upon the disposal of finance lease receivables during the six months ended 30 June 2017.

PDP was required to be made under the aircraft acquisition agreements with Airbus and Boeing. The PDP financing was subject to floating interest rates and was used for the settlement of the PDP for the aircraft committed to be purchased and delivered under the relevant aircraft acquisition agreements. As at 30 June 2017 and 31 December 2016, PDP financing was secured by rights and benefits in respect of the acquisition of the aircraft and guarantees from certain companies of the Group.

As at 30 June 2017, the Group had aggregate unsecured working capital borrowings of HK$299.6 million (31 December 2016: HK$466.2 million), which were guaranteed by certain companies of the Group.

The Group's financial resources, including cash on hand, banking facilities and bond issues, will provide sufficient financial resources for its operating activities and its current and potential investment opportunities.

3.2.2 Bonds

In May 2016, the Group issued three-year US$300.0 million senior unsecured bonds due in 2019, bearing coupon interest at 5.9% per annum, payable semi-annually.

In August 2016, the Group issued five-year US$300.0 million senior unsecured bonds due in 2021, bearing coupon interest at 4.9% per annum, payable semi-annually.

In March 2017, the Group issued senior unsecured bonds in an aggregate principal amount of US$500.0 million, of which US$300.0 million are five-year bonds due in 2022 bearing coupon interest at 4.7% per annum, and US$200.0 million are seven-year bonds due in 2024 bearing coupon interest at 5.5% per annum. The interest is payable semi-annually.

These bonds were listed on The Stock Exchange of Hong Kong Limited and are guaranteed by the Company. As at 30 June 2017, after deducting the issuing cost, the total carrying amount of these bonds was HK$8,524.2 million (31 December 2016: HK$4,611.9 million).

3. ANALYSIS OF FINANCIAL POSITION (continued)

3.2 Liabilities (continued)

3.2.3 Long-term Borrowings

The increase was mainly due to two reasons:

Firstly, an increase in the number of borrowings provided by trust plans to the Group from 21 as at 31 December 2016 to 31 as at 30 June 2017. The effective average interest rates of these borrowings range from 6.0% to 7.8% (31 December 2016: 6.0% to 7.8%) per annum for remaining terms of seven to 11 years (31 December 2016: same). These long-term borrowings are secured by the shares of, and the aircraft held by, the relevant subsidiaries and guaranteed by certain companies of the Group. The trust plans are also counterparties to the disposal of finance lease receivable transactions entered into with the relevant subsidiaries.

Secondly, the number of borrowings obtained through a structured financing arrangement increased from two as at 31 December 2016 to four as at 30 June 2017. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% per annum (31 December 2016: 5.7% per annum) for their remaining terms of seven to eight years (31 December 2016: eight years) and are guaranteed by the Company.

3.2.4 Medium-term Notes

In July 2015 and November 2016 respectively, the Group issued five-year unsecured medium-term notes in a principal amount of RMB340.0 million due in 2020 and five-year unsecured medium-term notes in a principal amount of RMB330.0 million due in 2021. These notes bear coupon interest at 6.50% and 4.19% per annum respectively. As at 30 June 2017, after deducting the issuing cost, the total carrying amount of these notes was HK$764.3 million (31 December 2016: HK$740.1 million).

3.2.5 Convertible Bonds

On 8 May 2017, the Company entered into a separate agreement with China Everbright Financial Investments Limited ("CE Financial") to repurchase issued convertible bonds in the aggregate principal amount of HK$155,160,000 for an aggregate consideration of HK$156,711,600 plus the relevant interest and fees. Based on the fair value estimated and redemption expenses at the completion of repurchase on 15 May 2017, a liability component of HK$147,802,000 and equity component of HK$18,582,000 were derecognised, of which HK$12,541,000 was realised and reclassified from convertible bonds reserve to retained earnings, and a net loss of HK$3,055,000 was charged to "Other gains/(losses)". After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155,160,000.

4. ANALYSIS OF CASH FLOWS

The following table illustrates the cash position and cash flows for the six months ended 30 June 2017:

	Unaudited Six months ended 30 June 2017 HK$'Million	 2016 HK$'Million
I: Aircraft in operation		
Lease income	**1,017.8**	1,013.5
Bank repayment	**(764.3)**	(860.4)
	253.5	153.1
II: Aircraft purchase and delivery		
Capital expenditure	**(3,028.6)**	(2,313.0)
Bank borrowings	**1,734.4**	2,109.6
	(1,294.2)	(203.4)
III: New aircraft not yet delivered		
PDP paid	**(1,476.3)**	(951.5)
PDP refunded	**898.1**	869.3
PDP financing	**297.9**	1,098.0
Repayment of PDP financing	**(742.8)**	(1,213.9)
	(1,023.1)	(198.1)
IV: Net capital movement		
Proceeds from exercise of share options	**16.2**	25.5
Purchase of non-controlling interests	**–**	(19.5)
Dividends paid	**(263.3)**	(110.5)
Disposal of finance lease receivables and proceeds from long-term borrowings	**3,802.3**	1,566.3
Early loan repayment on disposal of finance lease receivables	**(1,450.8)**	–
Proceeds from issuance of bonds, net of transaction costs	**3,857.2**	2,301.2
Net payments relating to loans to an associate	**(686.1)**	–
Working capital loan net repayment and net cash generated from other operating activities	**(2,505.3)**	(541.6)
	2,770.2	3,221.4
Net increase in cash and cash equivalents	**706.4**	2,973.0
Cash and cash equivalents at beginning of the period	**5,840.7**	1,389.3
Currency exchange difference on cash and cash equivalents	**54.8**	(9.7)
Cash and cash equivalents at end of the period	**6,601.9**	4,352.6

5. CAPITAL MANAGEMENT

The primary objective of the Group's capital management policy is to ensure that it maintains a strong credit standing as well as healthy capital ratios in order to support its business and maximise shareholder value.

Operations and capital expenditure requirements are funded by a combination of cash generated from operating activities, bank borrowings, long-term borrowings, PDP financing, issuance of bonds and medium-term notes, and proceeds from the disposal of finance lease receivables. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities.

For the six months ended 30 June 2017, the objectives, policies and processes for managing capital remained largely unchanged. The Group made full use of capital leverage to keep pace with aircraft delivery.

The Group monitors capital through gearing ratios:

	Unaudited As at 30 June 2017 HK$'Million	Audited As at 31 December 2016 HK$'Million	Change
Interest-bearing debts included in total liabilities	**28,297.2**	25,825.6	9.6%
Total assets	**34,028.7**	30,900.2	10.1%
Gearing ratio	**83.2%**	83.6%	-0.4p.p.

6. CAPITAL EXPENDITURE

During the six months ended 30 June 2017, capital expenditure of the Group was principally the purchase of aircraft to generate lease income. The primary source of financing for its capital expenditure was bank borrowings and bonds issuance.

The following table sets out the Group's capital expenditure:

	Unaudited Six months ended 30 June		
	2017 HK$'Million	2016 HK$'Million	Change
Acquisition of aircraft (for finance and operating leases)	**3,028.6**	2,313.0	30.9%
Acquisition of property, plant and equipment (excluding aircraft)	**0.3**	33.9	-99.1%
Total	**3,028.9**	2,346.9	29.1%

7. HUMAN RESOURCES

As at 30 June 2017, staff of the Group numbered 152 (30 June 2016: 107). Total remuneration of employees for the six months ended 30 June 2017 amounted to HK$57.4 million (six months ended 30 June 2016: HK$38.5 million).

The Group has established effective employee incentive schemes to link the remuneration of its employees with their overall performance and contributions, and has established a merit-based remuneration awards system. It has also adopted share option schemes for the purpose of recognising the contribution of eligible employees to the growth of the Group.

8. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

8.1 Contingent Liabilities

The Group had no material contingent liabilities outstanding as at 30 June 2017 (31 December 2016: nil).

8.2 Capital Commitments for Aircraft Acquisition and Aircraft Purchase Mandate

The Group's total aircraft purchase commitment amounted to HK$55.1 billion as at 30 June 2017 (31 December 2016: HK$35.4 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

In December 2014, the Group entered into an aircraft purchase agreement with Airbus for the purchase of 100 aircraft of the A320 family. Of these, 15 aircraft have been delivered up to 30 June 2017, with the rest planned to be delivered in stages up to 2022.

In April 2017, a further agreement was made with Airbus for the purchase of three additional aircraft of the A320 family, executed in the form of an amendment to the purchase agreement signed in 2014. These aircraft are planned to be delivered by the end of 2017.

At the 2017 annual general meeting of the Company held on 22 May 2017 (the "Mandate Date"), shareholders of the Company granted a general mandate (the "Aircraft Purchase Mandate") to the Directors to purchase new aircraft from Airbus and Boeing during the mandate period (as defined in the Aircraft Purchase Mandate), pursuant to which the Directors are authorised to purchase from either Airbus or Boeing, each limited to 70 aircraft of certain types with an aggregate list price not exceeding US$8.9 billion and US$8.3 billion respectively (equivalent to approximately HK$69.4 billion and HK$64.7 billion respectively). Further details of the Aircraft Purchase Mandate are set out in the circular of the Company dated 19 April 2017.

8. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

8.2 Capital Commitments for Aircraft Acquisition and Aircraft Purchase Mandate (continued)

Since the Mandate Date, the Company has committed at the date of this report to purchase a cumulative total of 50 aircraft from Boeing with an aggregate list price of approximately US$5.8 billion (equivalent to approximately HK$45.3 billion) pursuant to the Aircraft Purchase Mandate. Please refer to the Company's announcement dated 14 June 2017 for further details.

In its agreements to purchase these aircraft, the Group has secured a series of scheduled deliveries which will enable it to achieve its targeted growth. For each aircraft, there is an obligation to make PDP at specific dates prior to their scheduled delivery.

The prices are not fixed at the time of entering into the relevant agreement and can only be determined upon the final specifications of the aircraft. The final purchase prices paid will be lower than the list prices because of differing aircraft specifications and various price concessions, credits or discounts that may be provided by the manufacturer. These concessions take the form of credit memoranda, which the Group may apply towards the purchase of goods and services. These credit memoranda are generally incorporated into the final aircraft invoices and thus reduce the amount to be paid for each aircraft. As a result, the final purchase prices of the aircraft are expected to be substantially less than the manufacturer's list prices.

Other than the capital commitments stated above, the Group had no material plans for major investment or capital assets acquisition.

9. Other Event

Reference was made to the announcement of the Company dated 16 June 2017. Due to the non-fulfilment of certain terms and conditions under the Longjiang Aircraft Lease Agreements by Longjiang Airlines, the Company served two termination notices on 16 June 2017 to Longjiang Airlines for termination of two lease agreements, with effect from the date of receipt of such termination notices by Longjiang Airlines. In July 2017, the Company commenced legal proceedings in Heilongjiang High Court against Longjiang Airlines seeking, inter alia, damages arising from the above termination. The Board considers that the termination of the Longjiang Aircraft Lease Agreements has no material adverse impact on the existing business or financial position of the Group.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and/or Short Positions In the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations

As at 30 June 2017, the interests or short positions of Directors and the chief executive of the Company in shares of the Company (the "Shares"), underlying Shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange are as follows:

		Number of Shares held (L)[1]				
Name of Directors	Capacity/ Nature of interests	Personal interests	Corporate interests	Derivatives interests	Total interests	Approximate percentage of Shares in issue[2]
CHEN Shuang	Beneficial owner	200,000	-	10,200,000[3]	10,400,000	1.54%
POON Ho Man	Interest of controlled corporations	-	197,554,589[4]	-	197,554,589	29.17%
	Interest of spouse	-	-	3,800,000[5]	3,800,000	0.56%
LIU Wanting	Interest of controlled corporation	-	10,000,000[6]	-	10,000,000	1.48%
	Beneficial owner	-	-	3,000,000[3]	3,000,000	0.44%
TANG Chi Chun	Beneficial owner	-	-	200,000[3]	200,000	0.03%
GUO Zibin	Beneficial owner	-	-	200,000[3]	200,000	0.03%
CHEN Chia-Ling	Beneficial owner	-	-	200,000[3]	200,000	0.03%
FAN Yan Hok, Philip	Beneficial owner	66,000	-	134,000[3]	200,000	0.03%
NIEN Van Jin, Robert	Beneficial owner	100,000	-	134,000[3]	234,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000	-	200,000[3]	205,000	0.03%
CHOW Kwong Fai, Edward	Beneficial owner	-	-	200,000[3]	200,000	0.03%

OTHER INFORMATION

DISCLOSURE OF INTERESTS (continued)

Directors' and Chief Executive's Interests and/or Short Positions In the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations (continued)

Notes:

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

(2) Based on 677,337,560 Shares in issue as at 30 June 2017.

(3) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Directors pursuant to the Post-IPO Share Option Scheme.

(4) Mr. POON Ho Man was deemed to be interested in 197,554,589 Shares in the following manner:

  (a) 182,554,589 Shares held by Friedmann Pacific Asset Management Limited, a substantial shareholder of the Company, which is owned as to 0.000001% by Ms. Christina NG, the spouse of Mr. POON, and 99.999999% by Capella Capital Limited which is in turn owned as to 10% by Ms. NG and 90% by Mr. POON; and

  (b) 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

(5) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Ms. Christina NG pursuant to the Post-IPO Share Option Scheme.

(6) These Shares were held by Smart Vintage Investments Limited, a company wholly-owned by Ms. LIU Wanting.

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and/or debentures of the Company and/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 under Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements for the Directors to Purchase Shares or Debentures

Save as disclosed herein, at no time during the six months ended 30 June 2017 were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

DISCLOSURE OF INTERESTS (continued)

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

Based on the information available to the Directors as at 30 June 2017 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 30 June 2017, the entities and/or persons who had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholders	Capacity/Nature of interest	Number of Shares held (L)[1]	Number of underlying Shares held (L)[1]	Approximate percentage of Shares in issue[2]
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	208,979,479[4]	–	30.85%
China Everbright Financial Investments Limited ("CE Financial")	Beneficial owner	18,616,000[4]	–	2.75%
	Beneficial owner	–	13,755,319[3]	2.03%
China Everbright Limited ("CEL")	Interest of controlled corporation	227,595,479[4]	–	33.60%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	227,595,479[5]	–	33.60%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	227,595,479[6]	–	33.60%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
Central Huijin Investment Limited ("Huijin Limited")	Interest of controlled corporation	227,595,479[6]	–	33.60%
	Interest of controlled corporation	–	13,755,319[3]	2.03%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	182,554,589[8]	–	26.95%
Capella Capital Limited ("Capella")	Interest of controlled corporation	182,554,589[8]	–	26.95%
POON Ho Man	Interest of controlled corporation	197,554,589[9]	–	29.17%
	Interest of spouse	–	3,800,000[7]	0.56%
Christina NG	Interest of spouse	197,554,589[10]	–	29.17%
	Beneficial owner	–	3,800,000[7]	0.56%

OTHER INFORMATION

DISCLOSURE OF INTERESTS (continued)

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares (continued)

Notes:

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

(2) Based on 677,337,560 Shares in issue as at 30 June 2017.

(3) These interests represented the interests in underlying Shares in respect of the convertible bonds issued by the Company to CE Financial pursuant to a subscription agreement with CE Financial dated 26 March 2015.

(4) The entire issued share capital of CE Aerospace and CE Financial is wholly-owned by CEL. Accordingly, CEL is deemed to be interested in all Shares held by CE Aerospace and CE Financial, and underlying Shares mentioned in note (3) above.

(5) CE Hong Kong indirectly holds more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong is deemed to be interested in all Shares and underlying Shares mentioned in notes (3) and (4) above.

(6) According to the Company's announcements in respect of the restructuring of CE Group dated 10 November 2014, 25 November 2014, 8 December 2014 and 14 May 2015, CE Group and Huijin Limited are deemed to be interested in all Shares and underlying Shares mentioned in notes (3) and (4) above.

(7) These interests represented the interests in underlying Shares in respect of the share options granted by the Company to Ms. Christina NG pursuant to the Post-IPO Share Option Scheme.

(8) The issued share capital of FPAM is owned as to 0.000001% by Ms. Christina NG and 99.999999% by Capella. Accordingly, Capella is deemed to be interested in all Shares held by FPAM.

(9) The issued share capital of Capella is owned as to 10% by Ms. Christina NG and 90% by Mr. POON Ho Man. Accordingly, Mr. POON is deemed to be interested in all Shares mentioned in note (8) above. Mr. POON is also interested in 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

(10) Ms. Christina NG is the spouse of Mr. POON Ho Man and is deemed to be interested in all Shares held by Mr. POON as mentioned in note (9) above.

Save as disclosed above, as at 30 June 2017, the Directors are not aware of any person who had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

OTHER INFORMATION

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Board is committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good corporate governance to the Group's success and sustainability.

The Board is also committed to achieving a high standard of corporate governance as an essential component of quality and has applied corporate governance practices appropriate to the conduct and growth of business of the Group.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency, accountability and shareholder value.

The Company has adopted the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company has complied with all Code Provisions as set out in the CG Code during the six months ended 30 June 2017 with the exception of Code Provision A.2.1 due to the overlapping roles of Chairman and Chief Executive Officer (the "CEO") of the Company performed by Mr. CHEN Shuang during a short period from 1 to 18 January 2017. The Board considered that the balance of power and authority of the Board were not impaired even though the roles of the Chairman and the CEO were performed by the same individual.

Mr. POON Ho Man was appointed as the CEO in place of Mr. CHEN Shuang on 19 January 2017, thereby separating the roles of Chairman and CEO. The Company has therefore complied with Code Provision A.2.1 of the CG Code since 19 January 2017.

The Company will continue to enhance its corporate governance practices as appropriate to the conduct and growth of its business and to review and evaluate such practices from time to time to ensure that it complies with the CG Code and aligns with the latest developments.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its Directors. Following specific enquiries by the Company, all Directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2017.

OTHER INFORMATION

BOARD COMMITTEES

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 of the CG Code. The primary duties of the Audit Committee include but not limited to reviewing and supervising the Group's financial reporting process, internal audit function, internal control and risk management systems, and providing advices and comments to the Board. As at the date of this report, the Audit Committee consisted of Mr. CHOW Kwong Fai, Edward (chairman), Mr. CHEOK Albert Saychuan, Mr. NIEN Van Jin, Robert and Mr. GUO Zibin, among whom, three are independent non-executive Directors ("INEDs"). Two Audit Committee members including the chairman of the Audit Committee hold appropriate professional qualifications or expertise in accounting or relevant financial management.

During the period under review, the Audit Committee has reviewed with the management team and the external auditor of the Company, PricewaterhouseCoopers ("PwC"), the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control, risk management and financial reporting including the following:

- the review of the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017, which have been reviewed by PwC in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants;

- the discussion with PwC on the nature and scope of the audit and reporting obligations before commencement of audit;

- the recommendation to the Board for the proposal for re-appointment of PwC and approval of the remuneration and terms of engagement of PwC; and

- the review of the Company's financial control, internal control and risk management systems, and the effectiveness of the internal audit function.

OTHER INFORMATION

BOARD COMMITTEES (continued)

Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration of all the Directors and senior management to ensure that levels of their remuneration and compensation are appropriate. As at the date of this report, the Remuneration Committee consisted of Mr. FAN Yan Hok, Philip (chairman), Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward.

During the period under review, the Remuneration Committee has considered and recommended to the Board the remuneration and other benefits paid by the Company to the Directors and senior management.

Nomination Committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference in compliance with Code Provision A.5 of the CG Code. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, reviewing the structure, size and composition of the Board to achieve its diversity, and assessing the independence of INEDs. As at the date of this report, the Nomination Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. NIEN Van Jin, Robert, Mr. FAN Yan Hok, Philip and Mr. CHOW Kwong Fai, Edward.

During the period under review, the Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of INEDs and made recommendation to the Board on the appointment or re-election of Directors.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted by the Group on 4 August 2011 and taken over by the Company under the corporate reorganisation of the Group on 23 June 2014.

As at the date of this interim report, the total number of Shares available for issue under the Pre-IPO Share Option Scheme is 4,020 Shares (as at 25 August 2016, the date of the 2016 interim report: 6,606,140 Shares), which represented approximately 0.0006% (as at 25 August 2016: 1.1%) of the issued share capital of the Company. No option was granted under the Pre-IPO Share Option Scheme during the period under review.

SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

The following share options granted under the Pre-IPO Share Option Scheme were outstanding during the period and as at 30 June 2017:

			Number of Shares under options					Share price			
								Exercise price per Share		Immediately before the exercise date per Share (Note 2)	
Name of grantees	Date of grant	Tranche	At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017	1/7/2016 to 30/6/2017	1/7/2017 to 26/3/2018		Exercise period
								US$	US$	HK$	
Substantial shareholders											
China Everbright Aerospace Holdings Limited	10/10/2011	A	680,000	–	(680,000)	–	–	0.195	0.215	9.94	26/3/2017 to 26/3/2018
Friedmann Pacific Asset Management Limited	10/10/2011	A	442,000	–	(442,000)	–	–	0.195	0.215	10.08	26/3/2017 to 26/3/2018
Sub-total			1,122,000	–	(1,122,000)	–	–				
Connected persons											
Equal Honour Holdings Limited (Note 1)	7/10/2011	A	5,100,000	–	(5,100,000)	–	–	0.195	0.215	9.79	26/3/2017 to 26/3/2018
Sub-total			5,100,000	–	(5,100,000)	–	–				
Senior management and other employees	10/10/2011	A	1,980	–	–	–	1,980	0.195	0.215	–	26/3/2016 to 26/3/2018
			314,160	–	(220,320)	(91,800)	2,040	0.195	0.215	9.60	26/3/2017 to 26/3/2018
	30/12/2011	A	68,000	–	(68,000)	–	–	0.195	0.215	9.29	26/3/2017 to 26/3/2018
Sub-total			384,140	–	(288,320)	(91,800)	4,020				
Total			6,606,140	–	(6,510,320)	(91,800)	4,020				

SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

Notes:

(1) Equal Honour Holdings Limited is wholly-owned by Mr. POON Ho Man who is a substantial shareholder of the Company and was appointed as a director of the Company on 19 January 2017.

(2) The price of the Shares disclosed is the weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the period.

Post-IPO Share Option Scheme

The post-IPO share option scheme (the "Post-IPO Share Option Scheme") was conditionally approved and adopted pursuant to a resolution in writing passed by the shareholders of the Company on 23 June 2014, which became effective on 11 July 2014.

As at the date of this interim report, the total number of Shares available for issue under the Post-IPO Share Option Scheme is 26,699,000 Shares (as at 25 August 2016, the date of the 2016 interim report: 46,259,600 Shares), which represented approximately 3.94% (as at 25 August 2016: 7.4%) of the issued share capital of the Company. No option was granted under the Post-IPO Share Option Scheme during the period under review.

The following share options granted under the Post-IPO Share Option Scheme were outstanding during the period and as at 30 June 2017:

			Number of Shares under options					Share price		
Name of grantees	Date of grant	Tranche	At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017	Exercise price per Share HK$	Immediately before the exercise date per Share (Note 2) HK$	Exercise period
Directors										
CHEN Shuang	2/9/2014	B	66,000	–	–	–	66,000	6.38	–	1/3/2015 to 1/9/2017
			66,000	–	–	–	66,000	6.38	–	1/3/2016 to 1/9/2017
			68,000	–	–	–	68,000	6.38	–	1/3/2017 to 1/9/2017
	22/7/2016	N/A	3,300,000	–	–	–	3,300,000	8.80	–	22/1/2017 to 21/7/2020
			3,300,000	–	–	–	3,300,000	8.80	–	22/1/2018 to 21/7/2020
			3,400,000	–	–	–	3,400,000	8.80	–	22/1/2019 to 21/7/2020

SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme (continued)

			Number of Shares under options					Share price		
Name of grantees	Date of grant	Tranche	At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017	Exercise price per Share HK$	Immediately before the exercise date per Share (Note 2) HK$	Exercise period
Directors (continued)										
LIU Wanting	22/7/2016	N/A	990,000	–	–	–	990,000	8.80	–	22/1/2017 to 21/7/2020
			990,000	–	–	–	990,000	8.80	–	22/1/2018 to 21/7/2020
			1,020,000	–	–	–	1,020,000	8.80	–	22/1/2019 to 21/7/2020
TANG Chi Chun	2/9/2014	B	66,000	–	–	–	66,000	6.38	–	1/3/2015 to 1/9/2017
			66,000	–	–	–	66,000	6.38	–	1/3/2016 to 1/9/2017
			68,000	–	–	–	68,000	6.38	–	1/3/2017 to 1/9/2017
GUO Zibin	2/9/2014	B	66,000	–	–	–	66,000	6.38	–	1/3/2015 to 1/9/2017
			66,000	–	–	–	66,000	6.38	–	1/3/2016 to 1/9/2017
			68,000	–	–	–	68,000	6.38	–	1/3/2017 to 1/9/2017
CHEN Chia-Ling	22/7/2016	N/A	66,000	–	–	–	66,000	8.80	–	22/1/2017 to 21/7/2020
			66,000	–	–	–	66,000	8.80	–	22/1/2018 to 21/7/2020
			68,000	–	–	–	68,000	8.80	–	22/1/2019 to 21/7/2020
FAN Yan Hok, Philip	2/9/2014	B	66,000	–	–	–	66,000	6.38	–	1/3/2016 to 1/9/2017
			68,000	–	–	–	68,000	6.38	–	1/3/2017 to 1/9/2017
NIEN Van Jin, Robert	2/9/2014	B	66,000	–	–	–	66,000	6.38	–	1/3/2016 to 1/9/2017
			68,000	–	–	–	68,000	6.38	–	1/3/2017 to 1/9/2017
CHEOK Albert Saychuan	22/7/2016	N/A	66,000	–	–	–	66,000	8.80	–	22/1/2017 to 21/7/2020
			66,000	–	–	–	66,000	8.80	–	22/1/2018 to 21/7/2020
			68,000	–	–	–	68,000	8.80	–	22/1/2019 to 21/7/2020
CHOW Kwong Fai, Edward	22/7/2016	N/A	66,000	–	–	–	66,000	8.80	–	22/1/2017 to 21/7/2020
			66,000	–	–	–	66,000	8.80	–	22/1/2018 to 21/7/2020
			68,000	–	–	–	68,000	8.80	–	22/1/2019 to 21/7/2020
Sub-total			**14,468,000**	**–**	**–**	**–**	**14,468,000**			

SHARE OPTION SCHEMES (continued)

Post-IPO Share Option Scheme (continued)

Name of grantees	Date of grant	Tranche	Number of Shares under options: At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017	Share price: Exercise price per Share HK$	Immediately before the exercise date per Share (Note 2) HK$	Exercise period
Connected person										
Christina NG	22/7/2016	N/A	1,254,000	–	–	–	1,254,000	8.80	–	22/1/2017 to 21/7/2020
(Note 1)			1,254,000	–	–	–	1,254,000	8.80	–	22/1/2018 to 21/7/2020
			1,292,000	–	–	–	1,292,000	8.80	–	22/1/2019 to 21/7/2020
Sub-total			3,800,000	–	–	–	3,800,000			
Senior management and other employees	2/9/2014	B	89,100	–	(59,400)	–	29,700	6.38	9.45	1/3/2015 to 1/9/2017
			234,300	–	(168,400)	–	65,900	6.38	9.48	1/3/2016 to 1/9/2017
			724,200	–	(533,800)	(112,200)	78,200	6.38	9.61	1/3/2017 to 1/9/2017
	22/7/2016	N/A	2,851,200	–	(165,000)	–	2,686,200	8.80	9.58	22/1/2017 to 21/7/2020
			2,851,200	–	–	–	2,851,200	8.80	–	22/1/2018 to 21/7/2020
			2,937,600	–	–	–	2,937,600	8.80	–	22/1/2019 to 21/7/2020
Sub-total			9,687,600	–	(926,600)	(112,200)	8,648,800			
Total			27,955,600	–	(926,600)	(112,200)	26,916,800			

Notes:

(1) Ms. Christina NG is the spouse of Mr. POON Ho Man who is a substantial shareholder of the Company and was appointed as a director of the Company on 19 January 2017.

(2) The price of the Shares disclosed is the weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the period.

OTHER INFORMATION

OTHERS

Change of Directors' Information under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors since the Company's last published annual report and up to the date of this interim report are set out below:

Change of Directors/Other Directorship/Major Appointment

Mr. CHEN Shuang, the Chairman of the Board and an executive Director, was appointed as non-official Justices of the Peace by the Government of the Hong Kong Special Administrative Region on 30 June 2017 for his contributions in the finance industry and the society.

Mr. CHEN Shuang was also appointed as the chairman of Shanghai Jiabao Industry & Commerce (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: SH600622), on 12 May 2017.

Mr. POON Ho Man was appointed as an executive Director and a member of the Strategy Committee of the Company with effect from 19 January 2017. Mr. POON was also appointed as the CEO in place of Mr. CHEN Shuang on the same day.

Mr. CHEOK Albert Saychuan, an INED, was appointed as the chairman of the Nomination Committee in place of Mr. NIEN Van Jin, Robert with effect from 22 May 2017. Mr. NIEN continues to be a member of the Nomination Committee.

Mr. CHEOK Albert Saychuan retired from the position of the independent non-executive chairman of Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust (listed in Singapore), effective 17 April 2017, and Auric Pacific Group Limited (formerly listed in Singapore and was privatized on 17 April 2017) effective 28 April 2017. Mr. CHEOK also resigned as an independent non-executive director of Adavale Resources Limited (listed in Australia) effective 28 April 2017.

Mr. CHOW Kwong Fai, Edward, an INED, was appointed as the chairman of the Audit Committee in place of Mr. CHEOK Albert Saychuan with effect from 22 May 2017. Mr. CHEOK continues to be a member of the Audit Committee.

OTHERS (continued)

Change of Directors' Information under Rule 13.51B(1) of the Listing Rules (continued)

Change of Directors' Remuneration

The basic salary of Ms. LIU Wanting, an executive Director, has been increased from HK$2,220,000 to HK$2,640,000 per annum with effect from 1 April 2017. Ms. LIU's entitlement of a project incentive bonus on completion of successful delivery for every aircraft transaction calculated at the rate of US$20,000 per aircraft remains unchanged.

Due to the change of position in the Nomination Committee with effect from 22 May 2017, Mr. NIEN Van Jin, Robert is entitled to a pro-rata annual fee of HK$40,000 in 2017 for being a member of the Nomination Committee since the effective date.

Due to the change of position in the Audit Committee and the Nomination Committee with effect from 22 May 2017, Mr. CHEOK Albert Saychuan is entitled to a pro-rata annual fees of HK$80,000 and HK$50,000 in 2017 for being a member of the Audit Committee and the chairman of the Nomination Committee respectively since the effective date.

Since Mr. CHOW Kwong Fai, Edward has been appointed as the chairman of the Audit Committee with effect from 22 May 2017, he is entitled to a pro-rata annual fee of HK$100,000 in 2017 for such appointment.

In addition, the annual Director's fee of HK$200,000 for each of non-executive Directors and INEDs remains unchanged.

Save as disclosed above, the Company is not aware of other information which is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

Public Float

Based on the information publicly available to the Company and as far as the Directors are aware as at the date of this report, at least 25% of the total issued share capital of the Company is held by the public pursuant to the Listing Rules.

Interim Dividend

The Board has declared the payment of an interim dividend of HK$0.18 per Share in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: HK$0.14 per Share) to shareholders whose names appear on the register of members of the Company on 12 September 2017. The interim dividend will be paid on or about 25 September 2017.

OTHER INFORMATION

OTHERS (continued)

Closure of Register of Members

For the purpose of determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from 11 September 2017 to 12 September 2017, both days inclusive, during which period no transfer of Shares will be registered. The record date on which the shareholders of the Company are qualified to receive the interim dividend is 12 September 2017. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 8 September 2017.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
China Aircraft Leasing Group Holdings Limited

POON Ho Man
Executive Director and Chief Executive Officer

Hong Kong, 25 August 2017

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 34 to 80, which comprises the interim consolidated balance sheet of China Aircraft Leasing Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 August 2017

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
ASSETS			
Property, plant and equipment	6	8,585,449	6,214,103
Finance lease receivables – net	7	13,471,942	15,030,972
Interests in and loans to an associate	8	1,152,057	444,369
Derivative financial assets	18	93,965	131,113
Prepayments and other receivables	9	3,963,117	3,062,797
Restricted cash		160,222	176,087
Cash and cash equivalents		6,601,927	5,840,746
Total assets		34,028,679	30,900,187
EQUITY			
Equity attributable to owners of the Company			
Share capital	10	67,734	66,990
Reserves	11	1,853,024	1,839,694
Retained earnings		1,133,756	1,136,662
Total equity		3,054,514	3,043,346
LIABILITIES			
Deferred income tax liabilities	12	374,585	332,824
Bank borrowings	13	15,356,525	17,834,742
Long-term borrowings	14	3,502,520	2,346,110
Medium-term notes	15	764,295	740,126
Convertible bonds	16	149,606	292,706
Bonds	17	8,524,243	4,611,878
Derivative financial liabilities	18	18,542	14,973
Income tax payables		8,516	43,274
Interest payables		220,919	153,392
Other payables and accruals	19	2,054,414	1,486,816
Total liabilities		30,974,165	27,856,841
Total equity and liabilities		34,028,679	30,900,187

The notes on page 39 and 80 form an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information was approved by the Board of Directors on 25 August 2017 and was signed on its behalf:

CHEN Shuang
Director

POON Ho Man
Director

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited Six months ended 30 June 2017 HK$'000	2016 HK$'000
Revenue			
Finance lease income	20	540,621	617,135
Operating lease income	20	340,291	176,741
		880,912	793,876
Other income	21	377,138	232,761
Revenue and other income		1,258,050	1,026,637
Expenses			
Interest expenses	22	(614,647)	(475,421)
Depreciation	6	(131,443)	(69,834)
Other operating expenses	23	(157,850)	(137,832)
		(903,940)	(683,087)
Operating profit		354,110	343,550
Share of loss of an associate	8	(5,548)	–
Other losses	24	(5,740)	(8,394)
Profit before income tax		342,822	335,156
Income tax expenses	25	(94,152)	(95,138)
Profit for the period		248,670	240,018
Profit attributable to owners of the Company		248,670	240,018
Earnings per share for profit attributable to owners of the Company (expressed in HK$ per share)			
– Basic earnings per share	27(a)	0.370	0.392
– Diluted earnings per share	27(b)	0.368	0.379

The notes on page 39 and 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2017 HK$'000	 2016 HK$'000
Profit for the period		**248,670**	240,018
Other comprehensive income/(expense) for the period:			
Items that may be reclassified subsequently to profit or loss			
Share of reserves of an associate		**5,389**	–
Cash flow hedges	18	**(15,709)**	(71,383)
Currency translation differences		**17,313**	(938)
Total other comprehensive income/(expense) for the period, net of tax		**6,993**	(72,321)
Total comprehensive income for the period		**255,663**	167,697
Total comprehensive income for the period attributable to owners of the Company		**255,663**	167,697

The notes on page 39 and 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$'000	Reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1 January 2016	60,592	1,437,497	690,452	2,188,541	19,461	2,208,002
Comprehensive income						
Profit for the period	–	–	240,018	240,018	–	240,018
Other comprehensive income						
Cash flow hedges (Note 18)	–	(71,383)	–	(71,383)	–	(71,383)
Currency translation differences	–	(938)	–	(938)	–	(938)
Total comprehensive income	–	(72,321)	240,018	167,697	–	167,697
Transaction with owners						
Dividends (Note 26)	–	–	(111,201)	(111,201)	–	(111,201)
Share option scheme:						
– Value of services (Note 10)	–	1,244	–	1,244	–	1,244
– Issue of new shares from exercise of share options	1,686	23,802	–	25,488	–	25,488
Purchase of non-controlling interests	–	(39)	–	(39)	(19,461)	(19,500)
Total transactions with owners	1,686	25,007	(111,201)	(84,508)	(19,461)	(103,969)
Balance as at 30 June 2016	62,278	1,390,183	819,269	2,271,730	–	2,271,730
Balance as at 1 January 2017	**66,990**	**1,839,694**	**1,136,662**	**3,043,346**	**–**	**3,043,346**
Comprehensive income						
Profit for the period	**–**	**–**	**248,670**	**248,670**	**–**	**248,670**
Other comprehensive income						
Share of reserves of an associate	**–**	**5,389**	**–**	**5,389**	**–**	**5,389**
Cash flow hedges (Note 18)	**–**	**(15,709)**	**–**	**(15,709)**	**–**	**(15,709)**
Currency translation differences	**–**	**17,313**	**–**	**17,313**	**–**	**17,313**
Total comprehensive income	**–**	**6,993**	**248,670**	**255,663**	**–**	**255,663**
Transaction with owners						
Dividends (Note 26)	**–**	**–**	**(264,117)**	**(264,117)**	**–**	**(264,117)**
Share option scheme:						
– Value of services (Note 10)	**–**	**9,472**	**–**	**9,472**	**–**	**9,472**
– Issue of new shares from exercise of share options (Note 10 (b))	**744**	**15,447**	**–**	**16,191**	**–**	**16,191**
Repurchase of convertible bonds (Note 16)	**–**	**(18,582)**	**12,541**	**(6,041)**	**–**	**(6,041)**
Total transactions with owners	**744**	**6,337**	**(251,576)**	**(244,495)**	**–**	**(244,495)**
Balance as at 30 June 2017	**67,734**	**1,853,024**	**1,133,756**	**3,054,514**	**–**	**3,054,514**

The notes on page 39 and 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June 2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Profit after income tax		248,670	240,018
Adjustments for:			
– Depreciation		131,443	69,834
– Interest expenses		614,647	475,421
– Share-based payments		9,472	1,244
– Unrealised currency exchange losses/(gains)		3,742	(1,264)
– Fair value (gains)/losses on interest rate and currency swaps		(4,600)	6,457
– Loss on repurchase of convertible bonds		3,055	–
– Share of loss of an associate		5,548	–
– Interest income		(32,078)	(2,693)
		979,899	789,017
Changes in working capital:			
– Finance lease receivables – net		1,675,669	(201,436)
– Prepayments and other receivables		(67,354)	(71,916)
– Other payables and accruals		528,041	426,274
– Income tax payables		(34,758)	(3,897)
– Deferred income tax liabilities		37,963	78,146
Net cash flows generated from operating activities		3,119,460	1,016,188
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,410,801)	(1,066,659)
Deposits paid for acquisition of aircraft		(784,898)	(285,919)
Interest received		19,631	2,693
Net payments relating to loans to an associate		(686,137)	–
Net cash flow used in investing activities		(3,862,205)	(1,349,885)
Cash flows from financing activities			
Proceeds from exercise of share options	10(b)	16,191	25,488
Proceeds from bank borrowings and long-term borrowings		4,908,856	4,951,371
Proceeds from termination of derivative financial instruments		32,025	–
Issue of bonds, net of transaction costs		3,857,191	2,301,168
Refinancing and repayments of bank borrowings and long-term borrowings		(6,374,125)	(3,064,860)
Purchase of non-controlling interests		–	(19,500)
Repurchase of convertible bonds, including transaction costs		(156,899)	–
Interest paid in respect of derivative financial instruments		(15,019)	(15,136)
Interest paid in respect of borrowings, notes and bonds		(574,658)	(475,174)
Decrease/(increase) in deposits pledged in respect of borrowings		19,254	(252,820)
Increase in deposits pledged in respect of derivative financial instruments		(356)	(33,300)
Dividends paid to shareholders		(263,294)	(110,455)
Net cash flows generated from financing activities		1,449,166	3,306,782
Net increase in cash and cash equivalents		706,421	2,973,085
Cash and cash equivalents at beginning of the period		5,840,746	1,389,289
Currency exchange difference on cash and cash equivalents		54,760	(9,725)
Cash and cash equivalents at end of the period		6,601,927	4,352,649

The notes on page 39 and 80 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands. The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Company and its subsidiaries (together, "the Group") have operations mainly in Mainland China and other countries or regions in Europe and Asia.

The interim condensed consolidated financial information for the six months ended 30 June 2017 ("Interim Financial Information") is presented in Hong Kong Dollar ("HK$"), unless otherwise stated.

The Interim Financial Information has been reviewed, not audited.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting". The Interim Financial Information should be read in conjunction with the Group's financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2016 annual report of the Company.

As at 30 June 2017, the Group had total capital commitments of HK$55,112.5 million relating to acquisition of aircraft (Note 29 (b)), of which HK$8,940.2 million is payable within one year. In view of such circumstances, the directors of the Company have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The directors of the Company adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

2 BASIS OF PREPARATION (continued)

- The Group uses short-term borrowings to finance the pre-delivery payments ("PDP") to the aircraft manufacturers when new aircraft ordered by the Group are being built. The Group normally uses PDP financing for settlement of PDP, repayable after the aircraft is delivered. As at 30 June 2017, PDP amounting to HK$3,670.0 million had been paid (Note 9) and the balance of the corresponding PDP financing amounted to HK$1,855.5 million (Note 13), of which HK$1,265.3 million is repayable within one year and is related to aircraft to be delivered in the next twelve months from 30 June 2017. The Group uses long-term aircraft borrowings for the repayment of PDP financing and the settlement of the balance payments of aircraft acquisition costs. However, the long-term aircraft borrowings can only be confirmed shortly before delivery of the relevant aircraft. Based on industry practice and prior experience, long-term aircraft borrowings will be granted by the banks if the aircraft can be leased out to airline companies. For the aircraft scheduled for delivery in the next twelve months from 30 June 2017, lease agreements or letters of intent have already been signed. Thus the directors of the Company believe that long-term aircraft borrowings can be obtained, while internal resources or available banking facilities can be used to settle PDP financing and the balance payments of the aircraft acquisition costs due in the next twelve months from 30 June 2017.

- According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next twelve months from 30 June 2017 amounted to HK$2,186.8 million. Up to the approval date of the consolidated financial statements, the Group had signed PDP financing agreements and term sheets with various commercial banks which have agreed to provide financing of US$132.6 million (equivalent to approximately HK$1,034.9 million) to the Group in the next twelve months from 30 June 2017. The remaining balance of PDP amounting to HK$1,151.9 million is to be funded by internal resources, available banking facilities or additional financing.

- The Group has entered into cooperative agreements with certain banks pursuant to which these banks have agreed to provide to the Group conditional loan facilities for aircraft acquisition. The granting of each specific loan will be subject to the banks' credit assessments and approvals and the agreement of terms and conditions of the respective loan agreements, which will only be confirmed shortly before the delivery of the relevant aircraft.

- For the existing long-term aircraft borrowings, under the business model of the Group, the expected cash inflows from lease receivables generally match the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft.

- As at 30 June 2017, the Group had cash and cash equivalents amounting to HK$6,601.9 million.

2 BASIS OF PREPARATION (continued)

The directors of the Company have reviewed the Group's cash flow forecasts prepared by management, covering a period of not less than twelve months from 30 June 2017. The forecasts are based on a number of assumptions including aircraft delivery and leasing schedules, internal resources, available banking facilities that have been granted, or will be granted and the amount of capital commitments. Based on these projections, the sufficiency of cash flows for the Group's present requirements for the next twelve months from 30 June 2017 is dependent on the Group's ability to obtain the necessary funding from the long-term aircraft borrowings and the availability of banking and other sources of financing. Based on the industry practice and prior experience, the directors are of the view that long-term aircraft borrowings can be obtained as the related lease agreements or letters of intent have already been signed for the aircraft scheduled for delivery in the next twelve months from 30 June 2017.

On this basis, the directors of the Company are of the opinion that, taking into account the Group's operating performance and business prospects, internal resources and available banking facilities that have been granted or will be granted as detailed above, the Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 30 June 2017. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's financial statements for the year ended 31 December 2016.

Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

Amendments to HKAS 12, 'Income taxes'
Amendments to HKAS 7, 'Statement of cash flows'
Amendment to HKFRS 12, 'Disclosure of interest in other entities'

The adoption of these amendments did not have any financial impact on the current year or any prior year.

3 ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosure (continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been early applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed under HKFRS 9.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

3 ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosure (continued)

(b) New standards and interpretations not yet adopted (continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

HKFRS 15 replaces the previous revenue standards: HKAS 18 'Revenue' and HKAS 11 'Construction Contracts', and the related Interpretations on revenue recognition. The directors of the Company have performed a preliminary assessment. Based on this assessment, it is noted that HKFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognize revenue when performance obligation is satisfied.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date. The financial impacts of the application of the standard and a reasonable estimate of the effect will be available once the detailed review is completed.

HKFRS 16, 'Leases'

HKFRS 16 will result in virtually all leases being recognised on the balance sheet for the lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 30 June 2017, the Group has non-cancellable operating lease commitments of HK$34.6 million, see Note 29 (c). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 ESTIMATES

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's financial statements for the year ended 31 December 2016.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2016.

There have been no significant changes in the risk management department or in any risk management policies since 31 December 2016.

5.1.1 Market risk

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other receivables, financial liabilities including borrowings, other payables and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and the corresponding borrowings used to finance the leases are mainly denominated in USD and RMB. Currency exchange risk may arise when the finance lease receivables and corresponding borrowings are denominated in different currencies. The management minimises the currency exchange risk by matching the finance lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk

Finance lease receivables and borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables and borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group's primary objective is to manage cash flow interest rate risk.

The Group manages the cash flow interest rate risk by matching the interest rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the leases and the corresponding bank borrowings do not match. As at 30 June 2017, the Group has managed its unmatched exposures by entering into 34 floating-to-fixed interest rate swaps for the associated bank borrowings as at 30 June 2017 (31 December 2016: 26 swaps). Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining cases of interest rate mismatch, the Group monitors the interest rate exposure closely and will consider hedging the exposure where necessary and appropriate.

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2017. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit before tax for the six months ended 30 June 2017 by approximately HK$3,539,000 (six months ended 30 June 2016: decreased/increased by HK$13,685,000); and would also have increased/decreased the Group's reserves by approximately HK$132,086,000 (31 December 2016: increased/decreased by HK$104,493,000) because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in economy, or in the health of the industry segment that represents a concentration in the Group's portfolio (see (d) below), could result in losses that are different from those provided for at the balance sheets date. The Group therefore carefully manages its exposure to credit risk. Credit exposures of the Group arise principally in aircraft leasing service.

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as their shareholders' support. The Group also obtained deposits from the lessees (Note 19). All these strengthen the control and management of credit risk.

The Group is also exposed to credit risk associated with its interest rate swaps arrangement with four investment banks, which has a high credit quality. The interest rate swaps were secured by pledged deposits placed by the Group.

(a) *Probability of default by the lessees*

Default risk – in the event of default by the lessees, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

Late payment risk – in the event of late payment by the lessees, the Group is entitled to charge interest at the default rate on any part of lease rental not paid when due until the same shall be paid. Such interest will accrue on a day to day basis. In addition, the Group may request for a security deposit which it may apply towards the payment or discharge of any obligation owed by the lessee.

(b) *Risk limit control and mitigation policies*

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to assess the lessees' repayment ability periodically.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.2 Credit risk (continued)

(c) *Impairment allowance policies*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group's policy requires a review of the financial statements of the lessee or its parent company and a valuation of the residual value of the aircraft (effectively the collateral held) under the lease regularly as circumstances require. Follow-up actions are carried out on overdue amounts to minimise credit risk exposures.

When there is overdue amounts, provision for impairment allowance is considered based on a number of factors, such as the background of the lessees and their creditworthiness, economic conditions and the value of underlying rental deposits received from the lessees. As at 30 June 2017, no impairment allowance was made for lease rental receivables and financial assets of the Group (31 December 2016: Nil).

(d) *Concentration of credit risk*

During the six months ended 30 June 2017, the lessees of the Group are airline companies located in Europe, Mainland China and other countries or regions in Asia. Please see Note 7 and Note 20 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

To manage this risk, the Group assesses the business performance of the airline companies on a regular basis. In view of the fact that the airline companies are operating smoothly and the sound collection history of the receivable due from them, management believes that the credit risk inherent in the Group's outstanding finance lease receivable balances (Note 7) and operating lease receivables (Note 29 (d)) from these airline companies is low.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or due to be settled within twelve months after the balance sheet dates:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Current assets		
Finance lease receivables – net	182,680	327,675
Prepayments and other receivables	68,851	14,577
Loans to an associate	1,152,057	441,985
Cash and cash equivalents	6,601,927	5,840,746
	8,005,515	6,624,983
Current liabilities		
Deferred income tax liabilities	40,824	22,061
Bank borrowings	4,194,051	4,422,976
Long-term borrowings	2,483	1,246
Convertible bonds	149,606	2,017
Derivative financial liabilities	23,980	23,405
Income tax payables	8,516	43,274
Interest payables	220,919	153,392
Other payables and accruals	1,307,020	974,254
	5,947,399	5,642,625
Net current assets	2,058,116	982,358

The assets and liabilities of the Group not included in the above table are expected to be recovered or settled more than twelve months after the balance sheet dates.

Please also refer to Note 2 for additional analysis of liquidity risk.

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six months ended 30 June 2017.

5.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Company estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities measured at fair values

The following table presents the Group's financial assets and financial liabilities that were measured at fair values.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 30 June 2017 – unaudited				
Assets				
Currency swap	–	**22,990**	–	**22,990**
Interest rate swaps	–	**70,975**	–	**70,975**
	–	**93,965**	–	**93,965**
Liabilities				
Interest rate swaps	–	**18,542**	–	**18,542**
As at 31 December 2016 – audited				
Assets				
Currency swap	–	24,186	–	24,186
Interest rate swaps	–	106,927	–	106,927
	–	131,113	–	131,113
Liabilities				
Interest rate swaps	–	14,973	–	14,973

The fair values of the interest rate swaps for hedging and the currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. The Group uses its judgements to select the appropriate methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to the valuation models, including yield curves, USD/RMB forward rates, are observable either directly or indirectly and thus their fair values are considered to be of level 2 within the fair value hierarchy.

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and cash equivalents, other receivables, loans to an associate, interest payable and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year, are not sensitive to changes in inputs to valuation techniques.

The carrying amounts and fair values of the finance lease receivables, bank and long-term borrowings, medium-term notes and bonds are as follows:

	Unaudited As at 30 June 2017		Audited As at 31 December 2016	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables – net	13,471,942	14,538,267	15,030,972	17,678,164
Bank borrowings	15,356,525	15,454,413	17,834,742	18,840,630
Long-term borrowings	3,502,520	3,659,789	2,346,110	2,462,542
Medium-term notes	764,295	780,094	740,126	779,000
Convertible bonds	149,606	160,376	292,706	315,183
Bonds	8,524,243	8,760,884	4,611,878	4,772,383

The fair values of finance lease receivables, borrowings, medium-term notes and convertible bonds are estimated by discounting the future cash flows at the current market rates available to the Group for similar financial instruments. Their fair values are considered to be of level 2 within the fair value hierarchy.

The fair values of bonds are the quoted price in the active market. Their fair values are considered to be of level 1 within the fair value hierarchy.

6 PROPERTY, PLANT AND EQUIPMENT

	Aircraft	Leasehold improvements	Unaudited Office equipment	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net book value as at 31 December 2016 and 1 January 2017	6,207,533	1,995	4,575	–	6,214,103
Additions	2,447,138	–	347	–	2,447,485
Depreciation	(130,054)	(442)	(947)	–	(131,443)
Currency translation difference	55,279	11	14	–	55,304
Net book value as at 30 June 2017	8,579,896	1,564	3,989	–	8,585,449
Net book value as at 1 January 2016	2,391,503	2,369	3,275	15,397	2,412,544
Additions	1,344,665	75	1,188	32,662	1,378,590
Depreciation	(68,781)	(370)	(683)	–	(69,834)
Currency translation difference	(3,952)	(1)	(3)	(993)	(4,949)
Net book value as at 30 June 2016	3,663,435	2,073	3,777	47,066	3,716,351

7 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Finance lease receivables	9,531,262	12,357,712
Guaranteed residual values	5,957,027	5,723,943
Unguaranteed residual values	6,924,720	6,693,720
Gross investment in leases	22,413,009	24,775,375
Less: unearned finance income	(8,941,067)	(9,744,403)
Net investment in leases	13,471,942	15,030,972
Less: accumulated allowance for impairment (a)	–	–
Finance lease receivables – net	13,471,942	15,030,972

(a) The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from airline companies is low. No impairment allowance was made for the finance lease receivables as at 30 June 2017.

Reconciliation between the gross investment in finance leases at the end of each reporting period and the present value of minimum lease payments receivable under such leases at the end of each reporting period is set out below.

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Gross investment in finance leases	22,413,009	24,775,375
Less: unguaranteed residual values	(6,924,720)	(6,693,720)
Minimum lease payments receivable	15,488,289	18,081,655
Less: unearned finance income related to minimum lease payments receivable	(5,584,265)	(6,390,192)
Present value of minimum lease payments receivable	9,904,024	11,691,463

7 FINANCE LEASE RECEIVABLES – NET (continued)

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of each reporting period:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Gross investment in finance leases		
– Not later than 1 year	1,089,464	1,317,014
– Later than 1 year and not later than 5 years	4,402,094	5,450,682
– Later than 5 years	16,921,451	18,007,679
	22,413,009	24,775,375

The table below analyses the present value of minimum lease payments receivable under finance leases by relevant maturity groupings at the end of each reporting period:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Present value of minimum lease payments receivable		
– Not later than 1 year	436,258	563,904
– Later than 1 year and not later than 5 years	1,597,850	2,281,551
– Later than 5 years	7,869,916	8,846,008
	9,904,024	11,691,463

7 FINANCE LEASE RECEIVABLES – NET (continued)

The following table sets forth the finance lease receivables attributable to airlines companies:

	Unaudited		Audited	
	As at 30 June 2017		As at 31 December 2016	
	HK$'000	**%**	HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	**9,131,993**	**68%**	10,098,289	67%
Other airline companies	**4,339,949**	**32%**	4,932,683	33%
	13,471,942	**100%**	15,030,972	100%

8 INTERESTS IN AND LOANS TO AN ASSOCIATE

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Interests in an associate	**–**	2,384
Loans to an associate	**1,152,057**	441,985
	1,152,057	444,369

	Unaudited	
	Six months ended 30 June	
	2017 HK$'000	2016 HK$'000
Share of loss of an associate	**(5,548)**	–

8 INTERESTS IN AND LOANS TO AN ASSOCIATE (continued)

As at 30 June 2017, the Group had direct interests in the following associate:

Name of entity	Country of incorporation	% of ownership interest	Measurement method
Aircraft Recycling International Limited ("ARI")	Cayman Islands	48%	Equity

Pursuant to the shareholders' loan agreement dated 6 April 2016, the loans to associate are unsecured, interest bearing at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six-monthly intervals from the date of issue of the loan note. The loan is repayable on demand.

There are no contingent liabilities relating to the Group's interests in the associate. As the result of the associate is not material to the Group, no summarised financial information of the associate is disclosed.

ARI is an investment holding company and its subsidiaries have operations in the PRC, United States and other countries principally engaged in the leasing of used aircraft and recycling business.

9 PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
PDP (a)	3,669,969	2,862,803
Interest capitalised	156,496	134,784
Prepayments and receivables relating to aircraft acquisition	66,415	44,928
Deposits paid	14,181	6,210
Others (b)	56,056	14,072
	3,963,117	3,062,797

(a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S ("Airbus") for the purchase of 100 aircraft. In December 2015 and January 2016, the Group entered into agreements with Airbus for the purchase of additional four aircraft. In April 2017, the Group further entered into agreements with Airbus for the purchase of additional three aircraft. These three agreements were executed in a form of amendment agreements to the aircraft purchase agreement signed in December 2014.

In June 2017, the Group entered into aircraft purchase agreements with The Boeing Company for the purchase of 50 aircraft.

Prepayments were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft will be delivered in stages by 2023.

(b) The "Others" above were unsecured, interest-free and repayable on demand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK$
Issued:			
As at 1 January 2016	HK$0.1	605,923,800	60,592,380
Issue of new shares upon share subscription under general mandate (a)	HK$0.1	40,000,000	4,000,000
Issue of new shares from exercise of share options (b)	HK$0.1	23,976,840	2,397,684
As at 31 December 2016 and 1 January 2017	**HK$0.1**	**669,900,640**	**66,990,064**
Issue of new shares from exercise of share options (b)	**HK$0.1**	**7,436,920**	**743,692**
As at 30 June 2017	**HK$0.1**	**677,337,560**	**67,733,756**

(a) On 26 August 2016, the Company entered into the subscription agreements with certain subscribers, independent third parties, for the subscriptions of an aggregate 40,000,000 shares at subscription price of HK$8.0 each, subject to a lock-up period of twelve months. The subscriptions were completed on 8 September 2016. The net proceeds from the subscriptions, after deducting the issuing cost, were approximately HK$319,991,000, of which HK$4,000,000 and HK$315,991,000 were credited to share capital and share premium respectively.

(b) During the six months ended 30 June 2017, certain grantees exercised share options granted under share option schemes, resulting in 7,436,920 (year ended 31 December 2016: 23,976,840) new shares being issued, with total proceeds of HK$16,191,000 (year ended 31 December 2016: HK$70,893,000). The related weighted average share price at the time of exercise was HK$9.77 (year ended 31 December 2016: HK$7.87) per share. As at 30 June 2017, 9,474,020 (31 December 2016: 853,380) share options were vested and exercisable.

10 SHARE CAPITAL (continued)

Movement of outstanding share options granted by the Group on 4 August 2011 (Pre-IPO Share Option Scheme), 2 September 2014 (First Post-IPO Share Option Scheme) and 22 July 2016 (Second Post-IPO Share Option Scheme) is as follows:

	Unaudited Six months ended 30 June 2017			Unaudited Six months ended 30 June 2016		
	Pre-IPO	**Post-IPO**	**Total**	Pre-IPO	Post-IPO	Total
Beginning of period	**6,606,140**	**27,955,600**	**34,561,740**	23,028,000	24,748,000	47,776,000
Exercised	**(6,510,320)**	**(926,600)**	**(7,436,920)**	(16,417,840)	(442,200)	(16,860,040)
Lapsed	**(91,800)**	**(112,200)**	**(204,000)**	(4,020)	(403,000)	(407,020)
End of period	**4,020**	**26,916,800**	**26,920,820**	6,606,140	23,902,800	30,508,940

The exercise price per share of Pre-IPO Share Option Scheme and First Post-IPO Share Option Scheme and Second Post-IPO Share Option Scheme for the six months ended 30 June 2017 was US$0.195, HK$6.38 and HK$8.80, respectively.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the six months ended 30 June 2017 are as follows:

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Directors and employee	**9,472**	655
Consultants	**–**	589
	9,472	1,244

11 RESERVES

	Unaudited							
	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Share-based payments HK$'000	Cash flow hedges HK$'000	Convertible bonds HK$'000	Currency translation difference HK$'000	Total HK$'000
Balance as at 1 January 2016	683,372	623,720	–	24,173	(12,863)	116,541	2,554	1,437,497
Share option scheme:								
– Value of services (Note 10)	–	–	–	1,244	–	–	–	1,244
– Issue of new shares from exercise of share options	25,338	–	–	(1,536)	–	–	–	23,802
Cash flow hedges (Note 18)	–	–	–	–	(71,383)	–	–	(71,383)
Currency translation differences	–	–	–	–	–	–	(938)	(938)
Purchase of non-controlling interests	–	–	(39)	–	–	–	–	(39)
Balance as at 30 June 2016	708,710	623,720	(39)	23,881	(84,246)	116,541	1,616	1,390,183
Balance as at 1 January 2017	1,075,957	623,720	(39)	23,989	87,462	37,163	(8,558)	1,839,694
Share of reserves of an associate	–	–	–	–	–	–	5,389	5,389
Share option scheme:								
– Value of services (Note 10)	–	–	–	9,472	–	–	–	9,472
– Issue of new shares from exercise of share options	16,993	–	–	(1,546)	–	–	–	15,447
Cash flow hedges (Note 18)	–	–	–	–	(15,709)	–	–	(15,709)
Currency translation differences	–	–	–	–	–	–	17,313	17,313
Repurchase of convertible bonds (Note 16)	–	–	–	–	–	(18,582)	–	(18,582)
Balance as at 30 June 2017	1,092,950	623,720	(39)	31,915	71,753	18,581	14,144	1,853,024

12 DEFERRED INCOME TAX

The analysis of deferred tax liabilities is as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Deferred income tax liabilities:		
– To be settled within 12 months	**40,824**	22,061
– To be settled after 12 months	**333,761**	310,763
	374,585	332,824

The movement of the deferred income tax liabilities during the six months ended 30 June 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of leased assets HK$'000
Deferred income tax liabilities:	
As at 1 January 2016	122,132
Charged to profit or loss (Note 25)	78,146
Currency translation difference	(609)
As at 30 June 2016	199,669
As at 1 January 2017	**332,824**
Charged to profit or loss (Note 25)	**37,963**
Currency translation difference	**3,798**
As at 30 June 2017	**374,585**

The Group offsets its deferred tax assets and deferred tax liabilities to the extent that they relate to the same entity and the same taxation authority.

13 BANK BORROWINGS

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Secured bank borrowings for aircraft acquisition financing (a)	13,201,357	15,131,613
PDP financing (b)	1,855,523	2,236,897
Working capital borrowings (c)	299,645	466,232
	15,356,525	17,834,742

(a) Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating USD LIBOR rates. As at 30 June 2017, the bank borrowings were secured by, in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases; pledge of the shares in the subsidiaries owning the related aircraft; guarantees from certain companies of the Group; and pledge of deposits amounting to HK$51,867,000 (31 December 2016: HK$51,698,000).

(b) As at 30 June 2017, PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, guarantees from certain companies of the Group.

(c) As at 30 June 2017, the Group had aggregate unsecured working capital borrowings of HK$299,645,000 (31 December 2016: HK$466,232,000) which were guaranteed by certain companies of the Group.

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Floating rate:		
– Expiring within one year	195,143	348,944
– Expiring beyond one year	1,063,385	1,353,529
	1,258,528	1,702,473

14 LONG-TERM BORROWINGS

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Borrowings from trust plans (a)	3,189,735	2,195,235
Other borrowings (b)	312,785	150,875
	3,502,520	2,346,110

(a) As at 30 June 2017, 31 borrowings (31 December 2016: 21 borrowings) were provided by trust plans to 31 subsidiaries (31 December 2016: 21 subsidiaries) of the Group. The effective average interest rates of the long-term borrowings range from 6.0% to 7.8% (31 December 2016: 6.0% to 7.8%) per annum for remaining terms of seven to 11 years (31 December 2016: same). These long-term borrowings are secured by the shares of, and the aircraft held by, the relevant subsidiaries and guaranteed by certain companies of the Group. The trust plans are also counterparties to the disposal of finance lease receivable transactions entered into with the relevant subsidiaries.

(b) As at 30 June 2017, four borrowings (31 December 2016: two borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2016: two aircraft) delivered to airlines. The borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2016: 5.7%) per annum for their remaining terms of seven to eight years (31 December 2016: eight years) and are guaranteed by the Company.

15 MEDIUM-TERM NOTES

In July 2015 and November 2016 respectively, the Group issued five-year unsecured medium-term notes in a principal amount of RMB340.0 million due in 2020 and five-year unsecured medium-term notes in a principal amount of RMB330.0 million due in 2021. After deducting the issuing cost, total carrying amount of the notes as at 30 June 2017 was HK$764,295,000 (31 December 2016: HK$740,126,000). These notes bear coupon interest at 6.50% and 4.19% per annum, respectively.

16 CONVERTIBLE BONDS

	Audited As at 31 December 2016		
	Liability HK$'000	Equity HK$'000	Total HK$'000
Carrying value as at 1 January 2016	796,506	116,541	913,047
Repurchase of convertible bonds during 2016	(524,370)	(79,378)	(603,748)
Interest accrued at effective interest rate (inclusive of arrangement fees) for the year ended 31 December 2016	70,289	–	70,289
Interest paid (inclusive of arrangement fees) for the year ended 31 December 2016	(49,719)	–	(49,719)
Carrying value as at 31 December 2016	292,706	37,163	329,869

	Unaudited As at 30 June 2017		
	Liability HK$'000	**Equity HK$'000**	**Total HK$'000**
Carrying value as at 1 January 2017	**292,706**	**37,163**	**329,869**
Repurchase of convertible bonds during 2017	**(147,802)**	**(18,582)**	**(166,384)**
Interest accrued at effective interest rate (inclusive of arrangement fees) for the six months ended 30 June 2017	**14,480**	**–**	**14,480**
Interest paid (inclusive of arrangement fees) for the six months ended 30 June 2017	**(9,778)**	**–**	**(9,778)**
Carrying value as at 30 June 2017	**149,606**	**18,581**	**168,187**

16 CONVERTIBLE BONDS (continued)

In April and May 2015, the Company completed the issue of convertible bonds at par values of HK$387.9 million, HK$116.4 million and HK$387.9 million respectively to China Huarong International Holdings Limited ("Huarong"), China Great Wall AMC (International) Holdings Company Limited ("Great Wall", formerly known as Great Wall Pan Asia International Investment Co., Limited) and China Everbright Financial Investments Limited ("CE Financial"). These bonds bear coupon interest at 3.0% per annum and arrangement fees of 3.5% per annum with maturity of three years from the issue date and can be converted into shares at the holder's option at any time between the 41st day from issue date and to the 10th day prior to maturity date. The conversion price is HK$11.28 per share, subject to adjustment in accordance with the terms and conditions of the bonds.

On 6 July 2016, the Company entered into separate agreements with Huarong, Great Wall and CE Financial to repurchase issued convertible bonds in the aggregate principal amount of HK$581,850,000 for an aggregate consideration of HK$590,578,000 plus the relevant interests and fees. This included a repurchase from CE Financial in a principal amount of HK$77,580,000. Based on the fair value estimated and redemption expenses at the completion of repurchase on 25 July 2016, a liability component of HK$524,370,000 and equity component of HK$79,378,000 were derecognised.

On 8 May 2017, the Company entered into a separate agreement with CE Financial to repurchase issued convertible bonds in the aggregate principal amount of HK$155,160,000 for an aggregate consideration of HK$156,711,600 plus the relevant interests and fees. Based on the fair value estimated and redemption expenses at the completion of repurchase on 15 May 2017, a liability component of HK$147,802,000 and equity component of HK$18,582,000 were derecognised, of which HK$12,541,000 was realised and reclassified from convertible bonds reserve to retained earnings, and a net loss of HK$3,055,000 was charged to "Other gains/(losses)". After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155,160,000.

Interest expenses (Note 22) on the carrying amount of the liability component are accrued at the effective interest rate (inclusive of arrangement fees) of 11.8% (six months ended 30 June 2016: 11.8% to 14.1%) to adjust the carrying amount of the liability component to its amortised cost, being the present value of the expected future cash flows relating to periodic interest payments and principal repayment at par value at the maturity date.

17 BONDS

In May 2016 and August 2016, the Group issued three-year US$300.0 million senior unsecured bonds due in 2019 and five-year US$300.0 million senior unsecured bonds due in 2021 respectively. The bonds bear coupon interest at 5.9% and 4.9% per annum, respectively, payable semi-annually.

In March 2017, the Group issued senior unsecured bonds in an aggregate principal amount of US$500.0 million, of which US$300.0 million are five-year bonds due in 2022 and US$200.0 million are seven-year bonds due in 2024. The bonds bear coupon interest at 4.7% and 5.5% per annum, respectively, payable semi-annually.

These bonds were listed on the Stock Exchange and are guaranteed by the Company. After deducting the issuing cost, total carrying amount of these bonds as at 30 June 2017 was HK$8,524,243,000 (31 December 2016: HK$4,611,878,000).

18 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Derivative financial assets		
– Currency swap (a)	**22,990**	24,186
– Interest rate swaps (b)	**70,975**	106,927
	93,965	131,113
Derivative financial liabilities		
– Interest rate swaps (b)	**18,542**	14,973

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the USD lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement included an embedded derivative – a currency swap contract. The notional principal of this embedded currency swap contract amounted to US$15,684,000. As at 30 June 2017, the fair value of this currency swap contract amounted to HK$22,990,000 (31 December 2016: HK$24,186,000) and the fair value loss of HK$1,351,000 was recognised in "Other gains/(losses)" for the six months ended 30 June 2017 (six months ended 30 June 2016: gain of HK$4,083,000). As at 30 June 2017, this arrangement was secured by a pledge deposit of HK$3,495,000 (31 December 2016: HK$3,386,000).

(b) As at 30 June 2017, the Group had 34 outstanding interest rate swap contracts (31 December 2016: 26 contracts) which will expire at various dates from 21 September 2018 to 21 December 2024 (31 December 2016: 21 September 2018 to 21 December 2024), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.2% to 2.1% (31 December 2016: 1.1% to 2.1%). As at 30 June 2017, these interest rate swap contracts were secured by pledged deposits of HK$86,636,000 (31 December 2016: HK$85,710,000). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

(i) 28 outstanding interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective during the period ended 30 June 2017 (31 December 2016: 21 contracts).

(ii) In December 2013, the Group terminated one interest rate swap contract with a realised gain of US$1,947,000. This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to interest expense during the remaining interest repayment period of the hedged bank borrowing from 2014 to 2026. During the six months ended 30 June 2016, the realised gain of HK$592,000 was reclassified from cash flow hedges reserve to interest expenses. In August 2016, the hedged bank borrowing was fully repaid and the remaining balance of realised gain was reclassified from cash flow hedges reserve to "Other gains/(losses)".

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) (iii) In March 2017, the Group terminated three interest rate swap contracts with total realised gain of US$4,120,000. This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to interest expense during the remaining interest repayment period of the hedged bank borrowing from 2017 to 2027. During the six months ended 30 June 2017, the realised gain of HK$2,332,000 was reclassified from cash flow hedges reserve to interest expenses. In May 2017, one of the hedged bank borrowings was fully repaid and the respective remaining balance of realised gain of HK$9,872,000 was reclassified from cash flow hedges reserve to "Other gains/(losses)".

(iv) During the period ended 30 June 2017, the Group repaid one bank borrowing which was hedged by an interest rate swap. As a result, such hedge no longer met the criteria for hedge accounting and the cumulative fair value losses of HK$2,373,000 were reclassified from cash flow hedges reserve to "Other gains/(losses)" upon the repayment of bank borrowings. During the period ended 30 June 2017, total seven interest rate swap contracts (six months ended 30 June 2016: one contract) did not meet the criteria for hedge accounting and their total fair value losses of HK$3,921,000 (six months ended 30 June 2016: loss of HK$10,540,000) were directly recognised to "Other gains/(losses)".

The fair value changes of financial instruments recognised in other comprehensive income and profit or loss are as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Recognised in other comprehensive income		
– Change in fair values of interest rate swaps (b)(i)	(5,878)	(70,791)
– Reclassified from other comprehensive income to profit or loss (b)(ii) to (iv)	(9,831)	(592)
	(15,709)	(71,383)
Recognised in profit or loss		
– Unrealised (loss)/gain on a currency swap (a)	(1,351)	4,083
– Fair value gains/(losses) on interest rate swaps (b)(iii) and (iv)	5,951	(10,540)
	4,600	(6,457)

19 OTHER PAYABLES AND ACCRUALS

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Deposits and fund received for lease and aircraft projects	1,273,080	853,785
Consultant and insurance premium payable	145,979	125,342
Value-added tax and withholding tax payables	422,565	317,483
Operating lease rentals received in advance	93,516	61,906
Amounts due to related parties (Note 28 (f))	477	2,974
Others (including salary and bonus payable)	118,797	125,326
	2,054,414	1,486,816

20 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2017, the Group was engaged in a single business segment, the provision of aircraft leasing services to airline companies in Mainland China and other countries or regions in Europe and Asia. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

The following table sets forth the amounts of total finance and operating lease income attributable to individual airline companies:

	Unaudited Six months ended 30 June			
	2017		2016	
	HK$'000	%	HK$'000	%
Categorised by customer in terms of lease income:				
Airline company – A	106,602	12%	120,845	15%
Airline company – B	92,230	10%	92,956	12%
Airline company – C	89,635	10%	90,239	12%
Airline company – D	88,493	10%	97,950	12%
Airline company – E	66,527	8%	63,161	8%
Other airline companies	437,425	50%	328,725	41%
Total finance and operating lease income	880,912	100%	793,876	100%

21 OTHER INCOME

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Gains from disposal of finance lease receivables (a)	**289,587**	145,060
Government grants (b)	**49,407**	81,859
Bank interest income	**19,631**	2,693
Interest income from loans to an associate (Note 8)	**12,447**	–
Operating lease income on office premises from related parties (Note 28 (a) and (e))	**3,008**	1,319
Others	**3,058**	1,830
	377,138	232,761

(a) The CALC SPCs signed separate contracts with the trust plans, to transfer their future aircraft lease receivables under their separate aircraft lease agreements with certain airline companies to the trust plans. As the Group has transferred substantially all the risks and rewards related to the lease receivables, it de-recognised the corresponding finance lease receivable. For the six months ended 30 June 2017, the Group disposed of finance lease receivables of 10 aircraft (six months ended 30 June 2016: four aircraft) and recognised total gains of HK$289,587,000 (six months ended 30 June 2016: gains of HK$145,060,000), determined by comparing the net proceeds with the carrying amount of the finance lease receivable de-recognised, less transaction costs and tax and surcharges accrued.

(b) Government grants represent the grants and subsidies principally received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone as incentives provided by the government to support the development of aircraft leasing industry.

22 INTEREST EXPENSES

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Interest expenses on bank borrowings	**353,951**	430,735
Fair value loss on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	**15,019**	15,136
Interest expenses on long-term borrowings	**85,214**	28,101
Interest expenses on convertible bonds (a)	**14,480**	49,157
Interest expenses on medium-term notes	**21,171**	13,740
Interest expenses on bonds	**196,356**	22,550
Less: interest capitalised on qualifying assets (b)	**(71,544)**	(83,998)
	614,647	475,421

(a) Interest expenses on convertible bonds consists of interest paid or payable of HK$4,024,000 (six months ended 30 June 2016: HK$13,329,000) which is calculated based on interest rate of 3.0% per annum. The remaining amount represents arrangement fee based on a rate of 3.5% per annum and the notional adjustment to accrete the carrying amount of liability component of convertible bonds to the present value of estimated future cash flows expected to be required for settlement up to maturity date.

(b) Interest expenses capitalised on qualifying assets represents the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

23 OTHER OPERATING EXPENSES

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Employee benefit expenses	**57,422**	38,512
Professional service expenses	**21,556**	32,207
Value-added tax and other taxes	**36,871**	29,397
Rental and utilities expenses	**12,863**	11,745
Office and meeting expenses	**4,125**	4,751
Travelling and training expenses	**6,239**	7,212
Auditor's remuneration		
– Audit service	**900**	900
– Non-audit service	**673**	2,357
Others	**17,201**	10,751
	157,850	137,832

24 OTHER LOSSES

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Unrealised (loss)/gain on a currency swap (Note 18)	**(1,351)**	4,083
Fair value gains/(losses) on interest rate swaps (Note 18)	**5,951**	(10,540)
Currency exchange loss	**(7,285)**	(1,937)
Loss on repurchase of convertible bonds (Note 16)	**(3,055)**	–
	(5,740)	(8,394)

25 INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Current income tax: Mainland China, Hong Kong and others	**56,189**	16,992
Deferred income tax	**37,963**	78,146
	94,152	95,138

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25%. PRC CIT is calculated at 25% on taxable income for the six months ended 30 June 2017. The leasing income of the subsidiaries in Mainland China is subject to VAT at 17% from 1 May 2016.

Since 1 May 2016, VAT at 17% and CIT at 10% are withheld on lease rental income payable by lessees in Mainland China to non-Mainland China tax resident subsidiaries of the Group pursuant to the "Circular on the Overall Promotion of Pilot Program of Levying VAT in the place of Business Tax (Cai Shui [2016] 36)".

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% on the estimated assessable profits.

Others

The Company and its subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax in the British Virgin Islands.

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first Euro 200,000 of its taxable income and a rate of 25% over its taxable income in excess of Euro 200,000.

The subsidiary incorporated in France is subject to income tax at 33.33%.

The subsidiaries incorporated in Labuan are subject to income tax at 3% on the net profits or at Malaysian Ringgit 20,000 as elected annually by the subsidiaries.

26 DIVIDENDS

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Interim dividend proposed of HK$0.18 (2016: HK$0.14) per ordinary share	**121,960**	93,777

On 22 March 2016, the Board declared a final dividend of HK$0.18 per ordinary share totalling HK$111,201,000 for the year ended 31 December 2015, which was paid in June 2016.

On 24 March 2017, the Board declared a final dividend of HK$0.39 per ordinary share totalling HK$264,117,000 for the year ended 31 December 2016, which was paid in June 2017.

On 25 August 2017, the Board declared an interim dividend of HK$0.18 (six months ended 30 June 2016: HK$0.14) per ordinary share totalling HK$121,959,965 (six months ended 30 June 2016: HK$93,777,000) which is calculated based on 677,555,360 issued shares as at 25 August 2017. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2017, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

27 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2016 and 2017.

	Unaudited Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company (HK$'000)	**248,670**	240,018
Weighted average number of ordinary shares in issue (number of shares in thousands)	**672,950**	612,254
Basic earnings per share (HK$ per share)	**0.370**	0.392

27 EARNINGS PER SHARE (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, the weighted average number of ordinary shares is adjusted to include the additional shares issued upon conversion and the net profit is adjusted to eliminate the post-tax interest expense and loss on repurchase charged to profit or loss during the financial period. For share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Unaudited Six months ended 30 June 2017	 2016
Earnings		
Profit attributable to owners of the Company (HK$'000)	**248,670**	240,018
Adjustments for:		
– Interest expenses net of tax on convertible bonds, excluding capitalised amount (HK$'000)	**–**	27,456
	248,670	267,474
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	**672,950**	612,254
Adjustments for:		
– Assumed conversion of convertible bonds (number of shares in thousands) (Note)	**–**	79,093
– Share options (number of shares in thousands)	**3,605**	13,470
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	**676,555**	704,817
Diluted earnings per share (HK$ per share)	**0.368**	0.379

Note: Only potential ordinary shares that are dilutive are considered in the calculation of diluted earnings per share.

28 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

(a) Transactions with Friedmann Pacific Asset Management Limited ("FPAM") and its subsidiaries (collectively as "FPAM Group")

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Operating lease income on office premise earned from:		
Friedmann Pacific Financial Service Limited	**637**	1,319

(b) Transactions with China Everbright Limited ("CEL") and its subsidiaries

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Operating lease expenses on office premises charged by:		
CEL Venture Capital (Shenzhen) Limited	**123**	117

(c) Transactions with China Everbright Group Ltd. ("CE Group")

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong") and CE Hong Kong is the indirect controlling shareholder of CEL. CEL indirectly holds approximately 33.6% equity interest in the Company as at 30 June 2017. Accordingly, CE Group is deemed as a controlling shareholder of the Company in terms of the Listing Rules, and thus CE Group and its subsidiaries, have become related parties of the Company upon completion of the restructuring of CE Group.

28 RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with China Everbright Group Ltd. ("CE Group") (continued)

(i) Deposit, loan and facilities services provided by CE Group

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group will provide deposit services to the Group through its associate, CE Bank. Pursuant to the loan services framework agreement, CE Group will provide secured loan services and guarantees to the Group through CE Bank and through the trustee of a trust plan of which CE Group is a beneficiary. Pursuant to the assignment of finance lease receivables framework agreement, the Group will assign the finance lease receivables to the trustee.

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Interest income from CE Group	**1,326**	265
Interest expenses to CE Group	**94,387**	44,298
Loans upfront and arrangement fee to CE Group	**8,372**	20,532
Transactions handling charges to CE Group	**1,554**	1,069
Guarantee issuing fee to CE Group	**146**	183
Cash consideration from CE Group for disposal of finance lease receivables	**1,856,908**	1,083,124

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	HK$'million	HK$'million
Bank deposits placed in CE Group	**3,025.2**	1,147.3
Borrowings due to CE Group	**4,222.1**	3,287.1
Guarantees provided by CE Group	**–**	174.5
Undrawn facilities provided by CE Group	**304.7**	344.6

28 RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with China Everbright Group Ltd. ("CE Group") (continued)

(ii) Compliance advisory service provided by CE Group

On 30 June 2014, the Group entered into a compliance advisory service agreement with China Everbright Capital Limited and the agreement was expired on 31 March 2016 (six months ended 30 June 2016: HK$348,000).

(d) Repurchase of convertible bonds to CE Financial

During the six months ended 30 June 2017, the Company repurchased issued convertible bonds in the aggregate principal amount of HK$155,160,000 from CE Financial (Note 16). As at 30 June 2017, the carrying amount of liability component of convertible bonds was HK$149,606,000 (31 December 2016: HK$292,706,000) and the interest expenses incurred at an effective interest of 11.8% amounted to HK$14,480,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK$19,975,000).

(e) Transactions with an associate

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Operating lease income on office premise earned from:		
ARI	**2,371**	–

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are unsecured, interest bearing at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. As at 30 June 2017, the outstanding balance receivable from ARI was amounted to HK$1,152,057,000 (31 December 2016: HK$441,985,000) (Note 8) and the share of interest income for the six months ended 30 June 2017 was HK$12,447,000 (six months ended 30 June 2016: Nil).

28 RELATED PARTY TRANSACTIONS (continued)

(f) Amounts due to related parties:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
FPAM Group	477	2,974

The above amounts due to related parties were unsecured, interest-free and repayable on demand.

29 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

The Group had no material contingent liabilities outstanding as at 30 June 2017 (31 December 2016: Nil).

(b) Capital commitments

Capital expenditures contracted but not provided for at the end of the reporting period are as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Contracted but not provided for:		
– Acquisition of aircraft	55,112,514	35,448,982

29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(c) Operating lease commitments – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating lease in respect of office premise are as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Not later than one year	20,647	20,109
Later than one year and not later than five years	12,134	19,695
Later than five years	1,780	1,950
	34,561	41,754

(d) Operating lease arrangement – where the Group is the lessor

The Group had future minimum lease receipts under non-cancellable operating sub-leases in respect of office premise from a related party as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Not later than one year	3,985	2,398
Later than one year and not later than five years	428	1,457
	4,413	3,855

29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(d) Operating lease arrangement – where the Group is the lessor (continued)

The Group had future minimum lease receipts under non-cancellable operating lease in respect of aircraft as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Not later than one year	**887,073**	650,785
Later than one year and not later than five years	**3,232,471**	2,345,250
Later than five years	**2,838,880**	2,181,319
	6,958,424	5,177,354