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CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED

中國飛機租賃集團控股有限公司

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

(Stock code: 1848)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the “Board”) of China Aircraft Leasing Group Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 as follows:

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Increase
	2016	2015	
	<i>HK\$'Million</i>	<i>HK\$'Million</i>	
Revenue and other income	1,026.6	635.7	61.5%
Profit before income tax	335.2	157.8	112.4%
Profit attributable to owners of the Company	240.0	116.7	105.7%
EPS (Basic) (HK\$)	0.392	0.198	98.0%
Interim dividend per share (HK\$)	0.14	0.04	250.0%

INTERIM CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2016	2015
	<i>Note</i>	HK\$'000	HK\$'000
ASSETS			
Property, plant and equipment		3,716,351	2,412,544
Finance lease receivables – net	4	16,423,366	16,473,038
Derivative financial assets		20,244	19,439
Prepayments and other receivables		3,859,878	3,444,332
Restricted cash		492,097	208,387
Cash and cash equivalents		4,352,649	1,389,289
		<hr/>	<hr/>
Total assets		28,864,585	23,947,029
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital		62,278	60,592
Reserves		1,390,183	1,437,497
Retained earnings		819,269	690,452
		<hr/>	<hr/>
		2,271,730	2,188,541
Non-controlling interests		–	19,461
		<hr/>	<hr/>
Total equity		2,271,730	2,208,002
		<hr/>	<hr/>
LIABILITIES			
Deferred income tax liabilities		199,669	122,132
Bank borrowings	5	20,206,440	18,775,249
Long-term borrowings	6	1,277,682	794,221
Medium-term notes	7	392,355	400,547
Convertible bonds	8	816,667	796,506
Guaranteed bonds	9	2,300,129	–
Derivative financial liabilities		110,147	32,103
Income tax payables		33,757	37,654
Interest payables		112,042	73,303
Other payables and accruals		1,143,967	707,312
		<hr/>	<hr/>
Total liabilities		26,592,855	21,739,027
		<hr/>	<hr/>
Total equity and liabilities		28,864,585	23,947,029
		<hr/>	<hr/>

INTERIM CONSOLIDATED STATEMENT OF INCOME

		Unaudited	
		Six months ended 30 June	
		2016	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue			
Finance lease income	<i>10</i>	617,135	461,158
Operating lease income	<i>10</i>	176,741	109,114
		<u>793,876</u>	<u>570,272</u>
Other income		232,761	65,462
		<u>1,026,637</u>	<u>635,734</u>
Expenses			
Interest expenses		(475,421)	(337,230)
Depreciation		(69,834)	(44,588)
Other operating expenses		(137,832)	(95,640)
		<u>(683,087)</u>	<u>(477,458)</u>
Operating profit		343,550	158,276
Other losses	<i>11</i>	(8,394)	(466)
Profit before income tax		335,156	157,810
Income tax expenses	<i>12</i>	(95,138)	(41,083)
Profit for the period		240,018	116,727
Profit attributable to:			
Owners of the Company		240,018	116,678
Non-controlling interests		<u>–</u>	<u>49</u>
		<u>240,018</u>	<u>116,727</u>
Earnings per share for profit attributable to owners of the Company (expressed in HK\$ per share)			
– Basic earnings per share	<i>13(a)</i>	0.392	0.198
– Diluted earnings per share	<i>13(b)</i>	0.379	0.194

Details of the dividends proposed and paid for the period are disclosed in Note 14.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>240,018</u>	<u>116,727</u>
Other comprehensive income for the period:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in fair value of interest rate swaps – cash flow hedges	(70,791)	(10,489)
Reclassified from other comprehensive income to		
profit or loss – cash flow hedges	(592)	2,436
Currency translation differences	<u>(938)</u>	<u>323</u>
Total other comprehensive income for the period, net of tax	<u>(72,321)</u>	<u>(7,730)</u>
Total comprehensive income for the period	<u>167,697</u>	<u>108,997</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	167,697	108,948
Non-controlling interests	<u>–</u>	<u>49</u>
	<u>167,697</u>	<u>108,997</u>

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company					
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Balance as at 1 January 2015	58,578	1,273,531	429,171	1,761,280	19,416	1,780,696
Comprehensive income						
Profit for the period	–	–	116,678	116,678	49	116,727
Other comprehensive income						
Change in fair value of interest rate swaps						
– cash flow hedges	–	(10,489)	–	(10,489)	–	(10,489)
Reclassified from other comprehensive income to profit or loss						
– cash flow hedges	–	2,436	–	2,436	–	2,436
Currency translation differences	–	323	–	323	–	323
Total comprehensive income	–	(7,730)	116,678	108,948	49	108,997
Transaction with owners:						
Dividends (<i>Note 14</i>)	–	–	(94,648)	(94,648)	–	(94,648)
Share option scheme:						
– Value of services	–	7,253	–	7,253	–	7,253
– Issue of new shares from exercise of share options	2,006	29,058	–	31,064	–	31,064
Convertible bonds – equity component (<i>Note 8</i>)	–	116,541	–	116,541	–	116,541
Total transactions with owners	2,006	152,852	(94,648)	60,210	–	60,210
Balance as at 30 June 2015	<u>60,584</u>	<u>1,418,653</u>	<u>451,201</u>	<u>1,930,438</u>	<u>19,465</u>	<u>1,949,903</u>
Balance as at 1 January 2016	<u>60,592</u>	<u>1,437,497</u>	<u>690,452</u>	<u>2,188,541</u>	<u>19,461</u>	<u>2,208,002</u>
Comprehensive income						
Profit for the period	–	–	240,018	240,018	–	240,018
Other comprehensive income						
Change in fair value of interest rate swaps						
– cash flow hedges	–	(70,791)	–	(70,791)	–	(70,791)
Reclassified from other comprehensive income to profit or loss						
– cash flow hedges	–	(592)	–	(592)	–	(592)
Currency translation differences	–	(938)	–	(938)	–	(938)
Total comprehensive income	–	(72,321)	240,018	167,697	–	167,697
Transaction with owners:						
Dividends (<i>Note 14</i>)	–	–	(111,201)	(111,201)	–	(111,201)
Share option scheme:						
– Value of services	–	1,244	–	1,244	–	1,244
– Issue of new shares from exercise of share options	1,686	23,802	–	25,488	–	25,488
Purchase of non-controlling interests	–	(39)	–	(39)	(19,461)	(19,500)
Total transactions with owners	1,686	25,007	(111,201)	(84,508)	(19,461)	(103,969)
Balance as at 30 June 2016	<u>62,278</u>	<u>1,390,183</u>	<u>819,269</u>	<u>2,271,730</u>	<u>–</u>	<u>2,271,730</u>

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Profit after income tax	240,018	116,727
Adjustments for:		
– Depreciation	69,834	44,588
– Interest expenses	475,421	337,230
– Share-based payments	1,244	7,253
– Unrealised currency exchange gain	(1,264)	(1,811)
– Fair value (gain)/loss on currency swap	(4,083)	864
– Fair value loss on interest rate swap	10,540	1,271
– Interest income	(2,693)	(664)
	789,017	505,458
Changes in working capital:		
– Finance lease receivables – net	(201,436)	(1,864,155)
– Prepayments and other receivables	(71,916)	(38,877)
– Other payables and accruals	426,274	(17,778)
– Income tax payables	(3,897)	(2,368)
– Deferred income tax liabilities	78,146	30,767
Net cash flows generated from/(used in) operating activities	1,016,188	(1,386,953)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,066,659)	(2,880)
Deposits paid for acquisition of aircraft	(285,919)	(139,787)
Purchase of non-controlling interests	(19,500)	–
Interest received	2,693	664
Net cash flow used in investing activities	(1,369,385)	(142,003)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

		Unaudited	
		Six months ended 30 June	
		2016	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from financing activities			
Proceeds from exercise of share options		25,488	31,064
Proceeds from bank borrowings		4,468,238	3,063,311
Repayments of bank borrowings		(3,064,588)	(2,319,589)
Proceeds from long-term borrowings		483,133	–
Repayments of long-term borrowings		(272)	(194)
Interest paid on bank borrowings		(434,584)	(357,592)
Interest paid on long-term borrowings		(26,730)	(19,144)
Interest paid on convertible bonds		(28,996)	–
(Increase)/decrease in deposits pledged in respect of borrowings		(252,820)	60,146
Increase in deposits pledged in respect of derivative financial instruments		(33,300)	(25,780)
Dividends paid to shareholders		(110,455)	(94,648)
Issue of convertible bonds, net of transaction costs	8	–	876,676
Issue of guaranteed bonds, net of transaction costs	9	2,301,168	–
		<hr/>	<hr/>
Net cash flows generated from financing activities		3,326,282	1,214,250
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		2,973,085	(314,706)
Cash and cash equivalents at beginning of the period		1,389,289	1,425,570
Currency exchange difference on cash and cash equivalents		(9,725)	833
		<hr/>	<hr/>
Cash and cash equivalents at end of the period		4,352,649	1,111,697
		<hr/>	<hr/>

NOTES

1 GENERAL INFORMATION OF THE GROUP

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 using the name “China Aircraft Leasing Company Limited”. On 19 September 2013, the Company changed its name to “China Aircraft Leasing Group Holdings Limited”. The address of the Company’s registered office is Maples Corporate Services Limited, P.O. Box 309, Umland 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 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 Group has operations mainly in the People’s Republic of China (“PRC”).

The interim condensed consolidated financial information for the six months ended 30 June 2016 (“Interim Financial Information”) is presented in Hong Kong Dollars (“HK\$”), unless otherwise stated.

The Interim Financial Information has been reviewed, not audited.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the interim consolidated financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and included in the 2015 annual report of the Company.

As at 30 June 2016, the Group had capital commitments amounting to HK\$38,649.4 million, mainly relating to acquisition of aircraft, of which HK\$5,190.0 million is payable within one year. In view of such circumstance, the directors of the Company have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and its capital commitments; and thus its ability to continue as a going concern. The directors of the Company adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

- The Group uses short-term borrowings to finance the pre-delivery payments (“PDP”) to the aircraft manufacturer when new aircraft ordered by the Group are being built. PDP represents approximately 30% to 40% of the purchase consideration of the aircraft. The Group normally uses PDP financing for settlement of PDP, repayable after the aircraft is delivered. As at 30 June 2016, PDP amounting to HK\$3,230.9 million had been paid and the balance of the corresponding PDP financing amounted to HK\$1,998.8 million, of which HK\$1,110.0 million is repayable within one year and is related to aircraft to be delivered in the next twelve months from 30 June 2016. The Group uses long-term aircraft borrowings for the repayment of PDP financing and the settlement of the balance payments of aircraft acquisition costs. However, the long-term aircraft borrowings can only be confirmed shortly before delivery of the relevant aircraft. Based on industry practice and prior experience, long-term aircraft borrowings will be granted by the banks if the aircraft can be leased out to airline companies. For the majority of aircraft scheduled for delivery in the next twelve months from 30 June 2016, lease agreements or letters of intent have already been signed. Thus the directors of the Company believe that long-term aircraft borrowings can be obtained to settle PDP financing and the balance payments of the aircraft acquisition costs due in the next twelve months from 30 June 2016.
- According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next twelve months from 30 June 2016 amounted to HK\$1,213.4 million. As at the approval date of the consolidated financial statements, the Group had signed PDP financing agreements with various commercial banks which have agreed to provide financing of US\$111.4 million (equivalent to approximately HK\$864.7 million) to the Group in the next twelve months from 30 June 2016. The remaining balance of PDP amounting to HK\$348.7 million is to be funded by internally generated financial resources of the Group and additional financing expected to be obtained.
- The Group has entered into cooperative agreements with certain banks pursuant to which these banks have agreed to provide to the Group conditional loan facilities for aircraft acquisition. The granting of each specific loan will be subject to the banks’ credit assessments and approvals and the agreement of terms and conditions of the respective loan agreements, which will only be confirmed shortly before the delivery of the relevant aircraft.
- For the existing long-term aircraft borrowings, under the business model of the Group, the expected cash inflows from lease receivables generally match the required cash outflows for instalment repayments of the long-term aircraft borrowings over the entire lease term of the aircraft.
- On 6 May 2016, the Group issued three-year guaranteed bonds due in 2019 amounted to US\$300.0 million (equivalent to approximately HK\$2,330.1 million). On 22 August 2016, the Group issued five-year guaranteed bonds due in 2021 amounted to US\$300.0 million (equivalent to approximately HK\$2,327.6 million).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The directors of the Company have reviewed the Group's cash flow projections prepared by management, covering a period of not less than twelve months from the balance sheet date. Based on these projections, the sufficiency of cash flows for the Group's present requirements for the next twelve months from 30 June 2016 is heavily dependent on the Group's ability to obtain the necessary funding from the long-term aircraft borrowings and the availability of banking and other sources of financing. Based on the industry practice and prior experience, the directors are of the view that long-term aircraft borrowings can be obtained as the related lease agreements or letters of intent have already been signed for the majority of aircraft scheduled for delivery in the next twelve months from 30 June 2016.

On this basis, the directors of the Company are of the opinion that, taking into account the Group's operating performance and business prospects, internal resources and available banking facilities that have been granted or will be granted as detailed above, the Group expects to have sufficient working capital to finance its operations and to meet its financial obligations, including those capital commitments in the next twelve months from 30 June 2016. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's financial statements for the year ended 31 December 2015.

New standards, amendments and interpretations to the existing standards that are effective during the six months ended 30 June 2016 have been adopted by the Group consistently unless prohibited by the relevant standard from applying retrospectively.

The following new accounting standards, interpretations and amendments to standards that are relevant to the Group have been issued but are not yet effective and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKFRS 15, "Revenue from Contracts with Customers"	1 January 2018
HKFRS 9, "Financial Instruments"	1 January 2018
HKFRS 16, "Leases"	1 January 2019

Management's preliminary assessment is that the application of the above standards, interpretations and amendments will not have a material impact on the Group.

4 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Finance lease receivables	15,249,962	15,970,062
Guaranteed residual values	5,377,980	5,123,495
Unguaranteed residual values	<u>6,433,973</u>	<u>6,142,055</u>
Gross investment in leases	27,061,915	27,235,612
Less: unearned finance income	<u>(10,638,549)</u>	<u>(10,762,574)</u>
Net investment in leases	16,423,366	16,473,038
Less: accumulated allowance for impairment (a)	<u>–</u>	<u>–</u>
Finance lease receivables – net	<u>16,423,366</u>	<u>16,473,038</u>

- (a) The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from airline companies is low. The Group has not encountered any delay or default in the collection of the scheduled payments of finance lease receivables. No impairment allowance was made for the finance lease receivables as at 30 June 2016.

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 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Gross investment in finance leases	27,061,915	27,235,612
Less: unguaranteed residual values	<u>(6,433,973)</u>	<u>(6,142,055)</u>
Minimum lease payments receivable	20,627,942	21,093,557
Less: unearned finance income related to minimum lease payments receivable	<u>(7,299,143)</u>	<u>(7,506,573)</u>
Present value of minimum lease payments receivable	<u>13,328,799</u>	<u>13,586,984</u>

4 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 2016 <i>HK\$'000</i>	Audited As at 31 December 2015 <i>HK\$'000</i>
Gross investment in finance leases		
– Not later than 1 year	1,552,221	1,604,293
– Later than 1 year and not later than 5 years	6,454,779	6,879,054
– Later than 5 years	19,054,915	18,752,265
	<u>27,061,915</u>	<u>27,235,612</u>

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 2016 <i>HK\$'000</i>	Audited As at 31 December 2015 <i>HK\$'000</i>
Present value of minimum lease payments receivable		
– Not later than 1 year	683,251	720,090
– Later than 1 year and not later than 5 years	2,863,095	3,146,287
– Later than 5 years	9,782,453	9,720,607
	<u>13,328,799</u>	<u>13,586,984</u>

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

	Unaudited		Audited	
	As at 30 June 2016		As at 31 December 2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	11,546,573	70%	11,288,283	69%
Other airline companies	4,876,793	30%	5,184,755	31%
	<u>16,423,366</u>	<u>100%</u>	<u>16,473,038</u>	<u>100%</u>

5 BANK BORROWINGS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
Secured bank borrowings for aircraft acquisition financing (a)	17,561,592	15,908,923
PDP financing (b)	1,998,833	2,063,645
Working capital borrowings (c)	646,015	802,681
	<u>20,206,440</u>	<u>18,775,249</u>

- (a) Secured bank borrowings for aircraft acquisition financing are principally based on fixed or floating USD London Interbank Offered Rate (“LIBOR”) rates. As at 30 June 2016, the bank borrowings were secured by, in addition to other legal charges, all of the Group’s 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 of the Group companies and pledge of deposits amounting to HK\$351,562,000 (31 December 2015: HK\$119,214,000).
- (b) As at 30 June 2016, PDP financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, guarantees from the Company and China Aircraft Leasing Company Limited (“CALC (BVI)”), and pledge of deposits of HK\$2,429,000 (31 December 2015: HK\$6,356,000).
- (c) As at 30 June 2016, the Group had aggregate working capital borrowings of HK\$646,015,000 (31 December 2015: HK\$802,681,000) from four banks (31 December 2015: four banks) which were guaranteed by the Company and CALC (BVI) (31 December 2015: same).

6 LONG-TERM BORROWINGS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
Borrowings from trust plans (a)	1,122,510	794,221
Other borrowings (b)	155,172	–
	<u>1,277,682</u>	<u>794,221</u>

- (a) As at 30 June 2016, eleven borrowings (31 December 2015: seven borrowings) were provided by trust plans to eleven subsidiaries (31 December 2015: seven subsidiaries) of the Group. The effective average interest rates of the long-term borrowings range from 6.0% to 7.8% (31 December 2015: 6.2% to 7.8%) per annum for remaining terms of eight to eleven years (31 December 2015: same). These long-term borrowings are secured by the shares of, and the aircraft held by, the relevant subsidiaries and guaranteed by China Asset Leasing Company Limited. The trust plans are also counterparties to the transfer of finance lease receivable transactions entered into with the relevant subsidiaries.
- (b) As at 30 June 2016, two borrowings were obtained through a Japanese Operating Lease with Call Option (“JOLCO”) financing arrangement for two aircraft delivered to airlines. The borrowings bear an effective interest rate of 5.1% per annum for their remaining terms of eight years and are guaranteed by the Company.

7 MEDIUM-TERM NOTES

The carrying amount of the five-year RMB340.0 million medium-term notes issued in the PRC as at 30 June 2016 was HK\$392,355,000 (31 December 2015: HK\$400,547,000). These notes bear coupon interest at 6.5% per annum and are due in 2020.

8 CONVERTIBLE BONDS

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

The fair value of the liability component was estimated at the respective date of issue using an interest rate (inclusive of arrangement fees) that would be available at that date to the Company for a non-convertible bond with equivalent terms ("effective interest rate"). The residual amount, being the par value of the bonds less the fair value of the liability component, represents the value of the equity conversion option. The transaction costs of HK\$15,494,000, consisting mainly of the underwriting commission, are netted off against the liability component and the equity conversion option component proportionately to arrive at the carrying amounts of the respective components on initial recognition.

Further to the above information disclosed in the notes to the consolidated financial statements of the annual report of the Company for the year ended 31 December 2015, the Company actually used the total net proceeds of approximately HK\$490,575,000 from issue of the convertible bonds to China Huarong International Holdings Limited and Great Wall Pan Asia International Investment Co., Limited under the general mandate for aircraft acquisition, including part of financing of the aircraft purchases contemplated under the two aircraft purchase agreements entered into by Airbus S.A.S. and CALC (BVI) on 1 December 2014 regulating the purchase of 100 Airbus A320 series aircrafts. The actual use of proceeds was the same as the intended use as announced by the Company on 26 March 2015.

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

8 CONVERTIBLE BONDS (CONTINUED)

	Unaudited As at 30 June 2016		
	Liability HK\$'000	Equity HK\$'000	Total HK\$'000
Par value of convertible bonds issued	773,456	118,714	892,170
Transaction costs	(13,321)	(2,173)	(15,494)
Carrying value on initial recognition	760,135	116,541	876,676
Accumulated interest accrued at effective interest rate	115,224	–	115,224
Accumulated interest paid (inclusive of arrangement fees)	(58,692)	–	(58,692)
Carrying value as at 30 June 2016	816,667	116,541	933,208
	Audited As at 31 December 2015		
	Liability HK\$'000	Equity HK\$'000	Total HK\$'000
Par value of convertible bonds issued	773,456	118,714	892,170
Transaction costs	(13,321)	(2,173)	(15,494)
Carrying value on initial recognition	760,135	116,541	876,676
Accumulated interest accrued at effective interest rate	66,067	–	66,067
Accumulated interest paid (inclusive of arrangement fees)	(29,696)	–	(29,696)
Carrying value as at 31 December 2015	796,506	116,541	913,047

9 GUARANTEED BONDS

On 6 May 2016, a subsidiary of the Company issued three-year US\$300.0 million (equivalent to approximately HK\$2,330.1 million) bonds due in 2019, net of transaction costs of US\$3.7 million (equivalent to approximately HK\$28.9 million) which were listed on The Stock Exchange of Hong Kong Limited and guaranteed by the Company. These bonds bear coupon interest at 5.9% per annum, payable semi-annually in arrears on 6 May and 6 November in each year. As at 30 June 2016, the carrying amount of these bonds was HK\$2,300,129,000.

10 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2016, the Group was engaged in a single business segment, provision of aircraft leasing services to airline companies in Mainland China and other countries or regions in Europe and Asia. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

For the six months ended 30 June 2016, the Group leased aircraft to thirteen (six months ended 30 June 2015: ten) airline companies.

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			
	2016		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Categorised by customer in terms of lease income:				
Five largest airline companies	485,020	61%	421,078	74%
Other airline companies	308,856	39%	149,194	26%
Total finance and operating lease income	<u>793,876</u>	<u>100%</u>	<u>570,272</u>	<u>100%</u>

11 OTHER LOSSES

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unrealised gain/(loss) on currency swap	4,083	(864)
Fair value loss on interest rate swap	(10,540)	(1,271)
Currency exchange (loss)/gain	(1,937)	1,669
	<u>(8,394)</u>	<u>(466)</u>

12 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current income tax: Mainland China, Hong Kong and others	16,992	10,316
Deferred income tax	78,146	30,767
	<u>95,138</u>	<u>41,083</u>

13 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six-month periods ended 30 June 2015 and 2016.

	Unaudited	
	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (HK\$'000)	240,018	116,678
Weighted average number of ordinary shares in issue (number of shares)	<u>612,253,766</u>	<u>588,890,628</u>
Basic earnings per share (HK\$ per share)	<u>0.392</u>	<u>0.198</u>

(b) Diluted earnings per share

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

13 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share (Continued)

	Unaudited Six months ended 30 June	
	2016	2015
Earnings		
Profit attributable to owners of the Company (<i>HK\$'000</i>)	240,018	116,678
Adjustments for:		
– Interest expenses net of tax on convertible bonds, excluding capitalised amount (<i>HK\$'000</i>)	27,456	5,847
	<u>267,474</u>	<u>122,525</u>
Weighted average number of ordinary shares for diluted earnings per share		
Weighted average number of ordinary shares in issue (<i>number of shares</i>)	612,253,766	588,890,628
Adjustments for:		
– Assumed conversion of convertible bonds	79,093,083	27,586,634
– Share options	13,469,615	16,372,917
	<u>704,816,464</u>	<u>632,850,179</u>
Weighted average number of ordinary shares for diluted earnings per share	704,816,464	632,850,179
Diluted earnings per share (<i>HK\$ per share</i>)	<u>0.379</u>	<u>0.194</u>

14 DIVIDENDS

	Unaudited Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend proposed of HK\$0.14 (2015: HK\$0.04) per ordinary share	<u>87,731</u>	<u>24,234</u>

On 26 March 2015, the Company declared a final dividend of HK\$0.16 per ordinary share totalling HK\$94,648,000 for the year ended 31 December 2014, which was paid in May 2015.

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

On 25 August 2016, the Board declared an interim dividend of HK\$0.14 (six months ended 30 June 2015: HK\$0.04) per ordinary share amounting to HK\$87,731,000 (six months ended 30 June 2015: HK\$24,234,000) which is calculated based on 626,646,640 issued shares as at 25 August 2016. The proposed dividend is not reflected as a dividend payable in the consolidated financial information as at 30 June 2016, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW

Aircraft Leasing

In the first half of 2016, the Group has successfully delivered seven aircraft to airline companies and thus grown its fleet to 70 aircraft as at 30 June 2016. According to our schedule, the Group's fleet will expand to 173 aircraft by 2022.

In line with its globalisation strategy, the Group has continued to develop with overseas airlines while further enhance its relationships with top-tier Chinese airline groups.

The Group has already signed and secured all lease agreements for the aircraft to be delivered in 2016. At the beginning of the year, the Group signed for two more aircraft with its first South-East Asian client, Jetstar Pacific Airlines of Vietnam, in addition to the mandate signed in November 2015 for the lease of two aircraft. Since its foray into Europe last year by signing an agreement with Turkey's leading low-cost airline Pegasus Airlines, the Group has completed the delivery of two new Airbus A320 aircraft to the carrier in June 2016.

In July 2016, the Group achieved another milestone in its international expansion by entering into a lease agreement with Japan's ANA Group. The concerned Airbus A320 aircraft will be subleased to ANA's low cost regional subsidiary Vanilla Air. By working with the largest airline in Japan, the Group is further expanding its global footprint.

CALC is in full support of the development of China's domestic aircraft manufacturing industry. In July 2016, the Group entered into a non-binding cooperative framework agreement with Commercial Aircraft Corporation of China Limited ("COMAC") to acquire 30 to 60 ARJ21-700 series aircraft from COMAC. CALC will act as an aircraft lessor to provide value-added leasing solutions to overseas airline.

Financing

The Group has completed several rental realisation transactions for aircraft in the first half of 2016. The Group has continued to enhance these products since it was first launched in 2013. We have also completed other several rental realisation transactions after interim period. These were structured into senior and junior tranches, a first-of-its-kind arrangement in China, to fit different appetites and strategies of investors, as well as to keep the all-in-costs at a lower level for CALC.

The Group launched its first USD bonds in an aggregate principal amount of US\$300 million in May 2016, which was CALC's largest debt-raising exercise to date and has allowed the Group to tap into the international bond market for the first time, establishing a significant channel for obtaining long-term financing from international investors. The USD bonds, bearing interest of 5.9% per annum, are unrated, unsecured and mature in 3 years. In the same month, the Group has obtained its first syndicated loan from the market through a consortium of six financial institutions. This syndicated loan facility of an approximately US\$195 million will further support the Groups' long-term and sustainable growth while reducing its funding cost.

In addition, the Group actively manages its balance sheet in order to optimise its financial position. In July 2016, it entered into separate agreements with bondholders to repurchase convertible bonds due in 2018 in the aggregate principal amount of HK\$581,850,000. Convertible bonds with par value of HK\$310.3 million issued to China Everbright Financial Investments Limited remained outstanding after the repurchase. This repurchase allows the Group more effective use of capital and resources, and thus create greater value for our shareholders.

Following its success in the first issuance of US\$300 million bonds, the Group has taken further step by launching US\$300 million five-year bonds in August 2016, bearing interest of 4.9% per annum, the second time in less than four months. This not only reflect investors' high confidence in the Group business prospects and credit quality, but also allows us to expand our investor base geographically.

China Aircraft Disassembly Centre

With a vision of extending the value-chain and supporting the long-term development of China's aviation industry, the Group has started to build an aircraft disassembly centre of 300,000 square meters at Harbin Taiping Airport, the first purpose built disassembly facility in China. It is expected to start operation in early 2017. The Group has undergone a restructuring exercise and brought different shareholders with respective strengths and expertise to accelerate the commencement of operation of this first built disassembly facility in China. The restructuring was completed in July 2016 and CALC remains 48% shareholding after the restructuring.

1. RESULTS

For the six months ended 30 June 2016, the Group delivered seven aircraft, which built our fleet size to 70. Revenue and other income was HK\$1,026.6 million, an increase of HK\$390.9 million or 61.5% increased from that of the corresponding period of last year. Profit attributable to owners of the Company for six months ended 30 June 2016 amounted to HK\$240.0 million, an increase of HK\$123.3 million or 105.7% compared with that of the corresponding period of last year. The main reasons were due to increased lease income which is resulted from continued expansion of the scale of aircraft leasing business and gain from realisation of finance lease receivables.

Total asset value was HK\$28,864.6 million as at 30 June 2016, compared with HK\$23,947.0 million as at 31 December 2015, an increase of HK\$4,917.6 million or 20.5%. Total liabilities amounted to HK\$26,592.9 million, increased by 22.3%. The increase in liabilities was because the Company's aircraft acquisitions were mainly funded through aircraft financing.

Equity attributable to owners of the Company was HK\$2,271.7 million as at 30 June 2016 compared with HK\$2,188.5 million as at 31 December 2015, an increase of HK\$83.2 million or 3.8%.

2. ANALYSIS OF INCOME AND EXPENSES

	Unaudited		
	Six months ended 30 June		
	2016	2015	Change
	HK\$'Million	HK\$'Million	
Finance lease income	617.1	461.2	33.8%
Operating lease income	176.7	109.1	62.0%
Gain from disposal of finance lease receivables	145.1	–	N/A
Government subsidies	81.9	64.1	27.8%
Sundry income	5.8	1.3	346.2%
Total revenue and other income	1,026.6	635.7	61.5%
Total expenses and losses	(691.4)	(477.9)	44.7%
Profit before income tax	335.2	157.8	112.4%
Income tax expenses	(95.2)	(41.1)	131.6%
Profit for the period	240.0	116.7	105.7%

2.1 Revenue and Other Income

For the six months ended 30 June 2016, revenue and income amounted to HK\$1,026.6 million compared with HK\$635.7 million for the corresponding period of last year, an increase of HK\$390.9 million or 61.5%.

Lease income for the six months ended 30 June 2016 totalled HK\$793.8 million, compared with HK\$570.3 million for the six months ended 30 June 2015, an increase of HK\$223.5 million or 39.2%. The growth in lease income during the period under review was principally attributable to the increase in the Group's fleet size from 50 as at 30 June 2015 to 63 aircraft as at 31 December 2015 and increased to 70 aircraft as at 30 June 2016. During the six months ended 30 June 2016, seven aircraft were delivered, of which four were classified as finance leases and three as operating leases (six months ended 30 June 2015: six aircraft were delivered and classified as finance leases).

In addition, the Group recognised a total gain of HK\$145.1 million from disposal of aircraft lease receivables during the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

Government subsidies for the six months ended 30 June 2016 amounted to HK\$81.9 million, compared with HK\$64.1 million for the six months ended 30 June 2015, an increase of HK\$17.8 million or 27.8%. This was mainly due to the increase in the fleet size.

2.2 Total Expenses and Losses

During the six months ended 30 June 2016, the Group had four principal types of operating expense, namely (a) interest expenses from aircraft acquisition financing and business expansion; (b) depreciation on property, plant and equipment; (c) other operating expenses; and (d) other losses relating to fair value change of swaps and currency exchange differences.

	Unaudited		
	Six months ended 30 June		
	2016	2015	Change
	<i>HK\$'Million</i>	<i>HK\$'Million</i>	
Interest expenses	475.4	337.2	41.0%
Depreciation	69.8	44.6	56.5%
Other operating expenses	137.8	95.6	44.1%
Other losses	8.4	0.5	1,580.0%
	<hr/>	<hr/>	<hr/>
Total expenses and losses	691.4	477.9	44.7%

(a) *Interest Expenses*

For the six months ended 30 June 2016, interest expenses incurred by the Group amounted to HK\$475.4 million compared with HK\$337.2 million in the corresponding period of last year, an increase of HK\$138.2 million or 41.0%. This was mainly due to an increase in total borrowings as a result of increased aircraft fleet size, the issuance of medium-term notes in July 2015, issuance of guaranteed bonds in May 2016 and the full period effect of interest expenses from convertible bonds in 2016.

(b) *Depreciation*

Depreciation on the Group's leasehold improvements, motor vehicles, office equipment and aircraft under operating leases for the six months ended 30 June 2016 was HK\$69.8 million, compared with HK\$44.6 million in the corresponding period of last year, an increase of HK\$25.2 million or 56.5%. This was mainly because the number of aircraft under operating leases was increased from four as at 30 June 2015 to ten as at 30 June 2016.

(c) *Other Operating Expenses*

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

(d) *Other Losses*

The Group has managed its cash flow interest rate risk by entering into interest rate swaps to convert the bank borrowings from floating interest rates to fixed interest rates. Other losses for the six months ended 30 June 2016 mainly included the fair value loss of HK\$10.5 million (six months ended 30 June 2015: loss of HK\$1.3 million) on one interest rate swap charged to the profit and loss account.

2.3 Income Tax Expenses

Income tax for the six months ended 30 June 2016 was HK\$95.2 million (six months ended 30 June 2015: HK\$41.1 million), resulting from increased profits achieved through growth in the leasing business and gain from realisation of finance lease receivables.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

The Group reports all its aircraft at the Group level in accordance with HKAS 16 and HKAS 17, classifying aircraft into “Property, Plant and Equipment” for operating leases and “Finance Lease Receivables” for finance leases, respectively.

As at 30 June 2016, the Group’s total assets amounted to HK\$28,864.6 million compared with HK\$23,947.0 million as at 31 December 2015, an increase of HK\$4,917.6 million or 20.5%.

	Unaudited As at 30 June 2016 <i>HK\$'Million</i>	Audited As at 31 December 2015 <i>HK\$'Million</i>	Change
Finance leases receivables, net	16,423.4	16,473.0	-0.3%
Property, plant and equipment	3,716.4	2,412.5	54.0%
Cash and bank balances	4,844.7	1,597.7	203.2%
Pre-delivery payments (“PDP”) and other receivables	3,859.9	3,444.4	12.1%
Derivative financial assets	20.2	19.4	4.1%
Total assets	<u>28,864.6</u>	<u>23,947.0</u>	<u>20.5%</u>

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

The majority of total assets as at 30 June 2016 represented finance lease receivables and property, plant and equipment. Finance lease receivables represented the present value of minimum lease amounts receivables from aircraft classified as finance leases and their residual values. Property, plant and equipment included the cost of aircraft classified as operating leases, net of their accumulated depreciation. As at 31 December 2015, including the aircraft under the realisation of finance lease receivables, total fleet size was 63 aircraft, of which 57 were classified as finance leases and six as operating leases. As at 30 June 2016, including the aircraft under the realisation of finance lease receivables, total fleet size increased to 70 aircraft, of which 60 aircraft were classified as finance leases and 10 as operating leases.

3.1.2 Cash and Bank Balances

Cash and bank balances increased by HK\$3,247.0 million or 203.2% from HK\$1,597.7 million as at 31 December 2015 to HK\$4,844.7 million as at 30 June 2016, following the issuance of guaranteed bonds in May 2016.

3.2 Liabilities

As at 30 June 2016, the Group's total liabilities amounted to HK\$26,592.9 million compared with HK\$21,739.0 million as at 31 December 2015, an increase of HK\$4,853.9 million or 22.3%. This was principally attributable to an increase in bank borrowings due to business expansion through the increase in fleet size and issuance of guaranteed bonds.

An analysis is given as follows:

	Unaudited As at 30 June 2016 <i>HK\$'Million</i>	Audited As at 31 December 2015 <i>HK\$'Million</i>	Change
Bank borrowings	20,206.4	18,775.2	7.6%
Guaranteed bonds	2,300.1	–	N/A
Long-term borrowings	1,277.7	794.2	60.9%
Convertible bonds	816.7	796.5	2.5%
Medium-term notes	392.4	400.5	-2.0%
Deferred income tax liabilities	199.7	122.1	63.6%
Derivative financial liabilities	110.1	32.1	243.0%
Interest payables	112.1	73.3	52.9%
Income tax payables	33.7	37.7	-10.6%
Other payables and accruals	1,144.0	707.4	61.7%
Total liabilities	<u>26,592.9</u>	<u>21,739.0</u>	<u>22.3%</u>

3.2.1 Bank Borrowings

The analysis of bank borrowings is as follows:

	Unaudited As at 30 June 2016 <i>HK\$'Million</i>	Audited As at 31 December 2015 <i>HK\$'Million</i>	Change
Secured bank borrowings for aircraft acquisition financing	17,561.6	15,908.9	10.4%
PDP financing	1,998.8	2,063.6	-3.1%
Working capital borrowings	646.0	802.7	-19.5%
Total bank borrowings	<u>20,206.4</u>	<u>18,775.2</u>	<u>7.6%</u>

The bank borrowings for aircraft acquisition financing are secured borrowings mainly subject to fixed or floating three-month or six-month USD LIBOR terms. They are secured, in addition to legal charges on the Group's aircraft leased to airline companies under either finance leases or operating leases, by pledge of the shares of the subsidiaries that are registered owners of the related aircraft; by corporate guarantees from certain members of the Group; and by pledged deposits amounting to HK\$351.6 million (31 December 2015: HK\$119.2 million).

PDP is required to be made under the aircraft acquisition agreements with Airbus. The PDP financing was subject to floating interest rates and was used for the settlement of the PDP for the aircraft committed to be purchased and delivered under the aircraft acquisition agreements with Airbus.

As at 30 June 2016 and 31 December 2015, all the PDP financing was secured by rights and benefits in respect of the purchase of the aircraft and pledged deposits of HK\$2.4 million and HK\$6.4 million, respectively.

As at 30 June 2016, the Group had aggregate working capital borrowings of HK\$646.0 million (31 December 2015: HK\$802.7 million) from four banks (31 December 2015: four banks) which were guaranteed by the Company and CALC (BVI) (31 December 2015: same).

The Group's financial position has remained strong during the period under review. Its financial resources, including cash on hand, banking facilities and banking framework agreements, will provide sufficient financial resources for its operating activities and its current and potential investment opportunities.

3.2.2 Guaranteed Bonds

On 6 May 2016, a subsidiary of the Company issued three-year US\$300.0 million (equivalent to approximately HK\$2,330.1 million) bonds due in 2019, net of transaction costs of US\$3.7 million (equivalent to approximately HK\$28.9 million) which were listed on The Stock Exchange of Hong Kong Limited and guaranteed by the Company. These bonds bear coupon interest at 5.9% per annum, payable semi-annually in arrears on 6 May and 6 November in each year. The carrying amount of these bonds as at 30 June 2016 was HK\$2,300.1 million.

3.2.3 Long-term Borrowings

As at 30 June 2016, the Group obtained aggregate borrowings of HK\$1,122.5 million (31 December 2015: HK\$794.2 million) from trust plans which are also counterparties to the realisation of finance lease receivable transactions entered into with the relevant subsidiaries. The effective average interest rates of these borrowings range from 6.0% to 7.8% (31 December 2015: 6.2% to 7.8%) per annum for remaining terms of eight to eleven years (31 December 2015: same). These long-term borrowings were secured by the shares of, and the aircraft held by, the relevant subsidiaries and guaranteed by China Asset Leasing Company Limited.

As at 30 June 2016, two borrowings of HK\$155.2 million (31 December 2015: nil) were obtained through a Japanese Operating Lease with Call Option (“JOLCO”) financing arrangement for two aircraft delivered to airlines. These borrowings bear an effective interest rate of 5.1% per annum for their remaining terms of eight years and are guaranteed by the Company.

3.2.4 Convertible Bonds

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

Further to the above information disclosed in the notes to the consolidated financial statements of the annual report of the Company for the year ended 31 December 2015, the Company actually used the total net proceeds of approximately HK\$490.6 million from issue of the convertible bonds to China Huarong International Holdings Limited and Great Wall Pan Asia International Investment Co., Limited under the general mandate for aircraft acquisition, including part of financing of the aircraft purchases contemplated under the two aircraft purchase agreements entered into by Airbus S.A.S. and CALC (BVI) on 1 December 2014 regulating the purchase of 100 Airbus A320 series aircrafts. The actual use of proceeds was the same as the intended use as announced by the Company on 26 March 2015.

3.2.5 Medium-term Notes

The carrying amount of the five-year RMB340.0 million medium-term notes issued in the PRC as at 30 June 2016 was HK\$392.4 million (31 December 2015: HK\$400.5 million). These notes bear coupon interest at 6.5% per annum and are due in 2020.

4. ANALYSIS OF CASH FLOWS

The following table illustrates the cash position and cash flows for the six months ended 30 June 2016:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'Million</i>	<i>HK\$'Million</i>
I: Aircraft in operation		
Lease income	1,013.5	739.4
Bank repayment	(860.4)	(668.1)
	<u>153.1</u>	<u>71.3</u>
II: Aircraft purchase and delivery		
Capital expenditure	(2,313.0)	(2,037.6)
Bank borrowings	2,109.6	1,234.2
	<u>(203.4)</u>	<u>(803.4)</u>
III: New aircraft not yet delivered		
PDP paid	(951.5)	(877.9)
PDP refunded	869.3	738.1
PDP financing	1,098.0	1,049.5
Repayment of PDP financing	(1,213.9)	(666.5)
	<u>(198.1)</u>	<u>243.2</u>
IV: Net capital movement		
Proceeds from exercise of share options	25.5	31.1
Purchase of non-controlling interests	(19.5)	–
Dividends paid	(110.5)	(94.6)
Realisation proceeds and long-term borrowings	1,566.3	–
Early loan repayment on realisation	–	(684.1)
Issue of convertible bonds, net of transaction costs	–	876.7
Issue of guaranteed bonds, net of transaction costs	2,301.2	–
Working capital financing and net cash generated from other operating activities	(541.6)	45.1
	<u>3,221.4</u>	<u>174.2</u>
Net increase/(decrease) in cash and cash equivalents	2,973.0	(314.7)
Cash and cash equivalents at beginning of the period	1,389.3	1,425.6
Currency exchange difference on cash and cash equivalents	(9.7)	0.8
Cash and cash equivalents at end of the period	<u>4,352.6</u>	<u>1,111.7</u>

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, long-term bank borrowings, PDP financing, issuance of debts and the proceeds from disposal of finance lease receivables, as part of our financing strategies. 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 2016, the objectives, policies and processes for managing capital remained largely unchanged. The Group made full use of capital leverage to keep pace with aircraft delivery.

The Group monitors capital through gearing ratios:

	Unaudited As at 30 June 2016 <i>HK\$'Million</i>	Audited As at 31 December 2015 <i>HK\$'Million</i>	Change
Interest-bearing debts included in total liabilities	24,993.3	20,766.5	20.4%
Total assets	28,864.6	23,947.0	20.5%
Gearing ratio	<u>86.6%</u>	<u>86.7%</u>	<u>-0.1p.p.</u>

6. CAPITAL EXPENDITURE

During the six months ended 30 June 2016, our capital expenditure was principally used for business expansion purposes, including the purchase of aircraft to generate lease income and the construction of an aircraft disassembly centre. The primary source of financing for our capital expenditure was bank borrowings and bonds issuance.

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

	Unaudited Six months ended 30 June 2016 <i>HK\$'Million</i>	2015 <i>HK\$'Million</i>	Change
Acquisition of aircraft (for finance and operating leases)	2,313.0	2,037.6	13.5%
Acquisition of property, plant and equipment (excluding aircraft)	<u>33.9</u>	<u>2.9</u>	<u>1,069.0%</u>
Total	<u>2,346.9</u>	<u>2,040.5</u>	<u>15.0%</u>

7. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

7.1 Contingent Liabilities

The Group had no material contingent liabilities outstanding as at 30 June 2016 (31 December 2015: nil).

7.2 Capital Commitments for Aircraft Acquisition

In October 2012, we entered into an aircraft acquisition agreement with Airbus for the purchase of 36 aircraft of the A320 family which are currently planned to be delivered before the end of 2016. Of these, 33 aircraft have been delivered up to 30 June 2016, and three are to be delivered by the end of this year.

In December 2014, we entered into another aircraft acquisition agreement with Airbus for the purchase of 100 aircraft of the A320 family out of which four aircraft have been delivered up to 30 June 2016, and the rest are planned to be delivered between 2016 and 2022.

In December 2015 and January 2016, we entered into aircraft acquisition agreements with Airbus for the purchase of four additional aircraft of the A320 family, executed in the form of an amendment to the purchase agreement signed in 2014. These aircraft are planned to be delivered by the end of 2016.

In our agreements to purchase these aircraft, we have secured a series of scheduled deliveries which will enable us to achieve our targeted growth. For each aircraft, we are obliged to make PDP at specific dates prior to their scheduled delivery.

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

The Group's total aircraft purchase commitment amounted to HK\$38.6 billion as at 30 June 2016 (31 December 2015: HK\$41.1 billion), representing our estimated total purchase costs of the aircraft contracted to be purchased and delivered to us, net of PDP paid.

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

INTERIM DIVIDEND

The Board has declared the payment of an interim dividend of HK\$0.14 per share in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$0.04 per share) to shareholders whose names appear on the register of members of the Company on 15 September 2016. The interim dividend will be paid on or about 30 September 2016.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend, the register of members of the Company will be closed from 14 September 2016 to 15 September 2016, 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 15 September 2016. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 13 September 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2016.

CORPORATE GOVERNANCE

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 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

The Company has complied with all Code Provisions set out in the CG Code for the six months ended 30 June 2016 with the exception of Code Provision A.2.1 due to the overlapping roles of Chairman and Chief Executive Officer of the Company performed by Mr. CHEN Shuang with effect from 18 June 2015. The Board considers that the balance of power and authority of the Board will not be impaired even though the roles of the Chairman and the Chief Executive Officer are performed by the same individual. At present, the Board also believes that under the leadership of Mr. CHEN Shuang as the Chairman and the Chief Executive Officer, the Board's decision can be made effectively and is beneficial to the management and development of the Group's businesses. The Board will review this structure from time to time and will consider the segregation of the two roles at an appropriate time.

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 they comply with the CG Code and align with the latest developments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its Directors. Following specific enquiries by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2016.

AUDIT COMMITTEE REVIEW

As at the date of this announcement, the Company's Audit Committee consisted of Mr. CHEOK Albert Saychuan (Chairman of the Audit Committee), Mr. GUO Zibin, Mr. NIEN Van Jin, Robert and Mr. CHOW Kwong Fai, Edward. The Audit Committee has reviewed with the management team the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control and financial reporting including the review of the unaudited consolidated financial statements of the Company for the six months ended 30 June 2016.

The consolidated financial statements of the Company for the period ended 30 June 2016 have been reviewed by PricewaterhouseCoopers, the auditors of the Company, 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.calc.com.hk and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The 2016 interim report will be dispatched to the shareholders of the Company and available on the same websites in due course.

By order of the Board
China Aircraft Leasing Group Holdings Limited
CHEN SHUANG
*Executive Director, Chairman
and Chief Executive Officer*

Hong Kong, 25 August 2016

As at the date of this announcement, (i) the Executive Directors are Mr. CHEN Shuang and Ms. LIU Wanting; (ii) the Non-executive Directors are Mr. TANG Chi Chun, Mr. GUO Zibin and Ms. CHEN Chia-Ling; and (iii) the Independent Non-executive Directors are Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward, JP.