CALC

China Aircraft Leasing Group Holdings Limited

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

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Interim Report 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS
Executive Directors
Mr. CHEN Shuang, *JP (Chairman)*
Mr. POON Ho Man *(Chief Executive Officer)*
Ms. LIU Wanting *(Deputy Chief Executive Officer)*

Non-executive Director
Mr. TANG Chi Chun

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. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan

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 ADVISERS
Linklaters

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
28th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY'S WEBSITE
www.calc.com.hk

INVESTOR RELATIONS CONTACT
ir@calc.com.hk

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
Bank of China Limited
Bank of Communications Co., Ltd
The Bank of East Asia, Ltd
Bank of Jiangsu Co., Ltd
Bank SinoPac Co., Ltd
BNP Paribas
Cathay United Bank Co., Ltd
China Construction Bank Corporation
China Development Bank
China Everbright Bank Co., Ltd
China Merchants Bank Co., Ltd
China Minsheng Banking Corp., Ltd
Chiyu Banking Corporation Ltd
Chong Hing Bank Limited
Credit Agricole Corporate and Investment Bank
Crédit Industrial et Commercial
Credit Suisse Securities (USA) LLC
Dah Sing Bank Limited
Deutsche Bank AG
Development Bank of Japan Inc.
E.Sun Commercial Bank, Ltd
EnTie Commercial Bank
The Export-Import Bank of China
Goldman Sachs (Asia) L.L.C.
The Hong Kong and Shanghai Banking Corporation Limited
Hua Nan Commercial Bank, Ltd.
Industrial and Commercial Bank of China (Asia) Limited
KDB Asia Limited
KEB Hana Bank
KfW IPEX-Bank GmbH
The Korea Development Bank
Mega International Commercial Bank Co., Ltd
Shanghai Pudong Development Bank Co., Ltd
SinoPac Leasing Corp.
Société Générale
Taishin International Bank Co., Ltd
Taiwan Cooperative Bank Limited
Toronto-Dominion Bank

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

In the first half of 2018, China Aircraft Leasing Group Holdings Limited ("CALC" or the "Company", together with its subsidiaries, the "Group") took delivery of nine aircraft as it continued to explore different channels to optimise its portfolio, including new aircraft deliveries from its order book, purchase and leasebacks, and portfolio trading. The fleet size grew to 115 aircraft as at 30 June 2018, of which 111 were owned aircraft and four were managed for China Aircraft Global Limited ("CAG"), an investment vehicle launched in June 2018 to invest in aircraft portfolios on lease to global airlines.

ASSET-LIGHT MODEL IN FULL PLAY

With the establishment of CAG, CALC has made great strides in its transition towards an asset-light business model. This is an important strategic move that supports the Group's increasing business capacity and its continued global expansion. The pioneering model provides an optimal approach for the Group to evolve ahead of the market, achieve sustainability and thrive in this traditionally capital-intensive industry in a competitive and vibrant aviation landscape. In addition, CALC has started engaging in the aircraft trading business as part of its strategy to bolster its asset management capabilities amidst the transition.

In June 2018, CALC joined hands with three leading state-owned enterprises engaged in overseas investment, the insurance business and the aviation sector as mezzanine financiers, held at a ratio of 20% and 80%, to roll out the global aircraft investment vehicle – CAG. On top of shareholder loans, the funding for CAG is accompanied by senior syndicated financing from a number of renowned international and Chinese banks. CAG's aircraft assets are expected to grow to around US$1,200 million within two years. Leveraging its efficient capabilities in global aircraft asset management and close partnerships with its aviation partners, CALC will provide aircraft and lease management service to CAG.

Tapping into the institutional investors' strong appetite for quality aircraft leasing assets with stable and long-term cash flow, CAG is a replicable model that advances the Group's capital efficiency to provide recurring support for the Group's sustainable growth. It also allows CALC, as a service provider, to increase its aircraft assets under management, and hence further strengthen the Group's position as an full value-chain aircraft solutions provider for the global aviation industry.

During the period under review, four aircraft were sold and injected into CAG, whilst another 14 aircraft are expected to be put into the vehicle by the end of the year.

Alongside its progress in establishing CAG, CALC completed the disposal of finance lease receivables for one aircraft during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

OUR FLEET

CALC maintains one of the youngest and most modern fleets in the sector, as well as one of the longest average remaining lease terms. As at 30 June 2018, its fleet has an average age of 3.9 years and average remaining lease terms of approximately 8.2 years.

In addition to being one of the launch customers of the latest edition B737 MAX 10 from The Boeing Company ("Boeing"), CALC continued to add highly liquid models that incorporate the latest technology and deliver high efficiency and reliability in its fleet, with the delivery of its first Airbus S.A.S ("Airbus") A321neo aircraft during the period under review. In January 2018, CALC ordered 15 additional Airbus A320neos. As at 30 June 2018, CALC had 189 aircraft in its order book, comprising 139 Airbus and 50 Boeing aircraft, which will be delivered by 2023. Its close relationships with Original Equipment Manufacturer ("OEM") partners put the Group in an excellent position to address clients' aircraft requirements.

As part of its globalisation initiative, CALC continued to expand and diversify its overseas customer portfolio in the first half of 2018. Among the aircraft delivered during the period under review, four were delivered to domestic airlines and five to overseas carriers. Of the current fleet of 111 owned and four managed aircraft, mainland Chinese airlines took up approximately 69.0% and non-Chinese carriers approximately 31.0%. As a result, CALC's client base increased to 30 airlines in 14 countries and regions as at 30 June 2018.

FULL VALUE CHAIN

As part of its progressive development into an aircraft manager, the Group has sharpened its asset management capabilities by leveraging its synergy with its associate company Aircraft Recycling International Limited ("ARI"), a one-stop solutions provider for mid-to-old aged aircraft. During the period under review, CALC partnered with ARI to complete the redelivery, export and lease of an end-of lease Airbus A321, demonstrating the Group's distinct capabilities in aircraft full life-cycle solutions.

ARI's aircraft recycling facility in Harbin (the "Harbin Base"), which is also Asia's first large-scale aircraft recycling facility, commenced operation in June 2018 with an initial handling capacity of 20 aircraft per year. The Harbin Base is equipped with modern facilities and tools that utilise advanced technology. ARI strives to cover seven areas of business operation, namely mid-aged aircraft purchasing, selling, leasing, disassembling, replacing, conversion and maintenance. Together, these operations provide dynamic aircraft recycling solutions for airlines, MROs and lessors, as well as for manufacturers and distributors of aircraft components.

Meanwhile, Universal Asset Management ("UAM"), a wholly owned subsidiary of ARI, has demonstrated efficient transaction capabilities by leveraging its established expertise in end-of-life aircraft asset management. It is noteworthy that UAM has become the first in the world to recycle carbon fibre from commercial aircraft, extending the usability of composites from end-of-life aircraft.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Looking ahead, the Group remains optimistic about the global demand for aircraft, especially with the aircraft leasing industry resetting its gear to the east. Although the current aviation landscape is clouded by brewing trade tensions between China and the US, the Group is hopeful that the two countries will eventually work out a good solution and such chill will not create material impact to the industry in the long run. As regards concerns over rising interest rates and oil prices, the aviation industry has over the past few decades proven to be resilient to different kinds of external headwind. A sustained boom in passenger traffic, driven by emerging markets with an increasing middle-class population that yearn for air travel, coupled with the burgeoning development of low-cost-carriers, creates a favourable environment for the industry to flourish. As aircraft leasing has gone from being a niche industry to becoming more mainstream, aviation finance has seen a significant uptick, with the financing community clamouring for quality aircraft assets with long-term, stable returns and high liquidity.

In the light of such a positive industry backdrop, the Group will continue to deepen its vertical and horizontal integration to consolidate its leading position in the market. While strengthening its transaction efficiency, widening its financing base and expanding its technical know-how to solidify its position as a full value-chain aircraft solutions provider, aided by the technical expertise of ARI and UAM, CALC is seeking to manage an enlarged and diversified aircraft portfolio powered by its asset-light business model. As it channels more resources into developing its aircraft trading business, CALC is set to improve its asset management competency, amplifying its competitive advantage in order to strengthen its long-term ties with aircraft OEMs, airlines, financiers, investors and other players along the aircraft value chain.

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

For the six months ended 30 June 2018, the Group delivered nine aircraft and disposed five aircraft, building its fleet size to 111. Revenue and other income was HK$1,612.1 million, an increase of HK$354.1 million or 28.1% from the corresponding period last year. Profit for the period ended 30 June 2018 amounted to HK$307.8 million, an increase of HK$59.1 million or 23.8% compared with the corresponding period last year. This was mainly due to increased lease income from continued expansion of the Group's aircraft leasing business.

Total assets were HK$40,086.4 million as at 30 June 2018, compared with HK$37,994.3 million as at 31 December 2017, an increase of HK$2,092.1 million or 5.5%. The increase in assets was mainly due to the increase in pre-delivery payments ("PDP") made for aircraft acquisition during the current period. Total liabilities amounted to HK$36,559.4 million as at 30 June 2018, an increment of HK$1,992.2 million or 5.8% compared with HK$34,567.2 million as at 31 December 2017, which was in line with the increase in total assets.

The equity attributable to shareholders of the Company was HK$3,527.0 million as at 30 June 2018 compared with HK$3,427.2 million as at 31 December 2017, an increase of HK$99.8 million or 2.9%.

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF INCOME AND EXPENSES

	Unaudited Six months ended 30 June 2018 HK$'Million	2017 HK$'Million	Change
Finance lease income	432.4	540.6	−20.0%
Operating lease income	729.7	340.3	114.4%
Total lease income	1,162.1	880.9	31.9%
Net gain from aircraft transactions	243.0	289.6	−16.1%
Government grants	118.1	49.4	139.1%
Interest income from loans to an associate	44.8	12.4	261.3%
Bank interest income	7.1	19.6	−63.8%
Sundry income	37.0	6.1	506.6%
Other income	450.0	377.1	19.3%
Total revenue and other income	1,612.1	1,258.0	28.1%
Total operating expenses	(1,200.3)	(903.9)	32.8%
Other gains/(losses)	7.1	(11.3)	N/A
Profit before income tax	418.9	342.8	22.2%
Income tax expenses	(111.1)	(94.1)	18.1%
Profit for the period	307.8	248.7	23.8%

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF INCOME AND EXPENSES (continued)

2.1 Revenue and Other Income

For the six months ended 30 June 2018, revenue and other income amounted to HK$1,612.1 million compared with HK$1,258.0 million for the corresponding period last year, an increase of HK$354.1 million or 28.1%. This was mainly due to an increase in lease income.

Lease income from finance leases and operating leases for the six months ended 30 June 2018 was totalled HK$1,162.1 million, compared with HK$880.9 million for the six months ended 30 June 2017, an increase of HK$281.2 million or 31.9%. The decrease in finance lease income was due to disposal of 11 aircraft's finance lease receivables during the second half of 2017 and one aircraft's finance lease receivables during the six months ended 30 June 2018. The growth in operating lease income was attributable to the increase in fleet size under operating leases from 25 aircraft as at 30 June 2017 to 42 aircraft as at 30 June 2018.

The Group recognised a net gain of HK$243.0 million from aircraft transactions during the six months ended 30 June 2018 (six months ended 30 June 2017: HK$289.6 million), a decrease of HK$46.6 million or 16.1%. During the period under review, the Group completed disposal of finance lease receivables of one aircraft, disposal of one aircraft to ARI and disposal of four aircraft to CAG. During the six months ended 30 June 2017, the Group completed disposal of finance lease receivables of 10 aircraft.

Government grants for the six months ended 30 June 2018 amounted to HK$118.1 million, compared with HK$49.4 million for the six months ended 30 June 2017, an increase of HK$68.7 million or 139.1%. The increase in government grants was mainly due to increase in aircraft fleet size and speed up administrative process in approving payment of government grants.

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF INCOME AND EXPENSES (continued)

2.2 Total Operating Expenses

During the six months ended 30 June 2018, the Group had the following operating expenses.

	Unaudited Six months ended 30 June 2018 HK$'Million	 2017 HK$'Million	Change
Interest expenses	697.9	614.6	13.6%
Depreciation	289.9	131.4	120.6%
Other operating expenses	212.5	157.9	34.6%
Total operating expenses	1,200.3	903.9	32.8%

(a) Interest Expenses

For the six months ended 30 June 2018, interest expenses incurred by the Group amounted to HK$697.9 million compared with HK$614.6 million in the corresponding period last year, an increase of HK$83.3 million or 13.6%. The increase was mainly due to an increase of interest-bearing borrowings to finance additions of aircraft during the current period to support business expansion.

(b) Depreciation

Depreciation on the Group's aircraft under operating leases, leasehold improvements, office equipment, building and other assets for the six months ended 30 June 2018 was HK$289.9 million compared with HK$131.4 million in the corresponding period last year, an increase of HK$158.5 million or 120.6%. This was attributable to an increase in the number of aircraft under operating leases from 25 aircraft as at 30 June 2017 to 42 aircraft as at 30 June 2018.

(c) Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, and 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 business running costs and manpower from 152 as at 30 June 2017 to 172 as at 30 June 2018.

2.3 Income Tax Expenses

Income tax for the six months ended 30 June 2018 was HK$111.1 million (six months ended 30 June 2017: HK$94.1 million), resulting mainly from the increased profits achieved through growth in the leasing business and the net gain from aircraft transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 30 June 2018, the Group's total assets amounted to HK$40,086.4 million compared with HK$37,994.3 million as at 31 December 2017, an increase of HK$2,092.1 million or 5.5%.

	Unaudited As at 30 June 2018 HK$'Million	Audited As at 31 December 2017 HK$'Million	Change
Finance lease receivables – net	**12,065.4**	12,556.2	−3.9%
Property, plant and equipment	**11,743.9**	13,059.4	−10.1%
Interests in and loans to associates	**929.7**	870.2	6.8%
Cash and bank balances	**5,957.4**	7,396.2	−19.5%
Prepayments and other assets	**9,069.1**	4,021.5	125.5%
Derivative financial assets	**174.7**	90.8	92.4%
Financial asset at fair value through profit or loss	**146.2**	–	N/A
Total assets	**40,086.4**	37,994.3	5.5%

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

The majority of total assets as at 30 June 2018 represented finance lease receivables and property, plant and equipment.

Net finance lease receivables represented the present value of minimum lease payments receivable from aircraft classified as finance leases and their residual values. There was a decrease in finance lease receivables from HK$12,556.2 million as at 31 December 2017 to HK$12,065.4 million as at 30 June 2018, mainly because the Group completed disposal of finance lease receivables for one aircraft during the current period.

Property, plant and equipment mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. Decrease in property, plant and equipment was mainly due to disposal of five aircraft during the current period.

3. ANALYSIS OF FINANCIAL POSITION (continued)

3.1 Assets (continued)

3.1.2 Prepayments and Other Assets

Prepayments mainly represented PDP made to aircraft manufacturers for aircraft acquisition of HK$4,698.5 million (31 December 2017: HK$3,433.5 million). The increase in PDP amounts was due to the increase in aircraft purchase commitment requiring PDP during the current period.

Other assets mainly consisted of aircraft reclassified as held for sale and intended to be disposed to CAG. No such item was noted as at 31 December 2017.

3.1.3 Financial Asset at Fair Value through Profit or Loss

Balance represented fund injected through shareholder's loan from the Group to CAG for aircraft investment during the current period. The shareholder's loan from the Group representing 20% of the investment in CAG as at 30 June 2018.

3.2 Liabilities

As at 30 June 2018, the Group's total liabilities amounted to HK$36,559.4 million compared with HK$34,567.2 million as at 31 December 2017, an increase of HK$1,992.2 million or 5.8%, which was in line with the increase in total assets.

An analysis is given as follows:

	Unaudited As at 30 June 2018 HK$'Million	Audited As at 31 December 2017 HK$'Million	Change
Bank borrowings	15,593.8	16,458.4	−5.3%
Bonds	8,584.2	8,538.9	0.5%
Long-term borrowings	5,368.7	5,329.4	0.7%
Medium-term notes	788.8	798.1	−1.2%
Deferred income tax liabilities	644.6	544.5	18.4%
Convertible bonds	–	153.2	N/A
Interest payables	282.3	226.8	24.5%
Income tax payables	8.9	17.3	−48.6%
Derivative financial liabilities	–	0.2	N/A
Other liabilities and accruals	5,288.1	2,500.4	111.5%
Total liabilities	36,559.4	34,567.2	5.8%

MANAGEMENT DISCUSSION AND ANALYSIS

3. ANALYSIS OF FINANCIAL POSITION (continued)

3.2 Liabilities (continued)

3.2.1 Bank Borrowings

The analysis of bank borrowings is as follows:

	Unaudited As at 30 June 2018 HK$'Million	Audited As at 31 December 2017 HK$'Million	Change
Bank borrowings for aircraft acquisition financing	**11,718.7**	13,981.6	−16.2%
PDP financing	**3,053.2**	1,709.1	78.6%
Working capital borrowings	**821.9**	767.7	7.1%
Total bank borrowings	**15,593.8**	16,458.4	−5.3%

3.2.2 Convertible Bonds

In May 2018, the convertible bonds were fully redeemed upon maturity.

3.2.3 Other Liabilities and Accruals

Other liabilities and accruals mainly included deposits received from lessees, as well as bank borrowings for aircraft acquisition financing directly associated with assets reclassified as held for sale intending to be disposed to CAG as at 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

4. ANALYSIS OF CASH FLOWS

The following table illustrates the cash position and cash flows for the six months ended 30 June 2018:

		Unaudited Six months ended 30 June	
		2018	2017
		HK$'Million	HK$'Million
I:	Aircraft in operation		
	Lease income	**1,085.4**	1,017.8
	Bank interest and repayment	**(779.6)**	(764.3)
		305.8	253.5
II:	Aircraft purchase and delivery		
	Capital expenditure	**(3,252.3)**	(3,028.6)
	Bank borrowings	**3,047.9**	1,734.4
		(204.4)	(1,294.2)
III:	New aircraft not yet delivered		
	PDP paid	**(1,699.3)**	(1,476.3)
	PDP refunded	**448.9**	898.1
	PDP financing	**1,621.0**	297.9
	PDP financing interest and repayment	**(350.7)**	(742.8)
	Advance payment for aircraft purchase	**(346.0)**	–
		(326.1)	(1,023.1)
IV:	Net capital movement		
	Proceeds from issue of new shares from exercise of share options	**–**	16.2
	Dividends paid	**(284.8)**	(263.3)
	Disposal of finance lease receivables and aircraft and proceeds from long-term borrowings	**1,939.9**	3,802.3
	Early loan repayment on disposal of finance lease receivables and aircraft	**(1,195.0)**	(1,450.8)
	Net proceeds from issuance of bonds	**–**	3,857.2
	Net payments relating to interests in and loans to associates	**(14.7)**	(686.1)
	Convertible bonds repurchase, interest and repayment	**(155.2)**	(156.9)
	Investment to financial asset at fair value through profit or loss	**(146.2)**	–
	Working capital loan net repayment and net cash used in other operating activities	**(1,258.6)**	(2,348.4)
		(1,114.6)	2,770.2
	Net (decrease)/increase in cash and cash equivalents	**(1,339.3)**	706.4
	Cash and cash equivalents at beginning of the period	**7,023.4**	5,840.7
	Currency exchange difference on cash and cash equivalents	**11.0**	54.8
	Cash and cash equivalents at end of the period	**5,695.1**	6,601.9

MANAGEMENT DISCUSSION AND ANALYSIS

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 financial 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, issuance of bonds and medium-term notes, and disposal of finance lease receivables and aircraft. In order to meet the current rapid expansion, the Group will also consider both capital and debt financing opportunities.

For the six months ended 30 June 2018, 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 2018 HK$'Million	Audited As at 31 December 2017 HK$'Million	Change
Interest-bearing debts included in total liabilities	**32,902.0**	31,278.0	5.2%
Total assets	**40,086.4**	37,994.3	5.5%
Gearing ratio	**82.1%**	82.3%	−0.2p.p.

The majority of the Group's cash and bank balances, borrowings and bonds are denominated in US$, for which the currency exchange risk is insignificant. The Group has entered into floating-to-fixed interest rate swaps to hedge against interest rate exposure.

6. HUMAN RESOURCES

As at 30 June 2018, staff of the Group numbered 172 (30 June 2017: 152). Total remuneration of employees for the six months ended 30 June 2018 amounted to HK$75.7 million (six months ended 30 June 2017: HK$57.4 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.

7. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

7.1 Contingent Liabilities

The Group had no material contingent liabilities outstanding as at 30 June 2018 (31 December 2017: Nil).

7.2 Capital Commitments for Aircraft Acquisition and Aircraft Purchase Mandate

The Group's total aircraft purchase commitment amounted to HK$83.3 billion as at 30 June 2018 (31 December 2017: HK$76.0 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 30 June 2018, the Group had 189 aircraft in its order book, comprising 139 Airbus and 50 Boeing aircraft, which will be delivered by the end of 2023.

Under the terms of a general mandate (the "2017 Aircraft Purchase Mandate") granted to the Directors by the shareholders of the Company on 22 May 2017, the Directors are authorised to purchase from either Airbus or Boeing, each limited to 70 new aircraft of certain types with an aggregate 2017 list price not exceeding approximately US$8.9 billion and US$8.3 billion respectively (equivalent to approximately HK$69.82 billion and HK$65.12 billion respectively). Further details of the 2017 Aircraft Purchase Mandate are set out in the circular of the Company dated 19 April 2017.

Pursuant to the 2017 Aircraft Purchase Mandate, the Group has committed to purchase a cumulative number of 50 aircraft from Boeing with an aggregate 2017 list price of approximately US$5.8 billion (equivalent to approximately HK$45.50 billion) and 70 aircraft from Airbus with an aggregate 2017 list price of approximately US$7.54 billion (equivalent to approximately HK$59.15 billion). Please refer to the Company's announcement dated 14 June 2017, 21 December 2017, 28 December 2017 and 4 January 2018 for further details.

At the 2018 annual general meeting of the Company held on 9 May 2018, shareholders of the Company granted to the Directors a new general mandate (the "2018 Aircraft Purchase Mandate") increasing the limits of purchase from either Airbus or Boeing, each limited to 100 new aircraft of certain types with an aggregate 2018 list price not exceeding approximately US$13 billion (equivalent to approximately HK$101.99 billion). Further details of the 2018 Aircraft Purchase Mandate are set out in the circular of the Company dated 9 April 2018.

As at the date of this report, the Group has not committed to purchase any aircraft pursuant to the 2018 Aircraft Purchase Mandate.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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 by the Company 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 manufacturers. As a result, the final purchase prices of the aircraft are expected to be substantially less than the manufacturers' list prices.

7.3 Shareholder Loan Commitment for Investment in CAG

The Group committed shareholder loan for investment in CAG amounted to approximately US$73.0 million (equivalent to approximately HK$572.7 million), of which US$18.6 million (equivalent to approximately HK$146.2 million) had been drawn down up to 30 June 2018. The Group's outstanding committed shareholder loan for investment in CAG as at 30 June 2018 was US$54.4 million (equivalent to approximately HK$426.5 million).

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

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 2018, 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 (as the case may be) 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	Number of Shares/ underlying Share held	Total interests	Approximate percentage of Shares in issue(2)
CHEN Shuang	Beneficial owner	400,000		
	Beneficial owner	10,000,000(3)	10,400,000	1.53%
POON Ho Man	Interest of controlled corporation	197,554,589(4)		
	Interest of spouse	3,800,000(5)	201,354,589	29.69%
LIU Wanting	Interest of controlled corporation	10,000,000(6)		
	Beneficial owner	3,000,000(3)	13,000,000	1.92%
TANG Chi Chun	Beneficial owner	200,000	200,000	0.03%
FAN Yan Hok, Philip	Beneficial owner	200,000	200,000	0.03%
NIEN Van Jin, Robert	Beneficial owner	234,000	234,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000		
	Beneficial owner	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 678,183,380 Shares in issue as at 30 June 2018.

(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 2018, none of the Directors or the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be: i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or iii) 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 2018 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 2018 (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 2018, 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 are as follows:

		Number of Shares Held (L)[1]		
Name of shareholders	Capacity	Number of Shares/ underlying Shares held	Total interests	Approximate percentage of Shares in issue[2]
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	208,979,479[3]	208,979,479	30.81%
China Everbright Limited ("CEL")	Interest of controlled corporation	227,734,479[3]	227,734,479	33.58%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	227,734,479[4]	227,734,479	33.58%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	227,734,479[5]	227,734,479	33.58%
Central Huijin Investment Limited ("Huijin Limited")	Interest of controlled corporation	227,734,479[5]	227,734,479	33.58%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	182,554,589[6]	182,554,589	26.92%
Capella Capital Limited ("Capella")	Interest of controlled corporation	182,554,589[6]	182,554,589	26.92%
POON Ho Man	Interest of controlled corporation	197,554,589[7]		
	Interest of spouse	3,800,000[9]	201,354,589	29.69%
Christina NG	Interest of spouse	197,554,589[8]		
	Beneficial owner	3,800,000[9]	201,354,589	29.69%

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 678,183,380 Shares in issue as at 30 June 2018.

(3) CEL was deemed to be interested in 208,979,479 and 18,755,000 Shares held by CE Aerospace and China Everbright Financial Investments Limited respectively, both of which are wholly-owned by CEL.

(4) 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 mentioned in note (3) above.

(5) 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 mentioned in notes (3) and (4) above.

(6) 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.

(7) 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 (6) above. Mr. POON is also interested in 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

(8) 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 (7) above.

(9) 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.

Save as disclosed above, as at 30 June 2018, 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 2018.

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 2018.

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. Fan Yan Hok, Philip, Mr. CHEOK Albert Saychuan and Mr. NIEN Van Jin, Robert, all of them 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.

OTHER INFORMATION

BOARD COMMITTEES (continued)

Audit Committee (continued)

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 2017 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018, 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 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.

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.

OTHER INFORMATION

BOARD COMMITTEES (continued)

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 of 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. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert 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, all share options granted under the Pre-IPO Share option Scheme were exercised. Thus no outstanding Shares were available for issue thereunder. No share option was granted under the Pre-IPO Share Option Scheme during the period under review.

During the period under review, the movement of share options granted under the Pre-IPO Share Option Scheme is as follows:

			Number of Shares under options					Share price		
Name of grantees	Date of grant	Tranche	At 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2018	Exercise price per Share US$	Immediately before the exercise date per Share (Note) HK$	Exercise period
Senior management and other employees	10/10/2011	A	1,980	–	(1,980)	–	–	0.215	7.76	26/3/2016–26/3/2018
			2,040	–	(2,040)	–	–	0.215	7.76	26/3/2017–26/3/2018
Total			**4,020**	**–**	**(4,020)**	**–**	**–**			

Note: The price of the Shares disclosed is the weighted average closing price of the Shares immediately before the date on which the share options were exercised during the period.

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

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 25,541,000 Shares (as at the date of the 2017 interim report of 25 August 2017: 26,699,000 Shares), which represented approximately 3.77% (as at 25 August 2017: 3.94%) of the issued share capital of the Company. No share option was granted or exercised under the Post-IPO Share Option Scheme during the period under review.

During the period under review, the movement of share options granted under the Post-IPO Share Option Scheme is as follows:

		Number of Shares under options					Share price	
Name of grantees	Date of grant	At 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2018	Exercise price per Share HK$	Exercise period
Directors								
CHEN Shuang	22/7/2016	3,300,000	–	–	–	3,300,000	8.80	22/1/2017–21/7/2020
		3,300,000	–	–	–	3,300,000	8.80	22/1/2018–21/7/2020
		3,400,000	–	–	–	3,400,000	8.80	22/1/2019–21/7/2020
LIU Wanting	22/7/2016	990,000	–	–	–	990,000	8.80	22/1/2017–21/7/2020
		990,000	–	–	–	990,000	8.80	22/1/2018–21/7/2020
		1,020,000	–	–	–	1,020,000	8.80	22/1/2019–21/7/2020
CHEOK Albert Saychuan	22/7/2016	66,000	–	–	–	66,000	8.80	22/1/2017–21/7/2020
		66,000	–	–	–	66,000	8.80	22/1/2018–21/7/2020
		68,000	–	–	–	68,000	8.80	22/1/2019–21/7/2020
CHOW Kwong Fai, Edward	22/7/2016	66,000	–	–	–	66,000	8.80	22/1/2017–21/7/2020
		66,000	–	–	–	66,000	8.80	22/1/2018–21/7/2020
		68,000	–	–	–	68,000	8.80	22/1/2019–21/7/2020
CHEN Chia-Ling (Note 1)	22/7/2016	66,000	–	–	(66,000)	–	8.80	22/1/2017–21/7/2020
		66,000	–	–	(66,000)	–	8.80	22/1/2018–21/7/2020
		68,000	–	–	(68,000)	–	8.80	22/1/2019–21/7/2020
Sub-total		**13,600,000**	**–**	**–**	**(200,000)**	**13,400,000**		
Connected Person								
Christina NG (Note 2)	22/7/2016	1,254,000	–	–	–	1,254,000	8.80	22/1/2017–21/7/2020
		1,254,000	–	–	–	1,254,000	8.80	22/1/2018–21/7/2020
		1,292,000	–	–	–	1,292,000	8.80	22/1/2019–21/7/2020
Sub-total		**3,800,000**	**–**	**–**	**–**	**3,800,000**		
Senior Management and other Employees	22/7/2016	2,686,200	–	–	–	2,686,200	8.80	22/1/2017–21/7/2020
		2,851,200	–	–	(66,000)	2,785,200	8.80	22/1/2018–21/7/2020
		2,937,600	–	–	(68,000)	2,869,600	8.80	22/1/2019–21/7/2020
Sub-total		**8,475,000**	**–**	**–**	**(134,000)**	**8,341,000**		
Total		**25,875,000**	**–**	**–**	**(334,000)**	**25,541,000**		

Notes:

(1) Ms. CHEN Chia-Ling retired from the position of a non-executive Director effective 9 May 2018.

(2) Ms. Christina NG is the spouse of Mr. POON Ho Man who is an executive Director and a substantial shareholder of the Company.

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 was appointed as the chairman and a non-executive director of Kinergy Corporation Ltd., which became a listed company on the Stock Exchange (Stock Code: 3302) on 17 July 2018.

Mr. FAN Yan Hok, Philip was appointed as a member of the Audit Committee of the Company with effect from 9 May 2018.

Mr. GUO Zibin retired from the position of a non-executive Director with effect from the conclusion of the 2018 annual general meeting of the Company held on 9 May 2018 and resigned as a member of Audit Committee of the Company on the same day.

Ms. CHEN Chia-Ling retired from the position of a non-executive Director with effect from the conclusion of the 2018 annual general meeting of the Company held on 9 May 2018.

The updated biographies of Directors are available on the Company's website.

Change of Directors' Remuneration

The basic salary of Mr. POON Ho Man, an executive Director and the Chief Executive Officer of the Company, has been increased from HK$1,542,000 to HK$2,160,000 per annum with effect from 1 April 2018.

The basic salary of Ms. LIU Wanting, an executive Director, has been increased from HK$2,640,000 to HK$2,880,000 per annum with effect from 1 April 2018.

Since Mr. FAN Yan Hok, Philip has been appointed as a member of the Audit Committee of the Company with effect with 9 May 2018, he is entitled to a pro-rata annual fee of HK$80,000 in 2018 for such appointment.

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.

OTHER INFORMATION

OTHERS (continued)

Interim Dividend

The Board has declared the payment of an interim dividend of HK$0.22 per Share in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: HK$0.18 per Share) to shareholders whose names appear on the register of members of the Company on 12 September 2018. The interim dividend will be paid on or about 26 September 2018.

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 2018 to 12 September 2018, 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 2018. 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 10 September 2018.

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

The Company repurchased a total of 437,000 ordinary shares of the Company at the highest price and the lowest price per share of HK$7.99 and HK$7.92 respectively on the Stock Exchange for the six months ended 30 June 2018 at an aggregate consideration of approximately HK$3,473,000 (before expense). All the repurchased shares were subsequently cancelled on 13 July 2018 by the Company.

Save as disclosed above, during the six months ended 30 June 2018, 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, 24 August 2018

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

pwc 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 28 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 2018 and the interim consolidated statement of income, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and interim consolidated statement of 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 of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2018

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INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
ASSETS			
Property, plant and equipment	7	**11,743,898**	13,059,424
Interests in and loans to associates	8	**929,693**	870,188
Finance lease receivables – net	9	**12,065,386**	12,556,201
Financial asset at fair value through profit or loss	10	**146,167**	–
Derivative financial assets	20	**174,722**	90,835
Prepayments and other assets	11	**9,069,084**	4,021,516
Restricted cash		**262,345**	372,826
Cash and cash equivalents		**5,695,055**	7,023,359
Total assets		**40,086,350**	37,994,349
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	12	**67,818**	67,818
Reserves and others	13	**1,929,654**	1,861,658
Retained earnings		**1,529,481**	1,497,677
Total equity		**3,526,953**	3,427,153
LIABILITIES			
Deferred income tax liabilities	14	**644,599**	544,549
Bank borrowings	15	**15,593,820**	16,458,411
Long-term borrowings	16	**5,368,725**	5,329,396
Medium-term notes	17	**788,803**	798,094
Convertible bonds	18	**–**	153,190
Bonds	19	**8,584,180**	8,538,932
Derivative financial liabilities	20	**–**	207
Income tax payables		**8,940**	17,254
Interest payables		**282,262**	226,761
Other liabilities and accruals	21	**5,288,068**	2,500,402
Total liabilities		**36,559,397**	34,567,196
Total equity and liabilities		**40,086,350**	37,994,349

The notes on page 34 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 24 August 2018 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 2018 HK$'000	2017 HK$'000
Revenue			
Finance lease income	22	**432,421**	540,621
Operating lease income	22	**729,666**	340,291
		1,162,087	880,912
Net gain from aircraft transactions	23	**243,021**	289,587
Other income	24	**207,008**	87,551
		1,612,116	1,258,050
Expenses			
Interest expenses	25	**(697,938)**	(614,647)
Depreciation	7	**(289,907)**	(131,443)
Other operating expenses	26	**(212,456)**	(157,850)
		(1,200,301)	(903,940)
Operating profit		**411,815**	354,110
Share of loss of an associate	8	**–**	(5,548)
Other gains/(losses)	27	**7,107**	(5,740)
Profit before income tax		**418,922**	342,822
Income tax expenses	28	**(111,077)**	(94,152)
Profit for the period		**307,845**	248,670
Profit attributable to shareholders of the Company		**307,845**	248,670
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$ per share)			
– Basic earnings per share	30(a)	**0.454**	0.370
– Diluted earnings per share	30(b)	**0.454**	0.368

The notes on page 34 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 2018 HK$'000	 2017 HK$'000
Profit for the period		**307,845**	248,670
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss			
Share of reserves of an associate		–	5,389
Cash flow hedges	20	77,121	(15,709)
Currency translation differences		9,464	17,313
Total other comprehensive income for the period, net of tax		**86,585**	6,993
Total comprehensive income for the period		**394,430**	255,663
Total comprehensive income for the period attributable to shareholders of the Company		**394,430**	255,663

The notes on page 34 and 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited			
	Attributable to shareholders of the Company			
	Share capital HK$'000	Reserves and others HK$'000	Retained earnings HK$'000	Total equity HK$'000
Balance as at 1 January 2017	66,990	1,839,694	1,136,662	3,043,346
Comprehensive income				
Profit for the period	–	–	248,670	248,670
Other comprehensive income				
Share of reserves of an associate	–	5,389	–	5,389
Cash flow hedges (Note 20)	–	(15,709)	–	(15,709)
Currency translation differences	–	17,313	–	17,313
Total comprehensive income	–	6,993	248,670	255,663
Transactions with shareholders				
Dividends (Note 29)	–	–	(264,117)	(264,117)
Share option scheme:				
– Value of services (Note 12)	–	9,472	–	9,472
– Issue of new shares from exercise of share options	744	15,447	–	16,191
Repurchase of convertible bonds (Note 18)	–	(18,582)	12,541	(6,041)
Total transactions with shareholders	744	6,337	(251,576)	(244,495)
Balance as at 30 June 2017	67,734	1,853,024	1,133,756	3,054,514
Balance as at 31 December 2017	67,818	1,861,658	1,497,677	3,427,153
Change in accounting policy (Note 4)	–	–	(9,785)	(9,785)
Restated balance as at 1 January 2018	**67,818**	**1,861,658**	**1,487,892**	**3,417,368**
Comprehensive income				
Profit for the period	**–**	**–**	**307,845**	**307,845**
Other comprehensive income				
Cash flow hedges (Note 20)	**–**	**77,121**	**–**	**77,121**
Currency translation differences	**–**	**9,464**	**–**	**9,464**
Total comprehensive income	**–**	**86,585**	**307,845**	**394,430**
Transactions with shareholders				
Dividends (Note 29)	**–**	**–**	**(284,837)**	**(284,837)**
Buy-back of shares (Note 13(a))	**–**	**(3,487)**	**–**	**(3,487)**
Share option scheme:				
– Value of services (Note 12)	**–**	**3,472**	**–**	**3,472**
– Issue of new shares from exercise of share options (Note 12)	**–**	**7**	**–**	**7**
Transfer of reserves upon maturity of convertible bonds (Note 18)	**–**	**(18,581)**	**18,581**	**–**
Total transactions with shareholders	**–**	**(18,589)**	**(266,256)**	**(284,845)**
Balance as at 30 June 2018	**67,818**	**1,929,654**	**1,529,481**	**3,526,953**

The notes on page 34 and 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Cash flows from operating activities		
Profit after income tax	307,845	248,670
Adjustments for:		
– Depreciation	289,907	131,443
– Net gain from aircraft transactions	(243,021)	(289,587)
– Impairment loss of finance lease receivables	7,367	–
– Interest expenses	697,938	614,647
– Share-based payments	3,472	9,472
– Unrealised currency exchange (gains)/losses	(3,714)	3,742
– Fair value gains on interest rate and currency swaps	(6,944)	(4,600)
– Loss on repurchase of convertible bonds	–	3,055
– Share of loss of an associate	–	5,548
– Interest income	(51,911)	(32,078)
	1,000,939	690,312
Changes in working capital:		
– Finance lease receivables – net	(453,622)	1,965,256
– Prepayments and other assets	(137,064)	(67,354)
– Other liabilities and accruals	266,501	528,041
– Income tax payables	(8,314)	(34,758)
– Deferred income tax liabilities	98,098	37,963
Net cash flows generated from operating activities	766,538	3,119,460
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,887,579)	(2,410,801)
Proceeds from disposal of lease-attached aircraft	1,610,645	–
Deposits paid for acquisition of aircraft	(1,699,344)	(1,476,328)
Deposits refunded for acquisition of aircraft	448,949	691,430
Interest received	7,142	19,631
Net payments relating to loans to an associate	(14,736)	(686,137)
Investment to financial asset at fair value through profit or loss	(146,167)	–
Net cash flow used in investing activities	(2,681,090)	(3,862,205)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Cash flows from financing activities			
Proceeds from issue of new shares from exercise of share options	12	7	16,191
Proceeds from bank borrowings and long-term borrowings		6,190,894	4,908,856
Proceeds from termination of derivative financial instruments		–	32,025
Issue of bonds, net of transaction costs		–	3,857,191
Refinancing and repayments of bank borrowings and long-term borrowings		(4,561,262)	(6,374,125)
Repurchase or repayment of convertible bonds, including transaction costs		(155,160)	(156,899)
Interest received/(paid) in respect of derivative financial instruments		1,666	(15,019)
Interest paid in respect of borrowings, notes and bonds		(720,494)	(574,658)
Decrease in deposits pledged in respect of borrowings		103,054	19,254
Decrease/(Increase) in deposits pledged in respect of derivative financial instruments		4,911	(356)
Buy-back of shares, including transaction costs	13(a)	(3,487)	–
Dividends paid to shareholders		(284,837)	(263,294)
Net cash flows generated from financing activities		575,292	1,449,166
Net (decrease)/increase in cash and cash equivalents		(1,339,260)	706,421
Cash and cash equivalents at beginning of the period		7,023,359	5,840,746
Currency exchange difference on cash and cash equivalents		10,956	54,760
Cash and cash equivalents at end of the period		5,695,055	6,601,927

The notes on page 34 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 2018 ("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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2017 annual report of the Company.

(a) Going concern

Aircraft leasing is a capital-intensive business. As at 30 June 2018, the Group's current liabilities exceeded its current assets by HK$2,012.0 million. The Group had total capital commitments of HK$83,744.9 million mainly relating to acquisition of aircraft (Note 32(b)), of which HK$11,475.3 million is payable within one year. The Group will satisfy these capital commitments through the Group's internal resources and may need to raise additional funds through pre-delivery payments ("PDP") financing, new commercial aircraft bank loans, issuance of notes under the US$3,000 million medium-term note programme set up in December 2017 ("MTN Programme"), other debt and capital financing, and disposal of finance lease receivables and/or disposal of aircraft. 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)

(a) Going concern (continued)

– According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next twelve months from 30 June 2018 amounted to HK$4,042.9 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 HK$1,603.7 million to the Group in the next twelve months from 30 June 2018. The remaining balance of PDP amounting to HK$2,439.2 million is to be funded by internal resources, available banking facilities or additional financing.

– The new commercial aircraft bank borrowings are primarily used for the PDP financing and aircraft acquisition cost. Such aircraft acquisition borrowing will only be confirmed before delivery of the relevant aircraft and 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. Lease agreements or letters of intent have already been signed for the aircraft scheduled for delivery in the next twelve months from 30 June 2018. The directors of the Company thus believes that long-term aircraft borrowings can be obtained or other internal resources, issuing bonds and available banking facilities can be used to settle the PDP financing and the balance payments of the aircraft acquisition costs due in the next twelve months from 30 June 2018.

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

– As at 30 June 2018, the Group had cash and cash equivalents amounting to HK$5,695.1 million. In addition, the Group set up the MTN Programme of US$3,000 million in December 2017, pursuant through which the Group may raise necessary funds as when needed. Each issuance of the note from such MTN Programme will be subject to the board of directors' approval and other external factors.

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 2018. The forecasts are based on a number of assumptions including aircraft delivery and leasing schedules, planned disposal of finance lease receivables and/or disposal of aircraft, internal resources, available banking facilities that have been granted or will be granted, other available sources of financing, and the amount of capital commitments.

On this basis, the directors of the Company are of the opinion that, 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 2018. Accordingly, the directors of the Company 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 consolidated financial statements for the year ended 31 December 2017.

3.1 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 2018:

HKFRS 9, 'Financial instruments'
HKFRS 15, 'Revenue from contracts with customers'
Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'
Amendment to HKAS 28, 'Investments in associates and joint ventures'
HK (IFRIC) 22, 'Foreign currency transactions and advance consideration'

The impact of adoption of HKFRS 9 is disclosed in note 4 below. Other new and revised HKFRSs did not have a material impact on the Group's accounting policies and did not require retrospective adjustments.

3 ACCOUNTING POLICIES (continued)

3.1 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 2018 and have not been early applied in preparing these consolidated financial statements. None of these is expected to have a material impact on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16, 'Leases'

HKFRS 16 was issued in January 2016. 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 2018, the Group has non-cancellable operating lease commitments of HK$22.3 million, see Note 32(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.

3 ACCOUNTING POLICIES (continued)

3.2 New accounting policy adopted by the Group during the six months end 30 June 2018

Non-current assets (or disposal group) held for sale

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

4 CHANGES IN ACCOUNTING POLICY

This note explains the impact of the adoption of HKFRS 9, 'Financial Instruments' on the Group's consolidated financial statements and also discloses the new accounting policy that have been applied from 1 January 2018, where it is different to that applied in prior periods.

(a) Impact on the consolidated financial statements

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

The adoption of HKFRS 9, 'Financial Instruments' from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policy is set out in note 4(b) below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. There was no significant impact on the classification and measurements of the Group's financial assets and financial liabilities at the date of initial application of HKFRS 9. The adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

4 CHANGES IN ACCOUNTING POLICY (continued)

(a) Impact on the consolidated financial statements (continued)

Consolidated financial statement items	As at 31 December 2017 As originally presented HK$'000	Increase in provision for finance lease receivables HK$'000	As at 1 January 2018 Restated HK$'000
ASSETS			
Finance lease receivables – net	12,556,201	(9,909)	12,546,292
LIABILITIES			
Deferred income tax liabilities	544,549	(124)	544,425
EQUITY			
Retained earnings	1,497,677	(9,785)	1,487,892

(b) HKFRS 9 Financial Instruments – Impact of accounting policy applied from 1 January 2018

(i) Investments and other financial assets

Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

4 CHANGES IN ACCOUNTING POLICY (continued)

(b) HKFRS 9 Financial Instruments – Impact of accounting policy applied from 1 January 2018 (continued)

(i) Investments and other financial assets (continued)

Classification (continued)

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

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

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

Measurement

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

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

4 CHANGES IN ACCOUNTING POLICY (continued)

(b) HKFRS 9 Financial Instruments – Impact of accounting policy applied from 1 January 2018 (continued)

(i) Investments and other financial assets (continued)

Debt instruments (continued)

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

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

Equity instruments

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

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

Impairment

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

For finance lease receivables and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the finance lease receivables and other receivables.

4 CHANGES IN ACCOUNTING POLICY (continued)

(b) HKFRS 9 Financial Instruments – Impact of accounting policy applied from 1 January 2018 (continued)

(ii) Derivatives and hedging

Cash flow hedges that qualify for hedge accounting

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

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

- Where the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

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

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

5 ESTIMATES

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

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's consolidated financial statements for the year ended 31 December 2017 except for impairment of financial assets disclosed in note 4.

6 FINANCIAL RISK MANAGEMENT

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017.

Except for the impairment allowance policies (Note 6.1.2(c)), there have been no significant changes in the risk management department or in any risk management policies since 31 December 2017.

6.1.1 Market risk

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other assets, financial liabilities including borrowings, other liabilities and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and the corresponding borrowings used to finance the leases are mainly denominated in US$. 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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Financial risk factors (continued)

6.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, bonds and medium-term notes at fixed rates expose the Group to fair value interest rate risk.

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

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank borrowings do not match. As at 30 June 2018, the Group had 22 outstanding floating-to-fixed interest rate swaps (31 December 2017: 22 swaps) to manage its unmatched interest rate risk exposure. 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 unhedged exposure, the Group closely monitors the interest rate trend and may 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 2018. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax for the six months ended 30 June 2018 by approximately HK$20,210,000 (six months ended 30 June 2017: increased/decreased by HK$3,539,000); and would also have increased/decreased the Group's reserves by approximately HK$75,074,000 (31 December 2017: increased/decreased by HK$88,832,000) 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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Financial risk factors (continued)

6.1.2 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 21). 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 banks, which has a high credit quality.

(a) Probability of default

Default risk – in the event of default, the Group may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate. In addition, the Group may request for a security deposit or security deposit letter of credit which it may apply towards the payment or discharge of any obligation owed by the lessee.

(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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Financial risk factors (continued)

6.1.2 Credit risk (continued)

(c) *Impairment allowance policies*

The Group applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for finance lease receivables and other receivables. To measure the expected credit losses, the relevant receivables are grouped based on shared credit risk characteristics such as financial performance and stability, future growth, default history and other relevant factors. The loss allowances are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(d) *Concentration of credit risk*

During the six months ended 30 June 2018, the lessees of the Group are airline companies located in the United States, Mainland China and other countries or regions in Europe, Asia and South America. Please see Note 9 and Note 22 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables 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 9) and operating lease receivables (Note 32(d)) from these airline companies is insignificant.

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Financial risk factors (continued)

6.1.3 Liquidity risk

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

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Current assets		
Loans to an associate	929,693	870,188
Finance lease receivables – net	13,608	25,453
Derivative financial assets	41,907	5,587
Prepayments and other assets	3,718,903	347,297
Cash and cash equivalents	5,695,055	7,023,359
	10,399,166	8,271,884
Current liabilities		
Deferred income tax liabilities	80,744	79,126
Bank borrowings	4,988,949	5,306,682
Long-term borrowings	84,612	89,190
Convertible bonds	–	153,190
Bonds	2,353,590	–
Derivative financial liabilities	–	414
Income tax payables	8,940	17,254
Interest payables	282,262	226,761
Other liabilities and accruals	4,612,030	1,708,174
	12,411,127	7,580,791
Net current (liabilities)/assets	(2,011,961)	691,093

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

6 FINANCIAL RISK MANAGEMENT (continued)

6.2 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 2018.

The Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, and asset-liability ratio, which is calculated as total liabilities divided by total assets. The ratios are as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Interest-bearing debts included in total liabilities	**32,902,002**	31,278,023
Total liabilities	**36,559,397**	34,567,196
Total assets	**40,086,350**	37,994,349
Gearing ratio	**82.1%**	82.3%
Asset-liability ratio	**91.2%**	91.0%

6.3 Fair value estimation

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

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 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 2018 – unaudited				
Assets				
Currency swap	–	12,577	–	12,577
Interest rate swaps	–	162,145	–	162,145
Financial asset at fair value through profit or loss	–	–	146,167	146,167
	–	174,722	146,167	320,889
As at 31 December 2017 – audited				
Assets				
Currency swap	–	14,966	–	14,966
Interest rate swaps	–	75,869	–	75,869
	–	90,835	–	90,835
Liabilities				
Interest rate swaps	–	207	–	207

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

The fair value of the financial asset at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The Group uses the significant unobservable inputs to the valuation model including the earnings growth factor, risk-adjusted discount rate and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy.

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Fair value estimation (continued)

The following table presents the change in level 3 instrument for the six months ended 30 June 2018.

	Financial asset at fair value through profit or loss HK$'000
As at 31 December 2017 and 1 January 2018	–
Addition on 29 June 2018	146,167
As at 30 June 2018	146,167

Financial assets and financial liabilities carried at amortised cost

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

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

	Unaudited As at 30 June 2018		Audited As at 31 December 2017	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables – net	12,065,386	12,468,437	12,556,201	13,270,358
Bank borrowings	15,593,820	15,818,365	16,458,411	16,490,975
Bank borrowings directly associated with assets classified as held for sale	2,566,474	2,693,332	–	–
Long-term borrowings	5,368,725	5,750,053	5,329,396	5,528,775
Medium-term notes	788,803	821,496	798,094	808,874
Convertible bonds	–	–	153,190	158,050
Bonds	8,584,180	8,446,485	8,538,932	8,819,974

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Fair value estimation (continued)

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.

7 PROPERTY, PLANT AND EQUIPMENT

	Unaudited					
	Aircraft	Leasehold improvements	Office equipment	Building	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net book value as at 31 December 2017 and 1 January 2018	**13,041,381**	**1,295**	**3,584**	**–**	**13,164**	**13,059,424**
Additions	**2,853,612**	**623**	**580**	**43,707**	**762**	**2,899,284**
Transfer from finance lease receivables	**1,005,387**	**–**	**–**	**–**	**–**	**1,005,387**
Assets included in a disposal group classified as held for sale and other disposal (Note 11(b))	**(4,977,842)**	**–**	**–**	**–**	**–**	**(4,977,842)**
Depreciation	**(287,358)**	**(504)**	**(898)**	**(365)**	**(782)**	**(289,907)**
Currency translation difference	**47,519**	**(11)**	**(2)**	**45**	**1**	**47,552**
Net book value as at 30 June 2018	**11,682,699**	**1,403**	**3,264**	**43,387**	**13,145**	**11,743,898**
Net book value as at 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

Lease rentals amounting to HK$729,666,000 relating to the lease of aircraft for the six months ended 30 June 2018 are included in "operating lease income" in the consolidated statement of income (six months ended 30 June 2017: HK$340,291,000).

As at 30 June 2018, the net book value of aircraft under operating leases amounting to HK$7,685,652,000 (31 December 2017: HK$8,679,902,000) were pledged as collateral for bank borrowings for aircraft acquisition financing (Note 15) and borrowings from trust plans (Note 16).

8 INTERESTS IN AND LOANS TO ASSOCIATES

	Unaudited **As at** **30 June** **2018** **HK$'000**	Audited As at 31 December 2017 HK$'000
Interests in and loans to associates	**929,693**	870,188

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Share of loss of an associate	**–**	(5,548)

As at 30 June 2018, the Group had direct interests in the following principal associate:

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

ARI is an investment holding company and its subsidiaries have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 30 June 2018, the Group's outstanding loans balance receivable from ARI amounted to HK$929,693,000 (31 December 2017: HK$870,188,000).

Pursuant to the shareholders' loan agreement dated 6 April 2016, the loans to ARI are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears at 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 associates. As the results of the associates are not material to the Group, no summarised financial information of the associates is disclosed.

9 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Finance lease receivables	6,261,732	7,139,331
Guaranteed residual values	6,378,219	6,519,844
Unguaranteed residual values	7,062,097	7,284,728
Gross investment in leases	19,702,048	20,943,903
Less: Unearned finance income	(7,619,340)	(8,387,702)
Net investment in leases	12,082,708	12,556,201
Less: Accumulated allowance for impairment	(17,322)	–
Finance lease receivables – net	12,065,386	12,556,201

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 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Gross investment in finance leases	19,702,048	20,943,903
Less: Unguaranteed residual values	(7,062,097)	(7,284,728)
Minimum lease payments receivable	12,639,951	13,659,175
Less: Unearned finance income related to minimum lease payments receivable	(4,478,626)	(4,996,644)
Present value of minimum lease payments receivable	8,161,325	8,662,531

9 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 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Gross investment in finance leases		
– Not later than 1 year	**798,917**	851,211
– Later than 1 year and not later than 5 years	**3,228,416**	3,557,303
– Later than 5 years	**15,674,715**	16,535,389
	19,702,048	20,943,903

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 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Present value of minimum lease payments receivable		
– Not later than 1 year	**285,062**	298,044
– Later than 1 year and not later than 5 years	**721,504**	863,357
– Later than 5 years	**7,154,759**	7,501,130
	8,161,325	8,662,531

9 FINANCE LEASE RECEIVABLES – NET (continued)

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

	Unaudited As at 30 June 2018		Audited As at 31 December 2017	
	HK$'000	%	HK$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	9,083,138	75%	9,314,147	74%
Other airline companies	2,982,248	25%	3,242,054	26%
Finance lease receivables – net	12,065,386	100%	12,556,201	100%

10 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Long term debt investments	146,167	–

CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively as "CAG Group") are principally engaged in lease-attached aircraft portfolio investment. CAG uses the fund injected through the shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 20% to 80%, together with a shareholding between the Group and other investors at the same ratio. Pursuant to shareholders' agreement and shareholder loan agreement, all investors of CAG committed to invest in CAG through shareholder loans according to the shareholding proportion. The Group's committed shareholder loan is approximately US$73.0 million (equivalent to approximately HK$572.7 million), of which US$18.6 million (equivalent to approximately HK$146.2 million) had been drawn down up to 30 June 2018.

11 PREPAYMENTS AND OTHER ASSETS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
PDP (a)	**4,698,543**	3,433,531
Assets classified as held for sale (b)	**3,572,486**	–
Interest capitalised	**220,154**	154,903
Prepayments and receivables relating to aircraft acquisition	**456,553**	366,396
Deposits paid	**44,722**	42,112
Amounts due from related parties (Note 31(f))	**3,380**	588
Others (c)	**73,246**	23,986
	9,069,084	4,021,516

(a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S ("Airbus") for the purchase of 100 aircraft. In December 2017 and January 2018, the Group further entered into an agreement with Airbus for the purchase of additional 65 aircraft which was executed in the form of amendment agreement 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) Pursuant to the agreement dated 26 June 2018 jointly signed by the Group and CAG Group stated in Note 10, the Group disposed aircraft by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in lease-attached aircraft. Subsequent to 30 June 2018, the Group further disposed certain aircraft by way of a transfer of share of certain wholly-owned subsidiaries to CAG Group (Note 33). The associated assets and liabilities for those subsidiaries intended to be disposed were consequently classified as held for sale.

Aircraft classified as held for sale during the reporting period was measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification, resulting in the recognition of write-downs of certain aircraft in the consolidated statement of income.

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

12 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK$
Issued:			
As at 1 January 2017	HK$0.1	669,900,640	66,990,064
Issue of new shares from exercise of share options	HK$0.1	8,278,720	827,872
As at 31 December 2017 and 1 January 2018	HK$0.1	678,179,360	67,817,936
Issue of new shares from exercise of share options	**HK$0.1**	**4,020**	**402**
As at 30 June 2018	**HK$0.1**	**678,183,380**	**67,818,338**

During the six months ended 30 June 2018, a grantee exercised share options granted under share option schemes, resulting in 4,020 (year ended 31 December 2017: 8,278,720) new shares being issued, with total proceeds of HK$7,000 (year ended 31 December 2017: HK$21,556,000). The related weighted average share price at the time of exercise was HK$7.77 (year ended 31 December 2017: HK$9.65) per share. As at 30 June 2018, 16,823,400 (31 December 2017: 8,432,220) share options were exercisable.

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 2018			Unaudited Six months ended 30 June 2017		
	Pre-IPO	**Post-IPO**	**Total**	Pre-IPO	Post-IPO	Total
Beginning of period	**4,020**	**25,875,000**	**25,879,020**	6,606,140	27,955,600	34,561,740
Exercised	**(4,020)**	**–**	**(4,020)**	(6,510,320)	(926,600)	(7,436,920)
Lapsed	**–**	**(334,000)**	**(334,000)**	(91,800)	(112,200)	(204,000)
End of period	**–**	**25,541,000**	**25,541,000**	4,020	26,916,800	26,920,820

For share options outstanding as at 30 June 2018, the exercise price per share of Second Post-IPO Share Option Scheme was HK$8.80.

12 SHARE CAPITAL (continued)

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 2018 and 2017 are as follows:

	Unaudited Six months ended 30 June 2018 HK$'000	Unaudited Six months ended 30 June 2017 HK$'000
Directors and employees	3,472	9,472

13 RESERVES AND OTHERS

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$'000	Treasury shares HK$'000	Total HK$'000
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 12)	–	–	–	9,472	–	–	–	–	9,472
– Issue of new shares from exercise of share options	16,993	–	–	(1,546)	–	–	–	–	15,447
Cash flow hedges (Note 20)	–	–	–	–	(15,709)	–	–	–	(15,709)
Currency translation differences	–	–	–	–	–	–	17,313	–	17,313
Repurchase of convertible bonds (Note 18)	–	–	–	–	–	(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
Balance as at 1 January 2018	1,099,227	623,720	(39)	36,632	85,024	18,581	(1,487)	–	1,861,658
Share option scheme:									
– Value of services (Note 12)	–	–	–	3,472	–	–	–	–	3,472
– Issue of new shares from exercise of share options (Note 12)	7	–	–	–	–	–	–	–	7
Cash flow hedges (Note 20)	–	–	–	–	77,121	–	–	–	77,121
Currency translation differences	–	–	–	–	–	–	9,464	–	9,464
Buy-back of shares (a)	–	–	–	–	–	–	–	(3,487)	(3,487)
Transfer of reserves upon maturity of convertible bonds (Note 18)	–	–	–	–	–	(18,581)	–	–	(18,581)
Balance as at 30 June 2018	1,099,234	623,720	(39)	40,104	162,145	–	7,977	(3,487)	1,929,654

13 RESERVES AND OTHERS (continued)

(a) The Company acquired 437,000 of its own shares through purchases on the Stock Exchange during the period. The total amount paid to acquire the shares was HK$3,487,000, including transaction costs. 437,000 of its own shares have been deducted from the shareholders' equity as treasury shares.

14 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Deferred income tax liabilities:		
– To be settled within 12 months	**80,744**	79,126
– To be settled after 12 months	**563,855**	465,423
	644,599	544,549

The movement of the deferred income tax liabilities during the six months ended 30 June 2018, 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 2017	332,824
Charged to profit or loss (Note 28)	37,963
Currency translation difference	3,798
As at 30 June 2017	374,585
As at 1 January 2018	**544,549**
Charged to profit or loss (Note 28)	**98,127**
Currency translation difference	**1,923**
As at 30 June 2018	**644,599**

14 DEFERRED INCOME TAX LIABILITIES (continued)

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.

15 BANK BORROWINGS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Bank borrowings for aircraft acquisition financing (a)	**11,718,744**	13,981,599
PDP financing (b)	**3,053,204**	1,709,129
Working capital borrowings (c)	**821,872**	767,683
	15,593,820	16,458,411

(a) Bank borrowings for aircraft acquisition financing are principally based on fixed or floating US$ LIBOR rates. As at 30 June 2018, certain bank borrowings were secured by, in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain companies of the Group, and pledge of deposits amounting to HK$204,444,000 (31 December 2017: HK$312,434,000).

(b) As at 30 June 2018, PDP financing of HK$1,748,912,000 (31 December 2017: HK$478,817,000) was unsecured and guaranteed by the Company. Other PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, and guarantees from certain companies of the Group.

(c) As at 30 June 2018, the Group had aggregate unsecured working capital borrowings of HK$821,872,000 (31 December 2017: HK$767,683,000) which were guaranteed by certain companies of the Group.

15 BANK BORROWINGS (continued)

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Floating rate:		
– Expiring within one year	**–**	78,149
– Expiring beyond one year	**2,556,507**	4,162,946
	2,556,507	4,241,095

16 LONG-TERM BORROWINGS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Borrowings from trust plans (a)	**5,053,649**	5,018,672
Other borrowings (b)	**315,076**	310,724
	5,368,725	5,329,396

(a) As at 30 June 2018, 44 borrowings (31 December 2017: 43 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposal of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (31 December 2017: 3.5% to 7.8%) per annum for remaining terms of six to 12 years (31 December 2017: six to 11 years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK$44,362,000 (31 December 2017: HK$41,969,000).

(b) As at 30 June 2018, four borrowings (31 December 2017: four borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2017: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2017: 3.9% to 5.7%) per annum for their remaining terms of seven to eight years (31 December 2017: seven to eight years) and are guaranteed by the Company.

17 MEDIUM-TERM NOTES

In July 2015, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB340 million due in 2020, bearing coupon interest at 6.50% per annum.

In November 2016, the Group issued five-year senior unsecured medium-term notes in a principal amount of RMB330 million due in 2021, bearing coupon interest at 4.19% per annum.

As at 30 June 2018, after deducting the issuing cost, the total carrying amount of these notes was HK$788,803,000 (31 December 2017: HK$798,094,000).

18 CONVERTIBLE BONDS

	Audited		
	As at 31 December 2017		
	Liability	Equity	Total
	HK$'000	HK$'000	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) during 2017	23,107	–	23,107
Interest paid (inclusive of arrangement fees) during 2017	(14,821)	–	(14,821)
Carrying value as at 31 December 2017	153,190	18,581	171,771

	Unaudited		
	As at 30 June 2018		
	Liability	**Equity**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Carrying value as at 1 January 2018	**153,190**	**18,581**	**171,771**
Interest accrued at effective interest rate (inclusive of arrangement fees) during the period	**7,012**	**–**	**7,012**
Interest paid (inclusive of arrangement fees) during the period	**(5,042)**	**–**	**(5,042)**
Redemption during the period	**(155,160)**	**(18,581)**	**(173,741)**
Carrying value as at 30 June 2018	**–**	**–**	**–**

18 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") 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.

In 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 interest 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, and a net loss of HK$39,000 was charged to "Other gains" for the year ended 31 December 2016.

In 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 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" for the year ended 31 December 2017. After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155,160,000.

Interest expenses (Note 25) on the carrying amount of the liability component were paid or accrued at the effective interest rate (inclusive of arrangement fees) of 11.8% (six months ended 30 June 2017: 11.8%) 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.

In May 2018, the convertible bonds with aggregate principal amount of HK$155,160,000 was fully redeemed upon maturity.

19 BONDS

In May 2016, the Group issued three-year US$300 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 million senior unsecured bonds due in 2021, bearing coupon interest at 4.9% per annum, payable semi-annually.

19 BONDS (continued)

In March 2017, the Group issued senior unsecured bonds in an aggregate principal amount of US$500 million, of which US$300 million are five-year bonds due in 2022 and US$200 million are seven-year bonds due in 2024. The bonds bear coupon interest at 4.7% and 5.5% per annum, respectively, payable semi-annually.

These bonds 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 2018 was HK$8,584,180,000 (31 December 2017: HK$8,538,932,000).

20 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Derivative financial assets		
– Currency swap (a)	**12,577**	14,966
– Interest rate swaps (b)	**162,145**	75,869
	174,722	90,835
Derivative financial liabilities		
– Interest rate swaps (b)	**–**	207

(a) CALC Baoli Limited ("CALC Baoli"), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,000. As at 30 June 2018, the fair value of this currency swap contract amounted to HK$12,577,000 (31 December 2017: HK$14,966,000) and the fair value loss of HK$2,445,000 was recognised in "Other gains/(losses)" for the six months ended 30 June 2018 (six months ended 30 June 2017: loss of HK$1,351,000). As at 30 June 2018, this arrangement was secured by a pledged deposit of HK$3,607,000 (31 December 2017: HK$3,633,000).

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) As at 30 June 2018, the Group had 22 outstanding interest rate swap contracts (31 December 2017: 22 contracts) which will expire at various dates from 21 September 2018 to 21 December 2024 (31 December 2017: 21 September 2018 to 21 December 2024), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.3% to 2.0% (31 December 2017: 1.3% to 2.0%).

(i) 22 outstanding interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective during the period ended 30 June 2018 (31 December 2017: 22 contracts).

(ii) 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 expenses 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)".

(iii) 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 did not meet the criteria for hedge accounting and their total fair value losses of HK$3,921,000 were directly recognised to "Other gains/(losses)".

(iv) In December 2017, the Group terminated one interest rate swap contract with a realised gain of US$1,198,000. This realised gain was recognised in cash flow hedges reserve and will be progressively reclassified from equity to interest expenses during the remaining interest repayment period of the hedged bank borrowing from 2018 to 2021. On 5 January 2018, such bank borrowing was fully repaid and the balance of realised gain of US$1,198,000 (equivalent to HK$9,389,000) was reclassified from cash flow hedges reserve to "Other gains/(losses)" for the six months ended 30 June 2018.

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Recognised in other comprehensive income		
– Change in fair values of interest rate swaps (b)(i)	86,510	(5,878)
– Reclassified from other comprehensive income to profit or loss (b)(ii) to (iv)	(9,389)	(9,831)
	77,121	(15,709)
Recognised in profit or loss		
– Fair value losses on interest rate swaps (b)(iii)	–	(3,921)
– Unrealised loss on a currency swap (a)	(2,445)	(1,351)
– Realised gains on interest rate swaps (b)(ii) and (iv)	9,389	9,872
	6,944	4,600

21 OTHER LIABILITIES AND ACCRUALS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Liabilities directly associated with assets classified as held for sale (a)	2,870,066	–
Deposits and fund received for lease and aircraft projects	1,378,563	1,520,619
Consultant and insurance premium payable	144,430	152,071
Value-added tax and withholding tax payables	550,230	477,613
Operating lease rentals received in advance	122,688	118,176
Others (including salary and bonus payable)	222,091	231,923
	5,288,068	2,500,402

21 OTHER LIABILITIES AND ACCRUALS (continued)

(a) Balance represents bank borrowings for aircraft acquisition financing of HK$2,566,474,000 (31 December 2017: Nil) and other payables of HK$303,592,000 (31 December 2017: Nil) directly associated with assets classified as held for sale.

22 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2018, the Group was engaged in a single business segment, the provision of aircraft leasing services to airline companies in the United States, Mainland China and other countries or regions in Europe, Asia and South America. 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			
	2018		2017	
	HK$'000	%	HK$'000	%
Categorised by customer in terms of lease income:				
Airline company – A	99,840	9%	106,602	12%
Airline company – B	92,015	8%	89,635	10%
Airline company – C	83,160	7%	88,493	10%
Airline company – D	76,127	7%	92,230	10%
Airline company – E	66,770	6%	66,527	8%
Other airline companies	744,175	63%	437,425	50%
Total finance and operating lease income	1,162,087	100%	880,912	100%

23 NET GAIN FROM AIRCRAFT TRANSACTIONS

The net gain from aircraft transactions for the six months ended 30 June 2017 represented the gain from disposal of the finance lease receivables of 10 aircraft. Certain wholly-owned subsidiaries of the Group 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 receivables and recorded the gain from disposal of finance lease receivables in the consolidated financial statements.

23 NET GAIN FROM AIRCRAFT TRANSACTIONS (continued)

The net gain from aircraft transactions for the six months ended 30 June 2018 included the gain from disposal of the finance lease receivables of one aircraft, the gain from one lease-attached aircraft disposed to a wholly-owned subsidiary of ARI and the net gain from four lease-attached aircraft disposed to CAG Group by way of transferring the share interests of those wholly-owned subsidiaries which own direct interests in the lease-attached aircraft and leases, determined by comparing the net proceeds with the relevant carrying amount of net assets less transaction costs and other expenses.

24 OTHER INCOME

	Unaudited Six months ended 30 June **2018** **HK$'000**	 2017 HK$'000
Government grants (a)	**118,097**	49,407
Bank interest income	**7,142**	19,631
Interest income from loans to an associate (Note 8)	**44,769**	12,447
Operating lease income on office premises from a related party (Note 31(a))	**638**	637
Operating lease income on other assets from a related party (Note 31(c))	**1,320**	–
Operating lease income on office premises from an associate (Note 31(d))	**1,420**	2,371
Others	**33,622**	3,058
	207,008	87,551

(a) Government grants represent the grants and subsidies received from Mainland China government to support the development of aircraft leasing industry.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25 INTEREST EXPENSES

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Interest expenses on bank borrowings	365,233	353,951
Fair value (gain)/loss on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	(1,666)	15,019
Interest expenses on long-term borrowings	177,330	85,214
Interest expenses on convertible bonds (a)	7,012	14,480
Interest expenses on medium-term notes	23,048	21,171
Interest expenses on bonds	237,252	196,356
Less: interest capitalised on qualifying assets (b)	(110,271)	(71,544)
	697,938	614,647

(a) Interest expenses on convertible bonds consists of interest paid or payable of HK$1,862,000 (six months ended 30 June 2017: HK$4,024,000) 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.

26 OTHER OPERATING EXPENSES

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Employee benefit expenses	75,700	57,422
Professional service expenses	28,225	21,556
Value-added tax and other taxes	40,875	36,871
Rental and utilities expenses	13,827	12,863
Office and meeting expenses	9,067	4,125
Travelling and training expenses	7,348	6,239
Auditor's remuneration		
– Audit service	900	900
– Non-audit service	3,013	673
Impairment loss of finance lease receivables	7,367	–
Others	26,134	17,201
	212,456	157,850

27 OTHER GAINS/(LOSSES)

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Unrealised loss on a currency swap (Note 20)	(2,445)	(1,351)
Fair value losses on interest rate swaps (Note 20)	–	(3,921)
Realised gains on interest rate swaps (Note 20)	9,389	9,872
Currency exchange gains/(losses)	163	(7,285)
Loss on repurchase of convertible bonds (Note 18)	–	(3,055)
	7,107	(5,740)

28 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Current income tax:		
Mainland China, Hong Kong and others	12,950	56,189
Deferred income tax	98,127	37,963
	111,077	94,152

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25% (six months ended 30 June 2017: 25%). The leasing income of the subsidiaries in Mainland China is subject to VAT at 16% from 1 May 2018.

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 EUR200,000 of its taxable income and a rate of 25% over its taxable income in excess of EUR200,000.

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

The subsidiary incorporated in Singapore is subject to income tax at 17%.

The 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.

29 DIVIDENDS

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Interim dividend proposed of HK$0.22 (2017: HK$0.18) per ordinary share	**148,999**	122,072

On 24 March 2017, the Board declared a final dividend of HK$0.39 per ordinary share totalling HK$264.1 million 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 per ordinary share totalling HK$122.1 million for the six months ended 30 June 2017, which was paid in September 2017.

On 23 March 2018, the Board declared a final dividend of HK$0.42 per ordinary share totalling HK$284.8 million for the year ended 31 December 2017, which was paid in June 2018.

On 24 August 2018, the Board declared an interim dividend of HK$0.22 per ordinary share totalling HK$149.0 million which is calculated based on 677,269,380 issued shares as at 24 August 2018. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2018, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2017 and 2018.

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to shareholders of the Company (HK$'000)	**307,845**	248,670
Weighted average number of ordinary shares in issue (number of shares in thousands)	**678,173**	672,950
Basic earnings per share (HK$ per share)	**0.454**	0.370

30 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 one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. 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 2018	 2017
Earnings		
Profit attributable to shareholders of the Company (HK$'000)	**307,845**	248,670
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	**678,173**	672,950
Adjustment for:		
– Share options (number of shares in thousands)	**–**	3,605
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	**678,173**	676,555
Diluted earnings per share (HK$ per share)	**0.454**	0.368

31 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	
	2018	2017
	HK$'000	HK$'000
Operating lease income on office premises earned from:		
Friedmann Pacific Financial Services Limited	**638**	637

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

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Operating lease expenses on office premises charged by:		
CEL Venture Capital (Shenzhen) Limited	**–**	123

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

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of CEL and CEL indirectly holds approximately 33.6% equity interest in the Company as at 30 June 2018. Accordingly, CE Group is deemed as a controlling shareholder of the Company, and thus CE Group and its subsidiaries, have become related parties of the Company.

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

On 14 May 2015, the Company entered into a deposit services framework agreement, a loan services framework agreement and an assignment of finance lease receivables framework agreement with CE Group. Pursuant to the deposit services framework agreement, CE Group will provide deposit services to the Group through its associate, China Everbright Bank Co., Ltd. ("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.

31 RELATED PARTY TRANSACTIONS (continued)

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

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

	Unaudited Six months ended 30 June 2018 HK$'000	Unaudited Six months ended 30 June 2017 HK$'000
Interest income from CE Group	**2,223**	1,326
Interest expenses to CE Group	**138,292**	94,387
Loans upfront and arrangement fee to CE Group	**1,973**	8,372
Transactions handling charges to CE Group	**1,434**	1,554
Guarantee issuing fee to CE Group	**–**	146
Cash consideration from CE Group for disposal of finance lease receivables	**–**	1,856,908

	Unaudited As at 30 June 2018 HK$'million	Audited As at 31 December 2017 HK$'million
Bank deposits placed in CE Group	**1,450.6**	2,586.2
Borrowings due to CE Group	**4,944.7**	3,840.1
Undrawn facilities provided by CE Group	**405.1**	646.2

(ii) 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 18). After the repurchase, the principal amount of convertible bonds held by CE Financial was HK$155,160,000. In May 2018, the principal amount was fully redeemed upon maturity. The interest expenses incurred at an effective interest of 11.8% amounted to HK$7,012,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$14,480,000).

31 RELATED PARTY TRANSACTIONS (continued)

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

(iii) Lease of other assets to CEL Management Services Limited ("CEL Management")

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Operating lease income on other assets earned from:		
CEL Management	**1,320**	–

(d) Transactions with an associate

(i) Lease of office premises to an associate

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Operating lease income on office premises earned from:		
ARI	**1,420**	2,371

(ii) Loans to an associate

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. As at 30 June 2018, the outstanding balance receivable from ARI was amounted to HK$929,693,000 (31 December 2017: HK$870,188,000) (Note 8) and the share of interest income for the six months ended 30 June 2018 was HK$44,769,000 (six months ended 30 June 2017: HK$12,447,000).

31 RELATED PARTY TRANSACTIONS (continued)

(e) Disposal of aircraft to CAG Group and subsidiary of ARI

The Group has significant influence over CAG Group and ARI. The Group disposed one aircraft to the wholly-owned subsidiary of ARI and disposed or intends to dispose 18 aircraft by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in lease-attached aircraft to CAG Group. During the six months ended 30 June 2018, the total consideration from aforementioned disposal of aircraft to wholly-owned subsidiary of ARI and CAG Group is HK$1,631 million (six months ended 30 June 2017: Nil) and the Group recorded a net gain from aircraft transactions (Note 23) in the consolidated financial statements.

(f) Amounts due from related parties

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
CEL Management	**60**	–
ARI	**3,314**	588
FPAM Group	**6**	–
	3,380	588

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

32 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

The Group had no material contingent liabilities outstanding as at 30 June 2018 (31 December 2017: Nil).

32 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(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 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Contracted but not provided for:		
Purchase of aircraft	**83,317,689**	76,030,351
Shareholder loan commitment to CAG Group (Note 10)	**426,540**	–
Additions to property, plant and equipment excluding aircraft	**663**	255
	83,744,892	76,030,606

(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 premises are as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Not later than one year	**11,665**	15,412
Later than one year and not later than five years	**9,522**	9,774
Later than five years	**1,106**	1,501
	22,293	26,687

32 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

The Group had future minimum lease receipts under non-cancellable operating leases or sub-leases in respect of office premises and other assets as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Not later than one year	3,252	5,063
Later than one year and not later than five years	3,144	3,960
	6,396	9,023

The above amount included the following future minimum lease receipts from related parties:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Not later than one year	3,069	5,063
Later than one year and not later than five years	2,640	3,960
	5,709	9,023

32 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 leases in respect of aircraft as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Not later than one year	1,453,927	1,239,800
Later than one year and not later than five years	5,708,759	4,871,167
Later than five years	5,082,647	4,406,922
	12,245,333	10,517,889

33 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 22 August 2018, the Group further disposed 5 aircraft by way of share transfer of certain wholly-owned subsidiaries which own direct interests in lease-attached aircraft to CAG Group and expected to record a gain from aircraft transactions to the consolidated financial statements.