

CALC

China Aircraft Leasing Group Holdings Limited

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

Stock code : 01848



Strength
to Strength

INTERIM REPORT 2019



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Financial Information

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHAO Wei (*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. ZHAO Wei
Mr. POON Ho Man
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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISER

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

STOCK CODE

01848

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

PRINCIPAL BANKERS AND FINANCIAL INSTITUTIONS

Agricultural Bank of China Limited
Bank of Beijing Co, Ltd
Bank of China Limited
Bank of Communications Co., Ltd.
The Bank of East Asia, Limited
Bank of Jiangsu Co., Ltd
Bank SinoPac Company Limited
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 Limited
Chong Hing Bank Limited
Credit Agricole Corporate and Investment Bank
Crédit Industriel et Commercial
Credit Suisse Securities (USA) LLC
Dah Sing Bank Limited
Deutsche Bank AG
Development Bank of Japan Inc.
DVB Bank SE
E.Sun Commercial Bank, Ltd
EnTie Commercial Bank
Far Eastern International Bank, Ltd.
The Export-Import Bank of China
Goldman Sachs (Asia) L.L.C.
Hua Nan Commercial Bank, Ltd.
Industrial Bank Co., Ltd
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China (Thai) Public Company Limited
KDB Asia Limited
KfW IPEX-Bank GmbH
Mega International Commercial Bank Co., Ltd
Nanyang Commercial Bank, Limited
Ping An Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd
SinoPac Leasing Corp.
Société Générale
Tai Fung Bank Limited
Taishin International Bank Co., Ltd
Taiwan Cooperative Bank Limited
TIAA Bank
Toronto-Dominion Bank

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW

During the period under review, China Aircraft Leasing Group Holdings Limited (“CALC” or the “Company”, together with its subsidiaries, the “Group”) steadily implemented its aviation ecosystem strategy through integrating the demands of stakeholders in the global aviation industry chain, including aircraft original equipment manufacturers (“OEMs”), airlines and financiers, for aircraft assets, aviation services and financing, in order to create a one-stop aircraft asset management platform that optimizes overall economic efficiency.

OUR FLEET

In the first half of 2019, the Group continued to expand its fleet and optimize its portfolio. The Group delivered five aircraft to airlines and took redelivery of an aged aircraft which was then sold to its associate company Aircraft Recycling International Limited and its subsidiaries (“ARI”). As at 30 June 2019, CALC had 115 owned aircraft, with 227 aircraft in its order book to be delivered by 2023. During the period under review, the Group sold an addition of four aircraft to CAG Bermuda 1 Ltd and its subsidiaries (“CAG”), an international aircraft leasing and investment platform, increasing the total number of aircraft the Group managed for CAG to 22. The fleet size including the managed aircraft grew to 137 aircraft as at 30 June 2019 (133 aircraft as at 31 December 2018). During the period under review, CALC signed letters of intent to lease 25 aircraft, and continued to explore versatile channels, including purchase and leasebacks as well as portfolio acquisition, to expand its fleet.

CALC maintains one of the youngest and most modern fleets with longest average remaining lease terms amongst global operating lessors. As at 30 June 2019, CALC’s fleet had an average age of 4.1 years and average remaining lease terms of approximately 7.8 years (as at 31 December 2018, its fleet had an average age of 3.7 years and average remaining lease terms of approximately 8.3 years), and an occupancy rate of 99%. Of the current fleet of owned and managed aircraft, mainland Chinese airlines and non-Chinese carriers took up 68% and 32% respectively as at 30 June 2019. CALC’s client base spanned across 33 airlines in 15 countries and regions.

ASSET-LIGHT MODEL GAINING MOMENTUM

As at 30 June 2019, the number of aircraft under the Group’s management increased to 22, further strengthening its asset management capability. In addition, in moving the multi-facet development of the asset-light model forward, the Group proactively pressed ahead its aircraft portfolio trading business, focusing on investors’ high demand for quality aircraft assets with long-term and stable cash flow and strong liquidity. The rapid flow of capital is expected to realize efficient operations that maximize the returns of the Group’s equity. During the period under review, the Group reached letters of intent for the portfolio sale of six aircraft with three investors, and the transactions are expected to be completed within the year. The sale of aircraft portfolio will become a significant part of the Group’s efforts in underscoring its asset-light operations in the future.

CARRYING THROUGH THE FULL AVIATION VALUE CHAIN OPERATION

CALC continued to implement the strategic model of the full aviation value chain. During the period under review, ARI’s aircraft disassembly and components trading business continued to make headway. In April 2019, CALC and ARI collaborated in completing the purchase of an old aircraft portfolio of three aircraft and one airframe from China Southern Air Leasing Limited Company (“CSA Leasing”). Disassembly of the aircraft portfolio was completed. This was the first transaction completed on a public platform run by Guangzhou Enterprises Mergers and Acquisitions Services, as well as the first collaboration between CALC and CSA Leasing on a cross-border transaction of old aircraft portfolio. At the same time, the MRO business of ARI’s joint venture obtained a CCAR-145 maintenance permit from Civil Aviation Administration of China for the line maintenance of the Boeing 737NG and Airbus A320 models, with operations expected to commence this year.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPLORING CHANNELS TO ENLARGE FINANCING SCALE

During the period under review, the Group proactively explored financing channels in both China and overseas. In May this year, the Group signed a five-year unsecured revolving syndicated loan to finance its Pre-Delivery Payments (“PDP”) for new aircraft orders. The loan attracted a total of 17 banks, a number of which took their first step in the aviation financing sector. The syndicated loan, launched at US\$500 million, closed at US\$840 million thanks to overwhelming market response, making it one of the largest of its kind in the world and boosting the dynamism of aviation finance market in the region. It is also CALC’s first revolving syndicated loan, enabling it to double the number of its aircraft being financed.

CALC’s subsidiary, China Asset Leasing Company Limited, issued the Group’s first corporate bond in June. With an initial size of RMB500 million, the bond’s issued scale went up to RMB1 billion as a result of oversubscription. This was the first corporate bond issued by a domestic operating aircraft lessor in the year of 2019. Both the issuer and the corporate bond were rated AA+ by China Cheng Xin International Credit Rating Co Ltd. It is also the largest corporate bond issued by a leasing company with such rating since 2018.

AWARDS

During the period under review, riding on its exceptional business performance and leading philosophy of development, the Company was named “Aircraft Lessor of the Year” by *Global Transport Finance* for the fourth consecutive year. In addition, the CAG project was awarded the “Editor’s Deal of the Year for Innovation 2018” by *Airline Economics*, and also granted the “Asia Finance Editor’s Deal of the Year” by *Airfinance Journal*.

PROSPECT

Entering 2019, the growth of the global economy has been slowing down due to various uncertainties, including the escalating US-China trade dispute and geopolitical tensions. In terms of the aviation industry, the grounding and delivery delay of some mainstream aircraft models have resulted in the short supply for narrow-body aircraft in the short term. Despite the challenges, CALC maintains a prudent and optimistic attitude. CALC will continue to provide high value-added solutions for global airline clients as part of China Everbright Group’s implementation of its “Four World-leading” initiatives, and is resolved to spare no effort in building a global aircraft leasing company.

During the period under review, Mr. Zhao Wei succeeded Mr. Chen Shuang as CALC’s new Chairman of the Board. The Group warmly welcomes Mr. Zhao joining the Board and appreciates Mr. Chen’s precious and outstanding contribution to the Group’s development and accomplishments over the past few years, especially in pushing for the Company’s listing on the main board of the Stock Exchange of Hong Kong in 2014. With his support for the Group’s business model, the Company has implemented its corporate strategy effectively. In addition, thanks to Mr. Chen’s resources and experience in the financing and banking sectors, the Group has established a strong financing network to further boost its business. The Company would like to express its highest respect and heartfelt gratitude for his outstanding achievements in the Group during his tenure.

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

For the six months ended 30 June 2019, the Group delivered five aircraft and disposed five aircraft, maintaining its fleet size to 115. Revenue and other income was HK\$1,675.3 million, an increase of HK\$63.2 million or 3.9% from the corresponding period last year. Profit for the period ended 30 June 2019 amounted to HK\$312.4 million, an increase of HK\$4.6 million or 1.5% compared with the corresponding period last year.

Total assets were HK\$43,241.4 million as at 30 June 2019, compared with HK\$41,427.1 million as at 31 December 2018, an increase of HK\$1,814.3 million or 4.4%. The increase in assets was mainly due to the increase in PDP made for aircraft acquisition during the current period. Total liabilities amounted to HK\$39,672.9 million as at 30 June 2019, an increment of HK\$2,025.6 million or 5.4% compared with HK\$37,647.3 million as at 31 December 2018. This was mainly due to increased borrowings during the current period, which was in line with the increase in total assets.

2. ANALYSIS OF INCOME AND EXPENSES

	Unaudited Six months ended 30 June		Change
	2019 HK\$'Million	2018 HK\$'Million	
Finance lease income	352.2	432.4	-18.5%
Operating lease income	877.2	729.7	20.2%
Total lease income	1,229.4	1,162.1	5.8%
Contribution from aircraft transactions and aircraft trading	218.1	243.0	-10.2%
Government grants	121.7	118.1	3.0%
Interest income from loans to an associate	35.3	44.8	-21.2%
Bank interest income	10.7	7.1	50.7%
Sundry income	60.1	37.0	62.4%
Other income	445.9	450.0	-0.9%
Total revenue and other income	1,675.3	1,612.1	3.9%
Total operating expenses	(1,269.4)	(1,200.3)	5.8%
Other gains	4.0	7.1	-43.7%
Profit before income tax	409.9	418.9	-2.1%
Income tax expenses	(97.5)	(111.1)	-12.2%
Profit for the period	312.4	307.8	1.5%

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Revenue and Other Income

For the six months ended 30 June 2019, revenue and other income amounted to HK\$1,675.3 million compared with HK\$1,612.1 million for the corresponding period last year, an increase of HK\$63.2 million or 3.9%.

Lease income from finance leases and operating leases for the six months ended 30 June 2019 was totalled HK\$1,229.4 million, compared with HK\$1,162.1 million for the six months ended 30 June 2018, an increase of HK\$67.3 million or 5.8%. The decrease in finance lease income by HK\$80.2 million to HK\$352.2 million was due to the decrease in fleet size under finance lease from 67 aircraft as at 30 June 2018 to 61 aircraft as at 30 June 2019. The growth in operating lease income by HK\$147.5 million to HK\$877.2 million was attributable to the increase in fleet size under operating leases from 42 aircraft as at 30 June 2018 to 53 aircraft as at 30 June 2019.

During the six months ended 30 June 2019, the Group's average lease rental yield of the finance leases and operating leases was 11.0% (During the six months ended 30 June 2018: 11.6%) and 9.3% (During the six months ended 30 June 2018: 10.0%), respectively. Average lease rental yield for finance leases and operating leases is calculated by annual gross lease receipt divided by net book value of aircraft.

During the six months ended 30 June 2019, the Group recognised net gain from disposal of aircraft amounted to HK\$216.7 million (During the six months ended 30 June 2018: net gain from disposal of aircraft amounted to HK\$224.7 million). The Group completed disposal of five aircraft with aggregate net book value of HK\$1,592.1 million (During the six months ended 30 June 2018: Disposal of five aircraft with aggregate net book value of HK\$1,365.1 million).

During the year ended 31 December 2018, the Group recognised net gain from disposal of aircraft amounted to HK\$571.0 million. The Group completed disposal of 21 aircraft with aggregate net book value of HK\$6,461.3 million.

Government grants for the six months ended 30 June 2019 amounted to HK\$121.7 million, compared with HK\$118.1 million for the six months ended 30 June 2018, an increase of HK\$3.6 million or 3.0%. The increase in government grants was mainly due to increase in the number of aircraft that entitled to the government grants.

2.2 Total Operating Expenses

During the six months ended 30 June 2019, the Group had the following operating expenses:

	Unaudited		Change
	Six months ended 30 June		
	2019	2018	
	HK\$'Million	HK\$'Million	
Interest expenses	715.5	697.9	2.5%
Depreciation	362.2	289.9	24.9%
Other operating expenses	191.7	212.5	-9.8%
Total operating expenses	1,269.4	1,200.3	5.8%

MANAGEMENT DISCUSSION AND ANALYSIS

(a) Interest Expenses

For the six months ended 30 June 2019, interest expenses incurred by the Group amounted to HK\$715.5 million compared with HK\$697.9 million in the corresponding period last year, an increase of HK\$17.6 million or 2.5%.

(b) Depreciation

Depreciation mainly represented aircraft under operating leases. It increased by HK\$72.3 million or 24.9%. This was attributable to an increase in the number of aircraft under operating leases from 42 aircraft as at 30 June 2018 to 53 aircraft as at 30 June 2019.

(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 decrease in other operating expenses is due to the Group perform the cost control on operating expenses during the current period and the new adoption of HKFRS 16, "Leases" to recognise right-of-use assets for lease contracts with lease term greater than 1 year from operating expenses to lease assets and then depreciates throughout its lease period.

3. ANALYSIS OF FINANCIAL POSITION**3.1 Assets**

As at 30 June 2019, the Group's total assets amounted to HK\$43,241.4 million compared with HK\$41,427.1 million as at 31 December 2018, an increase of HK\$1,814.3 million or 4.4%.

	Unaudited As at 30 June 2019 HK\$'Million	Audited As at 31 December 2018 HK\$'Million	Change
Property, plant and equipment	18,800.6	18,886.3	-0.5%
Finance lease receivables – net	10,042.0	10,020.8	0.2%
Interests in and loans to associates	908.3	959.1	-5.3%
Cash and bank balances	4,401.7	4,166.5	5.6%
Prepayments and other assets	8,348.2	6,771.9	23.3%
Aircraft trading assets	138.2	–	N/A
Derivative financial assets	30.7	123.2	-75.1%
Financial assets at fair value through profit or loss	571.7	499.3	14.5%
Total assets	43,241.4	41,427.1	4.4%

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

The majority of total assets as at 30 June 2019 represented property, plant and equipment, and finance lease receivables.

Property, plant and equipment mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation.

Net finance lease receivables represented the present value of minimum lease payments receivable from aircraft classified as finance leases and their residual values.

MANAGEMENT DISCUSSION AND ANALYSIS

The total number of aircraft was 115 as at 30 June 2019, which was same as at 31 December 2018. Hence, there is no material changes in Property, plant and equipment, and Finance lease receivables – net during the current period.

3.1.2 Prepayments and Other Assets

Prepayments mainly represented PDP made to aircraft manufacturers for aircraft acquisition. The increase in PDP amounts was due to the increase in aircraft purchase commitment requiring PDP during the current period.

3.1.3 Aircraft Portfolio

Aircraft Type	Aircraft portfolio as at 30 June 2019, by number of aircraft		
	Owned Aircraft	Managed Aircraft	Total
Airbus A320CEO family	91	16	107
Airbus A320NEO family	3	3	6
Airbus A330CEO family	5	1	6
Boeing B737NG family	16	2	18
Total	115	22	137

3.2 Liabilities

As at 30 June 2019, the Group's total liabilities amounted to HK\$39,672.9 million compared with HK\$37,647.3 million as at 31 December 2018, an increase of HK\$2,025.6 million or 5.4%.

An analysis is given as follows:

	Unaudited As at 30 June 2019 HK\$'Million	Audited As at 31 December 2018 HK\$'Million	Change
Borrowings	27,533.4	24,603.2	11.9%
Bonds	7,357.6	8,580.4	-14.3%
Medium-term notes	759.3	758.8	0.1%
Deferred income tax liabilities	734.4	670.4	9.5%
Interest payables	282.4	269.8	4.7%
Income tax payables	23.4	29.3	-20.1%
Derivative financial liabilities	134.1	–	N/A
Other liabilities and accruals	2,848.3	2,735.4	4.1%
Total liabilities	39,672.9	37,647.3	5.4%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.1 Borrowings

	Unaudited As at 30 June 2019 HK\$'Million	Audited As at 31 December 2018 HK\$'Million	Change
Bank borrowings			
Bank borrowings for aircraft acquisition financing	15,813.1	15,634.4	1.1%
PDP financing	4,148.9	3,455.3	20.1%
Other unsecured bank borrowings	2,184.8	77.1	2,733.7%
	22,146.8	19,166.8	15.5%
Long-term borrowings			
Borrowings from trust plans	5,057.6	5,114.3	-1.1%
Other borrowings	329.0	322.1	2.1%
	5,386.6	5,436.4	-0.9%
Total borrowings	27,533.4	24,603.2	11.9%

3.2.2 Bonds

As at 30 June 2019, the following table summarises the senior unsecured US\$ and RMB bonds issued by the Group:

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK\$'Million)	Note
May 2016	Three years	May 2019	5.9%	-	-	(a)
August 2016	Five years	August 2021	4.9%	US\$300.0	2,335.1	
March 2017	Five years	March 2022	4.7%	US\$300.0	2,334.1	
March 2017	Seven years	March 2024	5.5%	US\$200.0	1,554.5	
				US\$800.0	6,223.7	(b)
June 2019	Three years	March 2022	5.2%	RMB1,000.0	1,133.9	(c)
Total bonds					7,357.6	

- (a) In May 2019, the Group fully repaid the three-year US\$300.0 million (equivalent to approximately HK\$2,352.8 million) senior unsecured bonds, bearing coupon interest at 5.9% per annum at maturity date.
- (b) These bonds are listed on the Hong Kong Stock Exchange.
- (c) The bond is listed on the Shanghai Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

3.3 Equity

	Unaudited As at 30 June 2019 HK\$'Million	Audited As at 31 December 2018 HK\$'Million	Change
Share capital	67.7	67.7	–
Reserves and others	1,604.9	1,830.6	–12.3%
Retained earnings	1,895.9	1,881.5	0.8%
Total equity	3,568.5	3,779.8	–5.6%

3.3.1 Reserves and others

During the six months ended 30 June 2019, the movements in reserves and others were primarily due to the increase in interest rate swap contracts entered into by the Group and changes in marked-to-market values of the derivative financial instruments as a result of changes in interest rate. Such dropping of interest rate in the current review period would cause a reduction of hedging reserves, which balance as at 30 June 2019 showed an accumulated unrealised loss of HK\$123.3 million as compared with an accumulated unrealised gain of HK\$80.4 million as at 31 December 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 2019:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'Million	HK\$'Million
I: Aircraft in operation		
Lease income	1,113.4	1,085.4
Bank interest and repayment	(865.0)	(779.6)
	248.4	305.8
II: Aircraft purchase and delivery		
Capital expenditure	(1,775.0)	(3,252.3)
Bank borrowings	1,203.4	3,047.9
	(571.6)	(204.4)
III: New aircraft not yet delivered		
PDP paid	(2,042.8)	(1,699.3)
PDP refunded	568.7	448.9
PDP financing	2,022.4	1,621.0
PDP financing interest and repayment	(1,436.2)	(350.7)
Advance payment for aircraft purchase	–	(346.0)
	(887.9)	(326.1)
IV: Net capital movement		
Dividends paid	(298.0)	(284.8)
Disposal of finance lease receivables and aircraft	1,762.4	1,939.9
Early loan repayment on disposal of finance lease receivables and aircraft	(771.8)	(1,195.0)
(Placement)/release of deposits pledged in respect of borrowings and derivative financial instruments	(52.5)	108.0
Purchase of aircraft trading assets	(138.6)	–
Net proceeds/(net repayment) from borrowings	2,191.9	(1,270.1)
Net proceeds from issuance of bonds	1,151.8	–
Repayment of bonds	(2,352.8)	–
Net repayment/(payments) relating to interests in and loans to associates	89.6	(14.7)
Convertible bonds repurchase, interest and repayment	–	(155.2)
Investment to financial assets at fair value through profit or loss	(59.8)	(146.2)
Net cash used in other operating activities	(107.0)	(96.5)
	1,415.2	(1,114.6)
Net increase/(decrease) in cash and cash equivalents	204.1	(1,339.3)
Cash and cash equivalents at beginning of the period	3,990.1	7,023.4
Currency exchange difference on cash and cash equivalents	(21.9)	11.0
Cash and cash equivalents at end of the period	4,172.3	5,695.1

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 capital ratios in order to support its business and maximise shareholder value.

Operations and capital expenditure requirements are funded by a combination of cash generated from operating activities, bank borrowings, long-term borrowings, 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 equity and debt financing opportunities.

For the six months ended 30 June 2019, the objectives, policies and processes for managing capital remained largely unchanged. The Group made full use of capital leverage and the asset-light strategy to keep pace with aircraft delivery.

The Group monitors capital through gearing ratios:

	Unaudited As at 30 June 2019 HK\$'Million	Audited As at 31 December 2018 HK\$'Million	Change
Interest-bearing debts included in total liabilities	35,650.3	33,942.4	5.0%
Total assets	43,241.4	41,427.1	4.4%
Gearing ratio	82.4%	81.9%	0.5p.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 not material. The Group has entered into floating-to-fixed interest rate swaps to hedge against interest rate exposure.

6. HUMAN RESOURCES

As at 30 June 2019, staff of the Group numbered 171 (30 June 2018: 172). Total remuneration of employees for the six months ended 30 June 2019 amounted to HK\$74.9 million (six months ended 30 June 2018: HK\$75.7 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.

MANAGEMENT DISCUSSION AND ANALYSIS

7. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

7.1 Contingent Liabilities

The Group had no material contingent liabilities outstanding as at 30 June 2019 (31 December 2018: Nil).

7.2 Capital Commitments for Aircraft Acquisition and Qualified Aircraft Leasing Activity

The Board confirms that the Company is a listed issuer actively engaged in aircraft leasing with aircraft operators as a principal business in its ordinary and usual course of business and the Company is therefore a Qualified Aircraft Lessor (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) (the "Listing Rules"). Acquisition or disposal of aircraft is a Qualified Aircraft Leasing Activity pursuant to the Listing Rules.

The Group's total aircraft purchase commitment amounted to HK\$93.9 billion as at 30 June 2019 (31 December 2018: HK\$96.5 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 30 June 2019, the Group had 227 aircraft in its order book, comprising 127 Airbus A320 aircraft and 100 Boeing B737 aircraft, which will be delivered in stages by the end of 2023.

During the period under review, the Group disposed of a cumulative number of five aircraft including one aircraft to ARI and four additional aircraft (other than the Initial Aircraft Portfolio) to CAG. Please refer to the Company's announcements dated 15 April 2019 and 12 June 2019 for further details of the disposal of aircraft to CAG.

7.3 Shareholder Loan Commitment for Investment in CAG

The Group committed shareholder loan for investment in CAG amounted to approximately US\$94.7 million (equivalent to approximately HK\$739.8 million). As at 30 June 2019, the Group's investment in CAG was US\$73.2 million (equivalent to HK\$571.7 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 2019, 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:

Name of Directors	Capacity	Number of Shares Held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares/underlying Share held	Total interests	
POON Ho Man	Interest of controlled corporation	197,554,589 ⁽³⁾	201,354,589	29.73%
	Interest of spouse	3,800,000 ⁽⁴⁾		
LIU Wanting	Interest of controlled corporation	10,000,000 ⁽⁵⁾	13,000,000	1.92%
	Beneficial owner	3,000,000 ⁽⁶⁾		
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	205,000	0.03%
	Beneficial owner	200,000 ⁽⁶⁾		
CHOW Kwong Fai, Edward	Beneficial owner	200,000 ⁽⁶⁾	200,000	0.03%

OTHER INFORMATION

DISCLOSURE OF INTERESTS *(continued)*

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

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 677,269,380 Shares in issue as at 30 June 2019.
- (3) 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.
- (4) 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.
- (5) These Shares were held by Smart Vintage Investments Limited, a company wholly-owned by Ms. LIU Wanting.
- (6) 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.

Save as disclosed above, as at 30 June 2019, 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 2019 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.

OTHER INFORMATION

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 2019 (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 2019, 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:

Name of shareholders	Capacity	Number of Shares Held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares/ underlying Shares held	Total interests	
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	208,979,479 ⁽³⁾	208,979,479	30.86%
China Everbright Limited ("CEL")	Interest of controlled corporation	237,838,479 ⁽³⁾	237,838,479	35.12%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	237,838,479 ⁽⁴⁾	237,838,479	35.12%
China Everbright Group Ltd. ("CE Group")	Interest of controlled corporation	237,838,479 ⁽⁵⁾	237,838,479	35.12%
Central Huijin Investment Limited ("Huijin Limited")	Interest of controlled corporation	237,838,479 ⁽⁵⁾	237,838,479	35.12%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	182,554,589 ⁽⁶⁾	182,554,589	26.95%
Capella Capital Limited ("Capella")	Interest of controlled corporation	182,554,589 ⁽⁶⁾	182,554,589	26.95%
POON Ho Man	Interest of controlled corporation Interest of spouse	197,554,589 ⁽⁷⁾ 3,800,000 ⁽⁹⁾	201,354,589	29.73%
Christina NG	Interest of spouse Beneficial owner	197,554,589 ⁽⁸⁾ 3,800,000 ⁽⁹⁾	201,354,589	29.73%

OTHER INFORMATION

DISCLOSURE OF INTERESTS *(continued)*

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

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 677,269,380 Shares in issue as at 30 June 2019.
- (3) CEL was deemed to be interested in 208,979,479 and 28,859,000 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 2019, 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 as its corporate governance practices.

The Company has complied with all Code Provisions as set out in the CG Code during the six months ended 30 June 2019.

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 enquiry 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 2019.

OTHER INFORMATION

BOARD COMMITTEES

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 of the CG Code. The primary duties of the Audit Committee include but not limited to reviewing and supervising the Group's financial reporting process, internal audit function, internal control and risk management systems, and providing advices and comments to the Board. As at the date of this report, the Audit Committee consisted of Mr. CHOW Kwong Fai, Edward (chairman), Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert and Mr. CHEOK Albert Saychuan, 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.

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 2018 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2019, 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.

OTHER INFORMATION

BOARD COMMITTEES *(continued)*

Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration of all 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. ZHAO Wei, Mr. POON Ho Man, Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward.

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

Nomination Committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference in compliance with Code Provision A.5 of the CG Code. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, reviewing 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.

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 the listing date of 11 July 2014.

OTHER INFORMATION

POST-IPO SHARE OPTION SCHEME (continued)

As at the date of this interim report, the total number of Shares available for issue under the Post-IPO Share Option Scheme is 24,974,000 Shares (as at the date of the 2018 interim report of 24 August 2018: 25,541,000 Shares), which represented approximately 3.69% (as at 24 August 2018: 3.77%) 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:

Name of grantees	Date of grant	Number of Shares under options				At 30 June 2019	Exercise price per Share HK\$	Exercise period
		At 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period			
Directors								
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
Sub-total		3,400,000	—	—	—	3,400,000		
Connected Persons								
Christina NG (Note 1)	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
CHEN Shuang (Note 2)	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
Sub-total		13,800,000	—	—	—	13,800,000		
Senior Management and other Employees	22/7/2016	2,686,200	—	—	(165,000)	2,521,200	8.80	22/1/2017–21/7/2020
		2,752,200	—	—	(165,000)	2,587,200	8.80	22/1/2018–21/7/2020
		2,835,600	—	—	(170,000)	2,665,600	8.80	22/1/2019–21/7/2020
Sub-total		8,274,000	—	—	(500,000)	7,774,000		
Total		25,474,000	—	—	(500,000)	24,974,000		

OTHER INFORMATION

POST-IPO SHARE OPTION SCHEME *(continued)*

Notes:

- (1) Ms. Christina NG is the spouse of Mr. POON Ho Man who is an executive Director and a substantial shareholder of the Company.
- (2) Mr. CHEN Shuang resigned from the position of the Chairman of the Board and an executive Director of the Company effective 10 May 2019. Mr. CHEN is a director of a subsidiary of the Company.

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. ZHAO Wei was appointed as the Chairman of the Board, an executive Director, the Chairman of the Strategy Committee and a member of the Sustainability Steering Committee of the Company in place of Mr. CHEN Shuang with effect from 10 May 2019. Mr. ZHAO was also appointed as the chairman of Everbright Jiabao Co., Ltd. (stock code: 600622.SH), a company listed in Shanghai, China, on 1 July 2019.

Mr. ZHAO Wei and Mr. POON Ho Man were appointed as members of the Remuneration Committee of the Company with effect from 27 August 2019.

Mr. TANG Chi Chun was appointed as a non-executive and non-independent director of Ying Li International Real Estate Limited (stock code: 5DM.SGX), a company listed in Singapore, on 14 June 2019.

Mr. CHEOK Albert Saychuan was appointed as a non-executive director of Peppermint Innovation Limited (stock code: ASX:PIL), a company listed in Australia, on 29 April 2019.

Mr. CHOW Kwong Fai, Edward, *JP*, stepped down from the position of a non-executive director of the Urban Renewal Authority with effect from 1 May 2019.

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\$1,665,360 to HK\$1,748,400 per annum with effect from 1 April 2019.

The basic salary of Ms. LIU Wanting, an executive Director, has been increased from HK\$2,880,000 to HK\$3,024,000 per annum with effect from 1 April 2019.

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\$0.23 per Share in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$0.22 per Share) to shareholders whose names appear on the register of members of the Company on 12 September 2019. The interim dividend will be paid on or about 26 September 2019.

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 2019 to 12 September 2019, 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 2019. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 10 September 2019.

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

During the six months ended 30 June 2019, 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, 27 August 2019

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 66, 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 2019 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, 27 August 2019

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

	Note	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
ASSETS			
Property, plant and equipment	7	18,800,584	18,886,288
Interests in and loans to associates	8	908,266	959,111
Finance lease receivables — net	9	10,042,023	10,020,816
Financial assets at fair value through profit or loss	10	571,741	499,323
Derivative financial assets	19	30,711	123,174
Aircraft trading assets	11	138,156	—
Prepayments and other assets	12	8,348,223	6,771,875
Restricted cash		229,326	176,451
Cash and cash equivalents		4,172,369	3,990,107
Total assets		43,241,399	41,427,145
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	13	67,727	67,727
Reserves and others	14	1,604,837	1,830,609
Retained earnings		1,895,921	1,881,523
Total equity		3,568,485	3,779,859
LIABILITIES			
Deferred income tax liabilities	15	734,446	670,401
Borrowings	16	27,533,450	24,603,195
Medium-term notes	17	759,263	758,831
Bonds	18	7,357,575	8,580,407
Derivative financial liabilities	19	134,071	—
Income tax payables		23,377	29,257
Interest payables		282,394	269,775
Other liabilities and accruals	20	2,848,338	2,735,420
Total liabilities		39,672,914	37,647,286
Total equity and liabilities		43,241,399	41,427,145

The notes on page 31 to 66 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 27 August 2019 and was signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000
Revenue			
Finance lease income	21	352,165	432,421
Operating lease income	21	877,194	729,666
		1,229,359	1,162,087
Contribution from aircraft transactions and aircraft trading	22	218,106	243,021
Other income	23	227,794	207,008
		1,675,259	1,612,116
Expenses			
Interest expenses	24	(715,553)	(697,938)
Depreciation	7	(362,181)	(289,907)
Other operating expenses	25	(191,690)	(212,456)
		(1,269,424)	(1,200,301)
Operating profit			
Share of loss of an associate	8	(488)	—
Other gains	26	4,525	7,107
		405,835	411,815
Profit before income tax			
Income tax expenses	27	(97,475)	(111,077)
		312,397	307,845
Profit for the period			
Profit attributable to shareholders of the Company			
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$ per share)			
— Basic earnings per share	29(a)	0.461	0.454
— Diluted earnings per share	29(b)	0.461	0.454

The notes on page 31 to 66 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Profit for the period		312,397	307,845
Other comprehensive (expense)/income for the period:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges	19	(203,673)	77,121
Currency translation differences		(22,438)	9,464
Total other comprehensive (expense)/income for the period, net of tax		(226,111)	86,585
Total comprehensive income for the period		86,286	394,430
Total comprehensive income for the period attributable to shareholders of the Company		86,286	394,430

The notes on page 31 to 66 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 31 December 2017	67,818	1,861,658	1,497,677	3,427,153
Change in accounting policy	—	—	(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 19)	—	77,121	—	77,121
Currency translation differences	—	9,464	—	9,464
Total comprehensive income	—	86,585	307,845	394,430
Transaction with shareholders				
Dividends (Note 28)	—	—	(284,837)	(284,837)
Buy-back of shares (Note 14(a))	—	(3,487)	—	(3,487)
Share option scheme:				
— Value of services (Note 13)	—	3,472	—	3,472
— Issue of new shares from exercise of share options (Note 13)	—	7	—	7
Transfer of reserves upon maturity of convertible bonds	—	(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
Balance as at 1 January 2019	67,727	1,830,609	1,881,523	3,779,859
Comprehensive income				
Profit for the period	—	—	312,397	312,397
Other comprehensive expense				
Cash flow hedges (Note 19)	—	(203,673)	—	(203,673)
Currency translation differences	—	(22,438)	—	(22,438)
Total comprehensive income	—	(226,111)	312,397	86,286
Transaction with shareholders				
Dividends (Note 28)	—	—	(297,999)	(297,999)
Share option scheme:				
— Value of services (Note 13)	—	339	—	339
Total transactions with shareholders	—	339	(297,999)	(297,660)
Balance as at 30 June 2019	67,727	1,604,837	1,895,921	3,568,485

The notes on page 31 to 66 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Cash flows from operating activities			
Profit after income tax		312,397	307,845
Adjustments for:			
— Depreciation		362,181	289,907
— Contribution from aircraft transactions		(216,657)	(243,021)
— (Reversal of impairment loss)/impairment loss of finance lease receivables		(956)	7,367
— Interest expenses		715,553	697,938
— Share-based payments		339	3,472
— Unrealised currency exchange gains		(9,532)	(3,714)
— Fair value losses/(gains) on interest rate and currency swaps		18,886	(6,944)
— Share of loss of an associate		488	—
— Interest income		(58,638)	(51,911)
		1,124,061	1,000,939
Changes in working capital:			
— Finance lease receivables — net		(39,288)	(453,622)
— Aircraft trading assets		(138,598)	—
— Prepayments and other assets		28,260	(137,064)
— Other liabilities and accruals		125,350	266,501
— Income tax payables		(5,880)	(8,314)
— Deferred income tax liabilities		64,879	98,098
Net cash flows generated from operating activities		1,158,784	766,538
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,776,232)	(2,887,579)
Proceeds from disposal of aircraft		1,688,819	1,610,645
Deposits paid for acquisition of aircraft		(2,042,775)	(1,699,344)
Deposits refunded for acquisition of aircraft		568,707	448,949
Investment in an associate		(3,462)	—
Interest received		10,723	7,142
Net repayment/(payments) relating to loans to an associate		89,557	(14,736)
Investment to financial assets at fair value through profit or loss		(59,799)	(146,167)
Net cash flow used in investing activities		(1,524,462)	(2,681,090)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited	
		2019	2018
		HK\$'000	HK\$'000
Cash flows from financing activities			
Proceeds from issue of new shares from exercise of share options	13	—	7
Proceeds from borrowings		8,559,824	6,190,894
Proceeds from termination of derivative financial instruments		3,961	—
Issue of bonds, net of transaction costs		1,151,837	—
Repayments of borrowings		(5,587,332)	(4,561,262)
Repayment of bonds		(2,352,780)	—
Repurchase or repayment of convertible bonds, including transaction costs		—	(155,160)
Interest received in respect of derivative financial instruments		22,550	1,666
Interest paid in respect of borrowings, notes and bonds		(877,753)	(720,494)
(Increase)/decrease in deposits pledged in respect of borrowings and derivative financial instruments		(52,489)	107,965
Buy-back of shares, including transaction costs	14	—	(3,487)
Dividends paid to shareholders		(297,999)	(284,837)
Net cash flows generated from financing activities		569,819	575,292
Net increase/(decrease) in cash and cash equivalents		204,141	(1,339,260)
Cash and cash equivalents at beginning of the period		3,990,107	7,023,359
Currency exchange difference on cash and cash equivalents		(21,879)	10,956
Cash and cash equivalents at end of the period		4,172,369	5,695,055

The notes on page 31 to 66 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The interim condensed consolidated financial information for the six months ended 30 June 2019 ("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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2018 annual report of the Company.

Going concern

Aircraft leasing is a capital-intensive business. As at 30 June 2019, the Group's current liabilities exceeded its current assets by HK\$2,063.5 million. The Group had total capital commitments of HK\$94,058.0 million mainly relating to acquisition of aircraft (Note 31(b)), of which HK\$5,794.8 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 loans and aircraft bank loans, bonds, other debt and capital financing, and the asset-light strategy including 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:

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****2 BASIS OF PREPARATION** *(continued)***Going concern** *(continued)*

- According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next twelve months from 30 June 2019 amounted to HK\$3,096.4 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\$2,763.7 million to the Group in the next twelve months from 30 June 2019. The remaining balance of PDP amounting to HK\$332.7 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 repayment of the PDP financing and the balance of aircraft acquisition cost. Such aircraft acquisition borrowing will only be confirmed before delivery of the relevant aircraft. Based on industry practice and prior experience, long-term aircraft borrowings will be granted by the banks if the aircraft can be leased out to airline companies. Lease agreements or letters of intent have already been signed for the aircraft scheduled for deliveries in the next twelve months from 30 June 2019. The directors of the Company thus believes that long-term aircraft borrowings can be obtained or financed by other internal resources, issuing bonds and available banking facilities which can be used to settle the PDP financing and the remaining payments of the aircraft acquisition costs due in the next twelve months from 30 June 2019.

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 2019. The forecasts are based on a number of assumptions including aircraft delivery and leasing schedules, and 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 2019. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 2018.

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 2019:

HKFRS 16, 'Leases'

HK (IFRIC) 23, 'Uncertainty over income tax treatments'

Amendments to HKFRS 9, 'Prepayment features with negative compensation'

Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'

Amendment to HKAS 28, 'Long-term interests in associates and joint ventures'

Annual improvements to HKFRS standards 2015–2017 cycle

The impact of adoption of HKFRS 16 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.

4 CHANGES IN ACCOUNTING POLICY

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements and also discloses the new accounting policy that has been applied from 1 January 2019, where it is different to that applied in prior periods.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION4 CHANGES IN ACCOUNTING POLICY *(continued)***Adjustments recognised on adoption of HKFRS 16**

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.0%.

	2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	40,729
Discounted using the lessee's incremental borrowing rate of at the date of initial application	38,574
Less: short-term leases recognised on a straight-line basis as expense	(9,188)
Lease liability recognised as at 1 January 2019	29,386
Of which are:	
Current lease liabilities	16,008
Non-current lease liabilities	13,378
	29,386

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets and finance lease receivables – net relate to the following types of assets:

	30 June 2019 HK\$'000	1 January 2019 HK\$'000
Right-of-use assets (Properties)	16,187	22,060
Finance lease receivables – net (Properties)	5,095	7,326

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 2018 except for the impact of the adoption of HKFRS 16 as disclosed in note 4.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 2018.

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 2018.

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 certain borrowings are denominated in different currencies.

(b) Cash flow and fair value interest rate risk

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, long-term borrowings, bonds and 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 2019, the Group had 27 outstanding floating-to-fixed interest rate swaps (31 December 2018: 15 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 exposure closely trend and will may consider hedging the exposure where necessary and appropriate.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****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 (continued)*

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2019. 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 2019 by approximately HK\$22,346,000 (six months ended 30 June 2018: decreased/increased by approximately HK\$20,210,000); and would also have increased/decreased the Group's reserves by approximately HK\$121,021,000 (31 December 2018: increased/decreased by approximately HK\$47,416,000) 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.

6.1.2 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 20). 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

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. 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 2019, the lessees of the Group are airline companies located in the United States, Mainland China and other countries or regions globally. Please see Note 9 and Note 21 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables 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 31(d)) from these airline companies is insignificant.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Current assets		
Loans to an associate	904,850	959,111
Financial assets at fair value through profit or loss	201,884	76,830
Finance lease receivables — net	727,733	791,028
Aircraft trading assets	138,156	—
Derivative financial assets	9,632	44,023
Prepayments and other assets	102,835	128,316
Cash and cash equivalents	4,172,369	3,990,107
	6,257,459	5,989,415
Current liabilities		
Deferred income tax liabilities	99,578	102,518
Borrowings	5,600,832	5,181,104
Bonds	—	2,349,360
Derivative financial liabilities	12,287	—
Income tax payables	23,377	29,257
Interest payables	282,394	269,775
Other liabilities and accruals	2,302,473	2,167,051
	8,320,941	10,099,065
Net current liabilities	(2,063,482)	(4,109,650)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**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. No changes were made to the objectives, policies or processes for managing capital during the six months ended 30 June 2019.

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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Interest-bearing debts included in total liabilities	35,650,288	33,942,433
Total liabilities	39,672,914	37,647,286
Total assets	43,241,399	41,427,145
Gearing ratio	82.4%	81.9%
Asset-liability ratio	91.7%	90.9%

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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

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 2019 — unaudited				
Assets				
Currency swap	—	17,358	—	17,358
Interest rate swaps	—	13,353	—	13,353
Financial assets at fair value through profit or loss	—	—	571,741	571,741
	—	30,711	571,741	602,452
Liabilities				
Interest rate swaps	—	134,071	—	134,071
As at 31 December 2018 — audited				
Assets				
Currency swap	—	16,121	—	16,121
Interest rate swaps	—	107,053	—	107,053
Financial assets at fair value through profit or loss	—	—	499,323	499,323
	—	123,174	499,323	622,497

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

The fair value of the financial assets at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

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 2019.

	Financial assets at fair value through profit or loss HK\$'000
As at 31 December 2018	499,323
Investment to financial assets at fair value through profit or loss	103,517
Proceeds from financial assets at fair value through profit or loss and interest accrued	(29,579)
Currency translation difference	(1,520)
As at 30 June 2019	571,741

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, borrowings, medium-term notes and bonds are as follows:

	Unaudited		Audited	
	As at 30 June 2019		As at 31 December 2018	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Finance lease receivables — net	10,042,023	10,912,601	10,020,816	10,403,135
Borrowings	27,533,450	27,685,468	24,603,195	25,272,662
Medium-term notes	759,263	794,728	758,831	775,926
Bonds	7,357,575	7,734,527	8,580,407	8,178,044

The fair values of finance lease receivables, borrowings and medium-term notes 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

7 PROPERTY, PLANT AND EQUIPMENT

	Aircraft and engine HK\$'000	Leasehold improvements HK\$'000	Unaudited		Right-of-use assets HK\$'000	Others HK\$'000	Total HK\$'000
			Office equipment HK\$'000	Building 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	(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 31 December 2018 and 1 January 2019 as previously reported	18,824,290	964	3,700	44,796	—	12,538	18,886,288
Effects of the adoption of HKFRS 16 (Note 4)	—	—	—	—	22,060	—	22,060
Additions	1,841,420	—	1,059	—	—	110	1,842,589
Disposals	(1,541,881)	—	—	—	—	—	(1,541,881)
Depreciation	(353,643)	(426)	(927)	(458)	(5,873)	(854)	(362,181)
Currency translation difference	(46,178)	1	(8)	(106)	—	—	(46,291)
Net book value as at 30 June 2019	18,724,008	539	3,824	44,232	16,187	11,794	18,800,584

Lease rentals amounting to HK\$877,194,000 relating to the lease of aircraft and engine for the six months ended 30 June 2019 are included in "operating lease income" in the consolidated statement of income (six months ended 30 June 2018: HK\$729,666,000).

As at 30 June 2019, the net book value of aircraft amounted to HK\$18,630,520,000 (31 December 2018: HK\$18,728,949,000).

As at 30 June 2019, the net book value of aircraft under operating leases amounting to HK\$15,900,688,000 (31 December 2018: HK\$12,965,632,000) were pledged as collateral for bank borrowings for aircraft acquisition financing and borrowings from trust plans (Note 16).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

8 INTERESTS IN AND LOANS TO ASSOCIATES

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Interests in and loans to associates	908,266	959,111

	Unaudited Six months ended 30 June 2019 HK\$'000	2018 HK\$'000
Share of loss of an associate	488	—

As at 30 June 2019, the Group had direct interests in the following principal associates:

Name of associate	Place of incorporation	Principal activities	% of ownership interest	Measurement method
Aircraft Recycling International Limited (a)	Cayman Islands	Investment holding (a)	48%	Equity
FLARI Aircraft Maintenance & Engineering Company Ltd ("FLARI") (b)	PRC	Line maintenance (b)	34.52%	Equity

- (a) Aircraft Recycling International Limited and its subsidiaries (collectively as "ARI") 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 and engine. As at 30 June 2019, the Group's outstanding loans balance receivable from ARI amounted to HK\$904,850,000 (31 December 2018: HK\$959,111,000) (Note 30(c)). For details, please refer to note 30(c)(ii).
- (b) FLARI has operations mainly in the Mainland China and are principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

9 FINANCE LEASE RECEIVABLES — NET

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Finance lease receivables	3,521,489	3,790,263
Guaranteed residual values	5,835,492	5,849,909
Unguaranteed residual values	6,483,238	6,548,174
Gross investment in leases	15,840,219	16,188,346
Less: Unearned finance income	(5,785,089)	(6,153,437)
Net investment in leases	10,055,130	10,034,909
Less: Accumulated allowance for impairment	(13,107)	(14,093)
Finance lease receivables — net	10,042,023	10,020,816

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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Gross investment in finance leases	15,840,219	16,188,346
Less: Unguaranteed residual values	(6,483,238)	(6,548,174)
Minimum lease payments receivable	9,356,981	9,640,172
Less: Unearned finance income related to minimum lease payments receivable	(3,186,808)	(3,406,188)
Present value of minimum lease payments receivable	6,170,173	6,233,984

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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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Gross investment in finance leases		
— Not later than 1 year	857,929	952,009
— Later than 1 year and not later than 5 years	2,105,352	1,955,373
— Later than 5 years	12,876,938	13,280,964
	15,840,219	16,188,346

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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Present value of minimum lease payments receivable		
— Not later than 1 year	515,712	542,839
— Later than 1 year and not later than 5 years	1,166,100	1,112,478
— Later than 5 years	4,488,361	4,578,667
	6,170,173	6,233,984

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

	Unaudited		Audited	
	As at 30 June 2019 HK\$'000	%	As at 31 December 2018 HK\$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	8,029,309	80%	8,060,406	80%
Other companies	2,012,714	20%	1,960,410	20%
Finance lease receivables — net	10,042,023	100%	10,020,816	100%

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10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Long term debt investments	571,741	499,323

CAG Bermuda 1 Limited and its subsidiaries (collectively as "CAG") are principally engaged in 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\$94,700,000 (equivalent to approximately HK\$739,787,000).

11 AIRCRAFT TRADING ASSETS

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Aircraft trading assets	138,156	—

The cost of aircraft trading assets recognised as cost and included in "Contribution from aircraft transactions and aircraft trading" at Note 22(b), amounted to HK\$15,805,000.

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12 PREPAYMENTS AND OTHER ASSETS

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
PDP (a)	7,689,218	6,236,290
Interest capitalised	445,631	305,594
Prepayments and receivables relating to aircraft acquisition	63,607	99,056
Deposits paid	48,835	60,906
Amounts due from related parties (Note 30(f))	3,882	4,467
Others (b)	97,050	65,562
	8,348,223	6,771,875

- (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 ("Boeing") for the purchase of 50 aircraft.

In December 2018, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement to purchase additional 50 aircraft from Boeing.

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

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

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13 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK\$
Issued:			
As at 1 January 2018	HK\$0.1	678,179,360	67,817,936
Issue of new shares from exercise of share options (a)	HK\$0.1	4,020	402
Buy-back of shares (b)	HK\$0.1	(914,000)	(91,400)
As at 31 December 2018 and 30 June 2019 (c)	HK\$0.1	677,269,380	67,726,938

- (a) During the year ended 31 December 2018, a grantee exercised share options granted under share option schemes, resulting in 4,020 new shares being issued, with total proceeds of HK\$7,000. The related weighted average share price at the time of exercise was HK\$7.77 per share. During the six months ended 30 June 2019, there was no share option exercised. As at 30 June 2019, 24,974,000 (31 December 2018: 16,790,400) share options were exercisable.
- (b) The Company acquired 914,000 its own shares through purchases on the Stock Exchange and those purchased shares were subsequently cancelled during the year ended 31 December 2018. The total amount paid to acquire the shares was HK\$7,261,000, including transaction costs. 914,000 of its own shares have been deducted from the share capital and share premium. During the six months ended 30 June 2019, there was no buy-back of shares.
- (c) No change was noted during the period from 1 January 2019 to 30 June 2019.

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 2019			Unaudited Six months ended 30 June 2018		
	Pre-IPO	Post-IPO	Total	Pre-IPO	Post-IPO	Total
Beginning of period	—	25,474,000	25,474,000	4,020	25,875,000	25,879,020
Exercised	—	—	—	(4,020)	—	(4,020)
Lapsed	—	(500,000)	(500,000)	—	(334,000)	(334,000)
End of period	—	24,974,000	24,974,000	—	25,541,000	25,541,000

For share options outstanding as at 30 June 2019, the exercise price per share of Second Post-IPO Share Option Scheme was HK\$8.80.

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 2019 and 2018 are as follows:

	Unaudited Six months ended 30 June Unaudited 2019 HK\$'000	Audited 2018 HK\$'000
Directors and employees	339	3,472

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14 RESERVES AND OTHERS

	Unaudited								
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Share-based payments HK\$'000	Hedging reserves HK\$'000	Convertible bonds HK\$'000	Currency translation difference HK\$'000	Treasury shares HK\$'000	Total HK\$'000
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 13)	—	—	—	3,472	—	—	—	—	3,472
— Issue of new shares from exercise of share options (Note 13)	7	—	—	—	—	—	—	—	7
Cash flow hedges (Note 19)	—	—	—	—	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	—	—	—	—	—	(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
Balance as at 1 January 2019	1,092,091	623,720	(39)	42,163	80,414	—	(7,740)	—	1,830,609
Share option scheme:									
— Value of services (Note 13)	—	—	—	339	—	—	—	—	339
Cash flow hedges (Note 19)	—	—	—	—	(203,673)	—	—	—	(203,673)
Currency translation differences	—	—	—	—	—	—	(22,438)	—	(22,438)
Balance as at 30 June 2019	1,092,091	623,720	(39)	42,502	(123,259)	—	(30,178)	—	1,604,837

- (a) The Company acquired 437,000 of its own shares through purchases on the Stock Exchange during the six months ended 30 June 2018. 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.

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15 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Deferred income tax liabilities:		
— To be settled within 12 months	99,578	102,518
— To be settled after 12 months	634,868	567,883
	734,446	670,401

The movement of the deferred income tax liabilities during the six months ended 30 June 2019, 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 2018	544,549
Charged to profit or loss (Note 27)	98,127
Currency translation difference	1,923
As at 30 June 2018	644,599
As at 1 January 2019	670,401
Charged to profit or loss (Note 27)	64,725
Currency translation difference	(680)
As at 30 June 2019	734,446

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.

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16 BORROWINGS

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Bank borrowings		
Bank borrowings for aircraft acquisition financing (a)	15,813,085	15,634,391
PDP financing (b)	4,148,949	3,455,263
Other unsecured bank borrowings (c)	2,184,750	77,098
	22,146,784	19,166,752
Long-term borrowings		
Borrowings from trust plans (d)	5,057,603	5,114,323
Other borrowings (e)	329,063	322,120
	5,386,666	5,436,443
	27,533,450	24,603,195

Bank borrowings

- (a) Bank borrowings for aircraft acquisition financing are principally based on fixed or floating US\$ LIBOR rates. As at 30 June 2019, 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\$59,843,000 (31 December 2018: HK\$128,678,000).
- (b) As at 30 June 2019, PDP financing of HK\$3,050,518,000 (31 December 2018: HK\$2,184,082,000) 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 2019, the Group had other unsecured bank borrowings of HK\$2,184,750,000 (31 December 2018: HK\$77,098,000) which were guaranteed by certain companies of the Group.

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Floating rate:		
— Expiring within one year	60,340	273,309
— Expiring beyond one year	6,004,359	6,133,418
	6,064,699	6,406,727

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****16 BORROWINGS** *(continued)***Long-term borrowings**

- (d) As at 30 June 2019, 46 borrowings (31 December 2018: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposal of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (31 December 2018: 3.5% to 7.8%) per annum for remaining terms of five to 11 years (31 December 2018: five 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\$44,198,000 (31 December 2018: HK\$44,296,000).
- (e) As at 30 June 2019, four borrowings (31 December 2018: four borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2018: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2018: 3.9% to 5.7%) per annum for their remaining terms of six to seven years (31 December 2018: six to seven 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 2019, after deducting the issuing cost, the total carrying amount of these notes was HK\$759,263,000 (31 December 2018: HK\$758,831,000).

18 BONDS

In May 2016, the Group issued three-year US\$300 million senior unsecured bonds due in May 2019, bearing coupon interest at 5.9% per annum, payable semi-annually. The bond has been fully repaid on maturity.

In August 2016, the Group issued five-year US\$300 million senior unsecured bonds due in 2021, bearing coupon interest at 4.9% per annum, payable semi-annually. These bonds were listed on the Stock Exchange and are guaranteed by the Company.

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.

In June 2019, one of wholly owned subsidiary in PRC issued three-year RMB1.0 billion unsecured bond due in 2022, bearing coupon rate of 5.2% per annum and is listed on the Shanghai Stock Exchange. Both the issuer and the corporate bonds were rated AA+ by China Cheng Xin International Credit Rating Company Limited.

After deducting the issuing cost, total carrying amount of these bonds as at 30 June 2019 was HK\$7,357,575,000 (31 December 2018: HK\$8,580,407,000).

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19 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Derivative financial assets		
— Currency swap (a)	17,358	16,121
— Interest rate swaps (b)	13,353	107,053
	30,711	123,174
Derivative financial liabilities		
— Interest rate swaps (b)	134,071	—

- (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 2019, the fair value of this currency swap contract amounted to HK\$17,358,000 (31 December 2018: HK\$16,121,000) and the fair value gain of HK\$1,282,000 was recognised in “Other gains” (Note 26) for the six months ended 30 June 2019 (six months ended 30 June 2018: loss of HK\$2,445,000). As at 30 June 2019, this arrangement was secured by a pledged deposit of HK\$3,464,000 (31 December 2018: HK\$3,477,000).
- (b) As at 30 June 2019, the Group had 29 outstanding interest rate swap contracts (31 December 2018: 19 contracts) which will expire at various dates from 19 September 2019 to 21 December 2024 (31 December 2018: 19 September 2019 to 21 December 2024), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 1.3% to 2.6% (31 December 2018: 1.3% to 2.0%). As at 30 June 2019, this arrangement was secured by margin deposit of HK\$121,821,000 (31 December 2018: Nil).

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19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Recognised in other comprehensive income		
— Change in fair values of interest rate swaps	(203,673)	86,510
— Reclassified from other comprehensive income to profit or loss	—	(9,389)
	(203,673)	77,121
Recognised in profit or loss		
— Fair value losses on interest rate swaps	(10,113)	—
— Unrealised gains/(losses) on a currency swap	1,282	(2,445)
— Realised (losses)/gains on interest rate swaps	(10,055)	9,389
	(18,886)	6,944

20 OTHER LIABILITIES AND ACCRUALS

	Unaudited	Audited
	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Deposits and fund received for lease and aircraft projects	1,850,188	1,627,449
Consultant and insurance premium payable	110,550	113,052
Value-added tax and withholding tax payables	528,971	593,400
Operating lease rentals received in advance	126,325	128,014
Amounts due to related parties (Note 30(f))	7,108	2,973
Others (including salary and bonus payable)	225,196	270,532
	2,848,338	2,735,420

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FINANCIAL INFORMATION**21 LEASE INCOME AND SEGMENT INFORMATION**

During the six months ended 30 June 2019, the Group was engaged in a single business segment, the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

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

	Unaudited Six months ended 30 June			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Airline company — A	220,874	18%	99,840	9%
Airline company — B	127,165	10%	92,015	8%
Airline company — C	82,255	7%	63,508	5%
Airline company — D	80,296	7%	83,160	7%
Airline company — E	77,283	6%	76,127	7%
Other companies	641,486	52%	747,437	64%
Total finance and operating lease income	1,229,359	100%	1,162,087	100%

22 CONTRIBUTION FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT TRADING

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Aircraft transactions (a)	216,657	243,021
Aircraft trading (b)	1,449	—
	218,106	243,021

- (a) The net gain from aircraft transactions for the six months ended 30 June 2019 included disposal of one aircraft to ARI, and the disposal of four aircraft to CAG, determined by comparing the net proceeds with the relevant carrying amount of net assets less transaction costs and other expenses.

The net gain from aircraft transactions for the six months ended 30 June 2018 included disposal of the finance lease receivables of one aircraft, the disposal of one aircraft to ARI and the disposal of four aircraft to CAG, determined by comparing the net proceeds with the relevant carrying amount of net assets less transaction costs and other expenses.

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22 CONTRIBUTION FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT TRADING

(continued)

(b) Aircraft trading

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Sales from aircraft trading assets	17,254	—
Less: Cost of aircraft trading assets	(15,805)	—
Profit from aircraft trading assets	1,449	—

23 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Government grants (a)	121,663	118,097
Bank interest income	10,723	7,142
Interest income from loans to an associate (Note 30(c))	35,296	44,769
Servicer fees income from CAG (Note 30(d))	10,368	—
Operating lease income on office premises from a related party (Note 30(a))	—	638
Operating lease income on other assets from a related party (Note 30(b))	1,320	1,320
Operating lease income on office premises from an associate (Note 30(c))	—	1,420
Others	48,424	33,622
	227,794	207,008

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

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24 INTEREST EXPENSES

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest expenses on borrowings	690,735	542,563
Fair value gain on interest rate swaps designated as cash flow hedges — transfer from other comprehensive income	(22,550)	(1,666)
Interest expenses on convertible bonds	—	7,012
Interest expenses on medium-term notes	21,646	23,048
Interest expenses on bonds	215,801	237,252
Less: interest capitalised on qualifying assets (a)	(190,079)	(110,271)
	715,553	697,938

- (a) 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.

25 OTHER OPERATING EXPENSES

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Employee benefit expenses	74,944	75,700
Professional service expenses	28,713	28,225
Value-added tax and other taxes	40,297	40,875
Rental and utilities expenses	6,638	13,827
Office and meeting expenses	6,732	9,067
Travelling and training expenses	5,280	7,348
Auditor's remuneration		
— Audit service	927	900
— Non-audit service	1,465	3,013
(Reversal of impairment loss)/impairment loss of finance lease receivables	(956)	7,367
Others	27,650	26,134
	191,690	212,456

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26 OTHER GAINS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Fair value losses on interest rate swaps	(10,113)	—
Unrealised gains/(losses) on a currency swap (Note 19)	1,282	(2,445)
Realised (losses)/gains on interest rate swaps (Note 19)	(10,055)	9,389
Currency exchange gains	10,792	163
Interest income from CAG (Note 30(d))	12,619	—
	4,525	7,107

27 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	32,750	12,950
Deferred income tax	64,725	98,127
	97,475	111,077

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 2018: 25%). The leasing income of the subsidiaries in Mainland China is subject to VAT at 13% from 1 April 2019 (prior to 1 May 2018: 16%).

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%.

Before 1 January 2019, 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. Since 1 January 2019, the subsidiaries incorporated in Labuan are subject to income tax at 3% on the net profits annually.

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28 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interim dividend proposed of HK\$0.23 (2018: HK\$0.22) per ordinary share	155,772	148,999

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.

An interim dividend of HK\$0.22 per ordinary share totalling HK\$149.0 million for the six months ended 30 June 2018, which was paid in September 2018.

A final dividend of HK\$0.44 per ordinary share totalling HK\$298.0 million for the year ended 31 December 2018, which was paid in June 2019.

On 27 August 2019, the Board declared an interim dividend of HK\$0.23 per ordinary share totalling HK\$155.8 million which is calculated based on 677,269,380 issued shares as at 27 August 2019. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2019, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

29 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 2018 and 2019.

	Unaudited	
	Six months ended 30 June	
	2019	2018
Profit attributable to shareholders of the Company (HK\$'000)	312,397	307,845
Weighted average number of ordinary shares in issue (number of shares in thousands)	677,269	678,173
Basic earnings per share (HK\$ per share)	0.461	0.454

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(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	
	2019	2018
Earnings		
Profit attributable to shareholders of the Company (HK\$'000)	312,397	307,845
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (number of shares in thousands)	677,269	678,173
Adjustment for:		
— Share options (number of shares in thousands)	—	—
Weighted average number of ordinary shares for diluted earnings per share (number of shares in thousands)	677,269	678,173
Diluted earnings per share (HK\$ per share)	0.461	0.454

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30 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	
	2019	2018
	HK\$'000	HK\$'000
Lease income on office premises earned from: FPAM Group	—	638

Upon the adoption of HKFRS 16 "Leases" from 1 January 2019, the lease arrangement with FPAM Group was classified as finance lease (For the six months ended 30 June 2018: the lease arrangement with FPAM Group was classified as operating lease). The finance lease receivables from FPAM Group is amounted to HK\$1,515,000 as at 30 June 2019 (30 June 2018: Nil).

(b) 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 35.1% equity interest in the Company as at 30 June 2019. Accordingly, CE Group is deemed as a controlling shareholder of the Company, and thus CE Group and its subsidiaries are related parties of the Company.

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

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest income from CE Group	3,318	2,223
Interest expenses to CE Group	149,760	138,292
Loans upfront and arrangement fee to CE Group	1,385	1,973
Transactions handling charges to CE Group	2,660	1,434

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30 RELATED PARTY TRANSACTIONS (continued)

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

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

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Bank deposits placed in CE Group	1,116,466	1,724,098
Borrowings due to CE Group	4,943,035	4,547,640
Undrawn facilities provided by CE Group	573,234	1,335,012

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

	Unaudited Six months ended 30 June 2019 HK\$'000	2018 HK\$'000
Operating lease income on other assets earned from: CEL Management	1,320	1,320

(c) Transactions with associates

(i) Lease of office premises to an associate and service provided by associates

	Unaudited Six months ended 30 June 2019 HK\$'000	2018 HK\$'000
Lease income on office premises earned from: ARI	—	1,420

Upon the adoption of HKFRS 16 "Leases" from 1 January 2019, the lease arrangement with ARI was classified as finance lease (For the six months ended 30 June 2018: the lease arrangement with ARI was classified as operating lease). The finance lease receivables from ARI is amounted to HK\$3,580,000 as at 30 June 2019 (30 June 2018: Nil).

Service fee charged by: ARI	1,961	—
FLARI	4,021	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**30 RELATED PARTY TRANSACTIONS** (continued)**(c) Transactions with associates** (continued)**(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 ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. On 15 October 2018, a supplemental agreement was entered into to revise the interest rate to 3% per annum above the prime lending rate quoted by The Bank of China (Hong Kong) with effect from 28 November 2018. The loan is repayable on demand. As at 30 June 2019, the outstanding balance receivable from ARI was amounted to HK\$904,850,000 (31 December 2018: HK\$959,111,000) (Note 8) and the interest income for the six months ended 30 June 2019 was HK\$35,296,000 (six months ended 30 June 2018: HK\$44,769,000).

(d) Transactions with CAG

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest income from CAG	12,619	—
Servicer fees income from CAG	10,368	—

(e) Disposal of aircraft to CAG and ARI

The Group disposed one aircraft to ARI and disposed four aircraft by way of a transfer of share of certain wholly-owned subsidiaries which own direct interests in aircraft to CAG. During the six months ended 30 June 2019, the total consideration from aforementioned disposal of aircraft to ARI and CAG is HK\$1,776.7 million (six months ended 30 June 2018: HK\$1,631.0 million) and the Group recorded a net gain from aircraft transactions (Note 22) in the consolidated financial statements.

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(f) Amounts due from/(to) related parties

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
CEL Management	26	406
ARI	493	1,082
FLARI	(4,005)	—
FPAM Group	260	6
	(3,226)	1,494

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

31 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

The Group had no material contingent liabilities outstanding as at 30 June 2019 (31 December 2018: Nil).

(b) Capital commitments

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

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Contracted but not provided for:		
Purchase of aircraft	93,933,607	96,462,002
Shareholder loan commitment to CAG	124,358	228,032
	94,057,965	96,690,034

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31 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Not later than one year	5,221	25,565
Later than one year and not later than five years	—	14,545
Later than five years	—	619
	5,221	40,729

(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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Not later than one year	2,818	7,600
Later than one year and not later than five years	311	4,654
	3,129	12,254

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

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Not later than one year	2,640	7,421
Later than one year and not later than five years	—	4,251
	2,640	11,672

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION31 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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Not later than one year	1,720,871	1,725,034
Later than one year and not later than five years	6,734,083	6,783,386
Later than five years	5,911,832	6,627,279
	14,366,786	15,135,699