

CALC

China Aircraft Leasing Group Holdings Limited

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

Stock code: 01848

Flying for Sustainable excellence



2022

INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. ZHAO Wei (*Chairman of the Board*)
Mr. POON Ho Man (*Chief Executive Officer*)
Ms. LIU Wanting (*Deputy Chief Executive Officer*)

Non-executive Director

Mr. WANG Hongyang

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon

COMPOSITION OF COMMITTEES

Audit Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Mr. FAN Yan Hok, Philip
Dr. TSE Hiu Tung, Sheldon

Remuneration Committee

Mr. FAN Yan Hok, Philip (*Chairman*)
Dr. ZHAO Wei
Mr. POON Ho Man
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon

Nomination Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Mr. FAN Yan Hok, Philip
Dr. TSE Hiu Tung, Sheldon

COMPANY SECRETARY

Ms. TAI Bik Yin

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office

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

Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F., 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

CORPORATE INFORMATION

BANKERS AND FINANCIAL INSTITUTIONS

Agricultural Bank of China Limited
Airbus Bank GmbH
AV Airfinance 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 Bank
Cathay United Bank Co., Ltd.
Chang Hwa Commercial Bank Ltd.
China CITIC Bank International Limited
China Construction Bank Corporation
China Development Bank
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
China Zheshang Bank Co., Ltd.
Chiyu Banking Corporation Limited
Chong Hing Bank Limited
Credit Agricole Corporate and Investment Bank
Crédit Industriel et Commercial
Credit Suisse Securities (USA) LLC
CTBC Bank Co., Ltd
Dah Sing Bank Limited
Deutsche Bank AG
Development Bank of Japan Inc.
E.Sun Commercial Bank, Ltd.
EnTie Commercial Bank
The Export-Import Bank of China
Far Eastern International Bank, Ltd.
Fubon Bank (Hong Kong) Limited
Goldman Sachs (Asia) LLC
Hua Nan Commercial Bank, Ltd.
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China Limited,
Seoul Branch
Industrial and Commercial Bank of China (Thai)
Public Company Limited
Industrial Bank Co., Ltd.
KDB Asia Limited
KfW IPEX-Bank GmbH
Macao Development Bank
Mega International Commercial Bank Co., Ltd.
MUFG Bank, Ltd.
Nanyang Commercial Bank, Limited
Ping An Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
Société Générale
Tai Fung Bank Limited
Taishin International Bank Co., Ltd.
Taiwan Cooperative Bank Limited
TIAA Bank
Toronto-Dominion Bank
Valkyrie BTO Aviation LLC

MANAGEMENT DISCUSSION AND ANALYSIS

RECONCILIATIONS OF NON-GAAP MEASURES

The table below sets forth a reconciliation of adjusted profit attributable to shareholders of the Company, adjusted EBITDA and adjusted EPS (Basic), which are calculated by excluding the net write-off of two aircraft remained in Russia of HK\$439.0 million which assist investors in their understanding of the changes and trends related to the profitability of the Group's operations, for the periods indicated:

	For the six months ended	
	30 June	
	2022	2021
	HK\$'Million	HK\$'Million
(Loss)/Profit attributable to shareholders of the Company	(130.2)	302.6
Add: Net write-off of two aircraft remained in Russia	439.0	–
Adjusted profit attributable to shareholders of the Company	308.8	302.6
EBITDA	1,379.5	1,407.3
Add: Net write-off of two aircraft remained in Russia	439.0	–
Adjusted EBITDA	1,818.5	1,407.3
Adjusted profit attributable to shareholders of the Company	308.8	302.6
Weighted average number of ordinary shares in issue (number of shares in millions)	743.5	719.4
Adjusted EPS (Basic) (HK\$)	0.415	0.421

INTERIM BUSINESS REVIEW

The global aviation market experienced ongoing recovery during the first half of 2022.

Further relaxation of border restrictions in various countries accelerated recovery of global air travel demand and capacities. According to International Air Transport Association ("IATA"), global air passenger demand (measured in revenue passenger kilometers or "RPKs") in June 2022 increased by 76.2% compared with the same period in 2021, and has recovered to 70.8% of 2019 levels. Nonetheless, subsequent to the conflict between Russia and Ukraine erupted in February 2022 (the "Russia-Ukraine Conflict"), European and American countries imposed several economic sanctions on Russia (the "Sanctions"), which have affected global lessors' businesses in Russia, including that of the Group.

For the six months ended 30 June 2022 (the "Review Period"), the Group's total revenue was HK\$1,891 million, up 19.3% from the same period last year (1H2021: HK\$1,585 million). Adhering to prudent principles, the Company wrote off in full relevant assets that remain in Russia due to the Russia-Ukraine Conflict (details set out in "Net Write-off of Two Aircraft Remained in Russia" section on page 11). Loss attributable to shareholders of the Company for the Review Period was HK\$130 million (profit attributable to shareholders for 1H2021: HK\$303 million). If the above mentioned write-offs were excluded, adjusted profit attributable to shareholders of the Company for the Review Period should have reached HK\$309 million, representing an increase from the same period last year.

The board of directors of the Company (the "Board") has resolved to declare payment of an interim dividend of HK\$0.15 per ordinary share (1H2021: HK\$0.15), totalling HK\$112 million.

MANAGEMENT DISCUSSION AND ANALYSIS

STEADY EXPANSION OF HIGHLY-LIQUID FLEET

During the Review Period, the Group delivered a total of 13 aircraft and disposed of 2 aircraft. CALC's fleet thus increased 11 aircraft from the end of 2021, resulting in a fleet of 163 aircraft as at 30 June 2022, including 138 owned aircraft and 25 managed aircraft. 3 of the aircraft delivered were from the Group's orderbook placement while 10 were completed through purchase and leaseback arrangements. Such purchase and leaseback arrangements strengthened the Group's long-term cooperative relationships with high-quality clients while expanding revenue streams, and assisted airlines to optimize their fleets while building up a pipeline of aircraft assets for the Group's aviation aftermarket platforms. Despite some of the Group's aircraft delivery and portfolio trading projects in China were delayed due to the resurgence of Covid-19 (the "Pandemic") during the first half of 2022, the growth momentum are expected to pick up with the market recovery in the second half.

CALC has been maintaining a highly-liquid fleet consisting of most popular aircraft models. As at 30 June 2022, 90% of CALC's owned fleet by number of aircraft were narrowbody models, which were relatively less affected by the Pandemic. The utilization rate of CALC's owned fleet (except for the two aircraft related to Russian airlines) reached 100% as at 30 June 2022.

As a one-stop aircraft full life-cycle solutions provider, CALC's businesses cover both new aircraft and mid-to-old age aircraft. As at 30 June 2022, the average age of CALC's own fleet was 8.7 years, while the average remaining lease term was 6.1 years. Of these, the average age of the new aircraft leased fleet (aircraft under 12 years old) was 6.5 years, while the average remaining lease term was 7.7 years, and those of the used aircraft pipeline (aircraft aged 12 years or above) was 15.5 years and 3.3 years, respectively.

CALC has always been pursuing a prudent strategy in aircraft procurement. The abundant orderbook consisting of new-generation fuel-efficient aircraft models will capture huge demand from airline clients for renewing their fleets and expanding their capacities along with recovery of the aviation industry in the post-pandemic period and the green aviation development trend. As at 30 June 2022, CALC had 241 aircraft on its orderbook, including 145 Airbus, 66 Boeing and 30 COMAC aircraft.

CONTINUED ACCELERATION OF GLOBAL EXPANSION

CALC has remained prudent in engaging different airline customers. By number of aircraft, as at 30 June 2022, 76.8% of CALC's owned fleet was leased to Chinese airlines (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with strong financial strengths. Since the beginning of this year, riding on the strong recovery in overseas markets, CALC has been accelerating its global market expansion, especially in regions with rapid economic growth and strong demand for air travel. All aircraft to be delivered in the next 16 months after 30 June 2022 have been mandated for lease, of which more than half will be leased to overseas airline customers. As at 30 June 2022, CALC's owned and managed aircraft were on lease to 38 airlines in 17 countries and regions.

MANAGEMENT DISCUSSION AND ANALYSIS

MULTIPLE FINANCING CHANNELS PROVIDE SUFFICIENT LIQUIDITY

The Group puts high priority on its liquidity management, and continues to optimize domestic and overseas dual-platform financing channels, exploring more flexible sources of quality funds and financing instruments to ensure sufficient liquidity.

During the Review Period, total new financing facilities obtained and renewed facilities exceeded HK\$14 billion, including aircraft project loans, PDP financing, working capital facilities, RMB bonds, etc., providing strong support for the Group's business development. As at 30 June 2022, the Group had cash and bank balances amounting to HK\$4,879.7 million (31 December 2021: HK\$5,013.6 million) and undrawn borrowing facilities amounting to HK\$6,168.4 million (31 December 2021: HK\$3,117.0 million).

In terms of bond issuance, with the relatively stable interest rate environment and abundant liquidity supply in China, the Group managed to issue RMB1.2 billion corporate bonds and RMB1.5 billion medium-term notes during the Review Period, consecutively breaking its record in size of a single RMB bond issuance, an accomplishment that reflected wide recognition of the Group's future prospects and support from Chinese bond investors. The Group repaid a US\$300 million bond issue, a RMB1 billion super short-term debentures and a RMB1 billion corporate bond during the Review Period as they became mature.

In June 2022, international credit rating agencies Moody's Investors Service Co., Ltd. ("Moody's") and Fitch Ratings ("Fitch") completed their annual reviews for CALC, respectively. Taking the impact of the Russia-Ukraine Conflict on CALC into full consideration, Moody's affirmed CALC's Corporate Family Rating at Ba1 with a stable outlook, while Fitch affirmed CALC's Long-Term Issuer Default Rating at BB+ with a stable outlook, underscoring the international rating agencies' recognition of CALC's stable operations and sound credit profile. Both rating agencies emphasized in their rating reports that CALC has a close strategic linkage with China Everbright Group and has received continuous business, funding and liquidity support from China Everbright Group and its group companies.

CONTINUE TO STRENGTHEN THE FULL VALUE-CHAIN SERVICE CAPABILITIES

The Group's MRO joint venture FL ARI Aircraft Maintenance & Engineering Company Ltd ("FL ARI") was granted Part 145 approval certification by Civil Aviation Administration of China for base maintenance of B737NG series aircraft subsequent to the approval for the A320 series aircraft granted previously, improving its maintenance and repair business capabilities further.

Adhering to the vision of green aviation and utilizing its professional aged aircraft management capability, the Group proactively provides airlines with one-stop solutions for aged aircraft, fulfilling its commitment to sustainable aviation. During the Review Period, the Group's associate company China Aviation Aftermarket Holdings Limited ("CAAM") reached agreements for the first time with Air China Limited and LATAM Airlines Group SA, respectively, on old aircraft transactions, assisting the two airlines to retire 5 old aircraft and 6 airframes, respectively. In the future, CAAM will maximize residual value of the aircraft asset by disassembling and recycling or by "passenger-to-freighter" ("P2F") conversions. In July 2022, the Group placed its first freighter conversion order, marking the beginning of its P2F business.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Despite challenges in the complex international landscape, medium- to long-term growth prospects for global aviation demand remains strong. IATA pointed out earlier that recovery of global air passenger traffic was accelerating, and the industry activities would return to pre-Pandemic levels in 2023. It also expected improved financial performance for airlines in all regions in 2022 and industry-wide profitability in 2023. For China market, the country has attached great importance to the supporting role of the civil aviation sector in related industries, and has successively enacted a number of policies and measures to boost recovery of the sector. Short-term disruptions will not change the long-term growth momentum and prospects for the sector.

In the second half of the year, CALC will continue to strengthen its aircraft full value-chain management capabilities, sharpen its edges in new aircraft leasing as well as mid-to-old aircraft management while proactively exploring business opportunities emerging from airlines' accelerated fleet optimization and capacity expansion, especially from their huge demand for new-generation fuel-efficient aircraft models, in response to strong recovery of international markets. Meanwhile, CALC will continue to cooperate with institutional investors, and steadily expand its managed fleet scale by establishing more aviation investment vehicles and joint ventures. Further recovery in demand in the domestic market in China is expected to boost aircraft trading volume in the country.

Aligning with the development trend of China's strategic emerging industries and capitalizing on support by its state-owned shareholder, CALC has always been committing to creating better value for all stakeholders, establishing itself as a world-leading aircraft full value-chain solution provider with unique competitive edge.

1. RESULTS

Total revenue of the Group for the six months ended 30 June 2022 was HK\$1,890.8 million, an increase of HK\$305.6 million or 19.3% from the corresponding period last year. Loss for the six months ended 30 June 2022 amounted to HK\$70.4 million (During the six months ended 30 June 2021: Profit of HK\$353.5 million). Loss attributable to shareholders of the Company for the six months ended 30 June 2022 amounted to HK\$130.2 million. It was HK\$302.6 million profit attributable to shareholders of the Company in the corresponding period last year.

Total assets amounted to HK\$53,973.5 million as at 30 June 2022, compared with HK\$50,029.1 million as at 31 December 2021, an increase of HK\$3,944.4 million or 7.9%. The increase in assets was mainly due to the net increase in Pre-Delivery Payments ("PDP") and prepayments made to aircraft manufacturers for aircraft acquisition from order book.

Total liabilities amounted to HK\$47,932.1 million as at 30 June 2022, an increase of HK\$3,920.2 million or 8.9% compared with HK\$44,011.9 million as at 31 December 2021. The increase in liabilities was mainly due to the increase in total interest-bearing debts by HK\$3,714.1 million. As at 30 June 2022, the interest-bearing debts of the Group amounted to HK\$44,194.5 million (31 December 2021: HK\$40,480.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

2. INTERIM CONSOLIDATED STATEMENT OF INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Total revenue		
Lease income		
Finance lease income	284,403	265,253
Operating lease income	1,369,364	890,707
	1,653,767	1,155,960
Other operating income		
Net income from aircraft transactions and aircraft components trading	66,492	177,921
Other income	170,532	251,362
	1,890,791	1,585,243
Expenses		
Interest expenses	(757,857)	(577,097)
Depreciation	(590,692)	(375,947)
Expected credit losses	(51,834)	(45,699)
Other operating expenses	(140,600)	(117,359)
	(1,540,983)	(1,116,102)
Operating profit	349,808	469,141
Net write-off of two aircraft remained in Russia	(439,029)	–
Share of results from associates and joint ventures	1,800	–
Other gains/(losses), net	118,363	(14,872)
Profit before income tax	30,942	454,269
Income tax expenses	(101,381)	(100,819)
(Loss)/Profit for the period	(70,439)	353,450
(Loss)/Profit attributable to		
Shareholders of the Company	(130,160)	302,611
Holders of perpetual capital securities and other non-controlling interests	59,721	50,839
	(70,439)	353,450
(Losses)/Earnings per share for (loss)/profit attributable to shareholders of the Company (expressed in HK\$ per share)		
– Basic (losses)/earnings per share	(0.175)	0.421
– Diluted (losses)/earnings per share	(0.175)	0.421

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Total Revenue

For the six months ended 30 June 2022, the total revenue amounted to HK\$1,890.8 million compared with HK\$1,585.2 million for the corresponding period last year, an increase of HK\$305.6 million or 19.3%.

Total lease income from finance leases and operating leases for the six months ended 30 June 2022 amounted to HK\$1,653.8 million, compared with HK\$1,156.0 million for the six months ended 30 June 2021, an increase of HK\$497.8 million or 43.1%. The increase in total lease income was mainly due to the fleet size increased from 104 aircraft as at 30 June 2021 to 138 aircraft as at 30 June 2022.

During the six months ended 30 June 2022, the Group's average lease rental yield of the finance leases and operating leases was 13.2% (During the six months ended 30 June 2021: 12.7%) and 12.6% (During the six months ended 30 June 2021: 10.3%), respectively. Average lease rental yield for finance leases and operating leases is calculated by expected annualised gross lease receipt divided by net book value of aircraft. The weighted average lease rental yield of the Group was 12.7% (During the six months ended 30 June 2021: 10.5%). The increase in weighted average lease rental yield during the period was mainly due to 12 and 10 aged aircraft under purchase and leaseback arrangement were entered in November 2021 and May 2022, respectively, which generated higher average lease rental yield.

2.2 Other Operating Income

During the six months ended 30 June 2022, the Group recognized net gain from disposal of two aircraft and aircraft components trading amounted to HK\$66.5 million (During the six months ended 30 June 2021: net gain from disposal of four aircraft and aircraft components trading amounted to HK\$177.9 million) with aggregate net book value of aircraft of HK\$907.8 million (During the six months ended 30 June 2021: aggregate net book value of aircraft of HK\$1,313.9 million).

The average gain per aircraft during the current period was HK\$32.4 million, compared to HK\$43.9 million in the corresponding period last year. The higher disposal gain in the corresponding period last year was due to an exceptional disposal transaction. Previously, the Group had filed and won a lawsuit against Longjiang Airlines Co., Ltd. ("Longjiang Airlines") regarding one leased aircraft which was eventually disposed to Longjiang Airlines in the corresponding period last year. After excluding the aforementioned exceptional disposal transaction, the average gain per aircraft for the six months ended 30 June 2021 is in line with the average gain per aircraft of HK\$32.4 million during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2022, the Group had the following other income:

	Unaudited Six months ended 30 June		Change
	2022 HK\$'Million	2021 HK\$'Million	
Government grants	94.9	88.6	7.1%
Interest income from loans to associates and joint ventures	52.7	48.8	8.0%
Bank interest income	4.4	3.4	29.4%
Asset management service fees income from CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively, "CAG Group")	8.4	8.4	–
Incidental income and others	10.1	102.1	-90.1%
Total	170.5	251.3	-32.2%

Government grants for the six months ended 30 June 2022 amounted to HK\$94.9 million, compared with HK\$88.6 million for the six months ended 30 June 2021, an increase of HK\$6.3 million or 7.1%. The increase in government grants was mainly due to the increase in aircraft entitled to government grants from 79 aircraft during the six months ended 30 June 2021 to 85 aircraft during the current period.

Incidental income and others mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases, net gains from bonds repurchase and government wage subsidies under a job support scheme. The decrease in incidental income in the current period was mainly due to the one-off amount received from a manufacturer for the six months ended 30 June 2021, while no such income in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

2.3 Expenses

Interest Expenses

For the six months ended 30 June 2022, interest expenses incurred by the Group amounted to HK\$757.9 million compared with HK\$577.1 million for the corresponding period last year, an increase of HK\$180.8 million or 31.3%. The increase in interest expenses was mainly due to the increase in total interest-bearing debts from HK\$36,014.9 million as at 30 June 2021 to HK\$44,194.5 million as at 30 June 2022 and the increase in 3 month US\$ LIBOR rate from 0.24% as at 1 January 2021 to 2.29% as at 30 June 2022. The average effective interest rate of bank and other borrowings during the period was 3.45% (During the six months ended 30 June 2021: 2.67%).

Depreciation

The amount represented depreciation on aircraft under operating leases, leasehold improvements, office equipment, office building, right-of-use assets and other assets. Depreciation for the six months ended 30 June 2022 was HK\$590.7 million compared with HK\$375.9 million for the corresponding period last year, an increase of HK\$214.8 million or 57.1%. This was mainly attributable to an increase in the number of aircraft under operating leases from 55 aircraft as at 30 June 2021 to 87 aircraft as at 30 June 2022.

Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, value-added tax surcharge and other taxes, rentals and office administration expenses. The increase in other operating expenses was mainly due to the increase in volume of aircraft delivery transactions as the Group delivered 13 aircraft in the current period compared to six aircraft for the corresponding period last year.

2.4 Net Write-off of Two Aircraft Remained in Russia

In February 2022, the military activity in Ukraine happened and subsequent sanctions in relation to commercial activities with businesses in Russia were imposed by the European Union, the United States of America, the United Kingdom and other countries (the "Sanctions"). In March 2022, in compliance with the Sanctions, the Group terminated leasing arrangements with Russian lessees in respect of two owned aircraft, representing less than 2% of the number of the Group's owned fleet of 138 as at 30 June 2022. The Group has been maintaining dialogue with the Russian lessees, actively seeking to repossess the aircraft. As at 30 June 2022, one of the engines located outside Russia (the "Engine") is under control by the Group.

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 30 June 2022, the Group has not recognized any claim receivables.

The Group has determined prudently that the net book value of the aircraft should be fully written down, which is offset by the security deposit, maintenance reserves and the value of the Engine, resulting in a net write-off of HK\$439.0 million for the six months ended 30 June 2022, which was a non-cash transaction.

MANAGEMENT DISCUSSION AND ANALYSIS

2.5 Other Gains/(Losses), Net

	Unaudited Six months ended 30 June		Change
	2022 HK\$'Million	2021 HK\$'Million	
Currency exchange gains/(losses) in RMB (note)	192.8	(42.5)	N/A
Fair value (losses)/gains on currency forward contracts in RMB (note)	(83.1)	17.2	N/A
Net exchange gains/(losses) in RMB (note)	109.7	(25.3)	N/A
Currency exchange losses in US\$	(12.6)	(13.1)	-3.8%
Fair value gains on financial assets at fair value through profit or loss	18.4	20.2	-8.9%
Fair value gains on interest rate swaps	3.9	6.5	-40.0%
Unrealised losses on a currency swap	(1.0)	(3.1)	-67.7%
Total	118.4	(14.8)	N/A

Note: The net exchange gains arising from net financial liabilities denominated in RMB was mainly due to the appreciation of US\$ exchange rate against RMB from 6.36 as at 31 December 2021 to 6.70 as at 30 June 2022. The following table illustrates the foreign currency exposure in RMB as at 30 June 2022 and the related gains/(losses) in RMB for the six months ended 30 June 2022.

	Unaudited As at 30 June 2022 RMB'Million		Unaudited Six months ended 30 June 2022 HK\$'Million
Net financial liabilities denominated in RMB exposed to currency exchange risk	(3,505.5)	Currency exchange gains in RMB	192.8
Less: Hedged by notional amount of currency forward contracts in RMB	2,300.0	Fair value losses on currency forward contracts in RMB	(83.1)
Unhedged currency exchange risk exposure in RMB	(1,205.5)	Net exchange gains in RMB	109.7

MANAGEMENT DISCUSSION AND ANALYSIS

2.6 Income Tax Expenses

Income tax for the six months ended 30 June 2022 was HK\$101.4 million compared to HK\$100.8 million in the corresponding period last year. The higher effective tax rate in the current period was mainly due to the net write-off of two aircraft remained in Russia amounted to HK\$439.0 million, which is a non-deductible item. The effective tax rate was 21.6% after excluding the aforementioned write-off, which is in line with the effective tax rate of 22.2% for the corresponding period last year.

The effective tax rate after excluding the net write-off of two aircraft remained in Russia is set out as follows:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'Million	HK\$'Million
Profit before income tax	30.9	454.3
Add: Net write-off of two aircraft remained in Russia	439.0	–
Adjusted profit before income tax	469.9	454.3
Income tax expenses	(101.4)	(100.8)
Effective tax rate after excluding net write-off of two aircraft remained in Russia	21.6%	22.2%

MANAGEMENT DISCUSSION AND ANALYSIS

3. INTERIM CONSOLIDATED BALANCE SHEET

3.1 Assets

As at 30 June 2022, the Group's total assets amounted to HK\$53,973.5 million compared with HK\$50,029.1 million as at 31 December 2021, an increase of HK\$3,944.4 million or 7.9%.

	Unaudited As at 30 June 2022 HK\$'Million	Audited As at 31 December 2021 HK\$'Million	Change
Property, plant and equipment and right-of-use assets	22,240.5	23,243.8	-4.3%
Finance lease receivables – net	7,984.9	7,714.4	3.5%
Assets classified as held for sale	2,428.3	675.6	259.4%
Prepayments and other assets	14,158.8	11,242.6	25.9%
Investments in and loans to associates and joint ventures	1,379.7	1,273.4	8.3%
Financial assets at fair value through profit or loss	748.4	750.8	-0.3%
Derivative financial assets	153.2	114.9	33.3%
Cash and bank balances	4,879.7	5,013.6	-2.7%
Total assets	53,973.5	50,029.1	7.9%

3.1.1 Property, Plant and Equipment and Right-of-use Assets, Finance Lease Receivables – Net and Assets Classified as Held for Sale

Property, plant and equipment and right-of-use assets mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. The balance decreased from HK\$23,243.8 million as at 31 December 2021 to HK\$22,240.5 million as at 30 June 2022 was mainly due to the write-off of two aircraft remained in Russia and depreciation provided during the current period.

Net finance lease receivables represented the present value of minimum lease payments receivable from aircraft classified as finance leases and their residual values. No material movement in net finance lease receivables as the fleet size of the Group under finance lease remain unchanged at 49 aircraft in the current period. No delivery and disposal of aircraft under finance lease in the current period.

Assets classified as held for sale represented the cost of assets expected to be disposed in the next 12 months. The number of aircraft classified as held for sales increased from two aircraft as at 31 December 2021 to seven aircraft as at 30 June 2022. The increase of five aircraft was due to the reclassification of five aircraft with an aggregated amount of HK\$1,752.7 million from property, plant and equipment and right-of-use assets during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1.2 Aircraft Portfolio

The total owned fleet size of the Group increased from 127 aircraft as at 31 December 2021 to 138 aircraft as at 30 June 2022.

Aircraft portfolio by number of owned aircraft is as follows:

	As at 30 June 2022	As at 31 December 2021	As at 30 June 2021
Aircraft Type			
Airbus A320 CEO family	80	80	71
Airbus A320 NEO family	21	20	7
Airbus A330 CEO family	13	13	11
Boeing B737 NG family	23	13	14
Boeing B787	1	1	1
Total (Note)	138	127	104

Note: Including two aircraft remaining in Russia as at 30 June 2022.

3.1.3 Prepayments and Other Assets

Prepayments and other assets mainly represented Pre-Delivery Payments (“PDP”) and prepayments made to aircraft manufacturers for aircraft acquisition from order book. The increase in prepayments and other assets from HK\$11,242.6 million as at 31 December 2021 to HK\$14,158.8 million as at 30 June 2022 was mainly due to the net increase in PDP and prepayments made to aircraft manufacturers for aircraft acquisition from order book by HK\$3,422.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2 Liabilities

As at 30 June 2022, the Group's total liabilities amounted to HK\$47,932.1 million compared with HK\$44,011.9 million as at 31 December 2021, an increase of HK\$3,920.2 million or 8.9%.

An analysis is given as follows:

	Unaudited As at 30 June 2022 HK\$'Million	Audited As at 31 December 2021 HK\$'Million	Change
Borrowings	37,166.2	32,477.9	14.4%
Bonds and debentures	4,335.7	7,022.7	-38.3%
Medium-term notes	2,692.6	979.8	174.8%
Total interest-bearing debts	44,194.5	40,480.4	9.2%
Deferred income tax liabilities	944.9	898.2	5.2%
Interest payables	224.6	210.3	6.8%
Income tax payables	37.0	40.3	-8.2%
Derivative financial liabilities	10.8	143.2	-92.5%
Other liabilities and accruals	2,520.3	2,239.5	12.5%
	3,737.6	3,531.5	5.8%
Total liabilities	47,932.1	44,011.9	8.9%

3.2.1 Borrowings

The analysis of borrowings is as follows:

	Unaudited As at 30 June 2022 HK\$'Million	Audited As at 31 December 2021 HK\$'Million	Change
Bank and other borrowings			
Bank and other borrowings for aircraft acquisition financing	18,909.6	15,514.8	21.9%
PDP financing	7,268.0	6,303.4	15.3%
Other unsecured bank borrowings	5,944.3	5,600.2	6.1%
	32,121.9	27,418.4	17.2%
Long-term borrowings			
Borrowings from trust plans	4,662.7	4,689.3	-0.6%
Other borrowings	381.6	370.2	3.1%
	5,044.3	5,059.5	-0.3%
Total borrowings	37,166.2	32,477.9	14.4%

The total borrowings increased from HK\$32,477.9 million as at 31 December 2021 to HK\$37,166.2 million as at 30 June 2022 was mainly due to (i) the increase in bank and other borrowings for aircraft acquisition financing by HK\$3,394.8 million as the fleet size increased from 127 as at 31 December 2021 to 138 as at 30 June 2022 and (ii) the increase in PDP financing by HK\$964.6 million for the payment of PDP made to aircraft manufacturers for aircraft acquisition from order book.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.2 Bonds and Debentures

The following table summarises the senior unsecured US\$ bonds and RMB bonds and debentures issued by the Group:

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK\$ Million)	Note
March 2017	Seven years	March 2024	5.50%	US\$200.0	1,563.3	(a)
November 2020	Five years	November 2025	5.90%	US\$35.0	273.0	(c)
January 2021	Five years	January 2026	5.90%	US\$35.0	273.6	(c)
December 2021	Three years	December 2024	4.85%	US\$100.0	708.1	(a)&(b)
				US\$370.0	2,818.0	
August 2021	Three years	August 2024	4.20%	RMB100.0	117.0	(d)
February 2022	Three years	February 2025	4.40%	RMB1,200.0	1,400.7	(c)
				RMB1,300.0	1,517.7	
Total bonds and debentures as at 30 June 2022					4,335.7	(e)
Total bonds and debentures as at 31 December 2021					7,022.7	

The bonds and debentures decreased from HK\$7,022.7 million as at 31 December 2021 to HK\$4,335.7 million as at 30 June 2022 was mainly due to the net effect of (i) the repayment of a five-year senior unsecured US\$ bonds, a super short-term RMB debentures and a three-year unsecured RMB bonds upon maturity, with an aggregate carrying amount of HK\$3,977.3 million and (ii) the proceeds from issuance of a three-year RMB private bonds with carrying amount of HK\$1,400.7 million during the current period.

Notes:

- (a) These bonds are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (b) During the six months ended 30 June 2022, the Group completed bonds repurchase on the Stock Exchange for an aggregate and principal amount of US\$8.2 million.
- (c) The bonds and debentures are unlisted and subscribed by independent third parties.
- (d) The bond is listed on the Shanghai Stock Exchange.
- (e) Upon maturity in March 2022, the Group fully repaid the five-year senior unsecured bonds with outstanding principal amount of US\$203.8 million, bearing coupon interest at 4.7% per annum.

Upon maturity in April 2022 and June 2022, the Group fully repaid the super short-term debentures and the three-year unsecured bonds with outstanding principal amount of RMB1.0 billion and RMB1.0 billion, respectively, bearing coupon interest at 3.98% and 5.2% per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.3 Medium-term Notes

The following table summarises the senior unsecured medium-term notes issued by the Group:

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (RMB'Million)	Carrying amount (HK\$'Million)
August 2019	Three years	August 2022	4.93%	800.0	937.3
April 2022	Three years	April 2025	4.50%	1,500.0	1,755.3
Total medium-term notes as at 30 June 2022				2,300.0	2,692.6
Total medium-term notes as at 31 December 2021					979.8

The medium-term notes increased from HK\$979.8 million as at 31 December 2021 to HK\$2,692.6 million as at 30 June 2022 was mainly due to the proceeds from issuance of a three-year medium-term notes with carrying amount of HK\$1,755.3 million during the current period.

4. 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 and other borrowings, long-term borrowings, issuance of bonds, debentures and medium-term notes and the asset-light strategy including disposal of aircraft. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities, and establishing various aircraft investment platform like CAG and other joint ventures.

For the six months ended 30 June 2022, 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 ratio and debt to equity ratio:

	Unaudited As at 30 June 2022 HK\$'Million	Audited As at 31 December 2021 HK\$'Million	Change
Interest-bearing debts included in total liabilities	44,194.5	40,480.4	9.2%
Total liabilities	47,932.1	44,011.9	8.9%
Total assets	53,973.5	50,029.1	7.9%
Total equity	6,041.5	6,017.3	0.4%
Gearing ratio	81.9%	80.9%	1.0p.p.
Asset-liability ratio	88.8%	88.0%	0.8p.p.
Interest-bearing debts to equity ratio	7.3:1	6.7:1	9.0%

MANAGEMENT DISCUSSION AND ANALYSIS

5. HUMAN RESOURCES

As at 30 June 2022, staff of the Group numbered 165 (30 June 2021: 156). Total remuneration of employees for the six months ended 30 June 2022 amounted to HK\$70.2 million (During the six months ended 30 June 2021: HK\$55.7 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 recognizing the contribution of eligible employees to the growth of the Group.

6. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

6.1 Contingent Liabilities

As at 30 June 2022, the Group was a guarantor of certain bank borrowings of associates and joint ventures, amounting to HK\$660.7 million (31 December 2021: HK\$681.5 million), of which HK\$275.7 million (31 December 2021: HK\$274.0 million) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter-guarantee as mentioned above, the Group guaranteed HK\$385.0 million (31 December 2021: HK\$407.5 million) of these bank borrowings.

6.2 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\$90.1 billion as at 30 June 2022 (31 December 2021: HK\$93.9 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 30 June 2022, the Group had 241 aircraft in its order book, comprising 145 Airbus A320 aircraft family and 66 Boeing B737 aircraft family and 30 ARJ21 series aircraft.

During the period under review, the Group completed the delivery of 13 aircraft, which included 10 delivered aircraft under purchase and leaseback arrangements.

During the period under review, the Group completed the disposal of 2 aircraft.

GENERAL 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 2022, the interests and 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")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was taken or deemed to have under such provisions of the SFO), or 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 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 Shares held	Total interests	
ZHAO Wei	Beneficial owner	10,000,000 ⁽³⁾	10,000,000	1.35%
POON Ho Man	Interest of controlled corporation	185,827,261 ⁽⁴⁾	185,827,261	24.99%
LIU Wanting	Interest of controlled corporation	11,678,914 ⁽⁵⁾	16,478,914	2.22%
	Beneficial owner	4,800,000 ⁽³⁾		
FAN Yan Hok, Philip	Beneficial owner	200,000	200,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000	5,000	0.001%

GENERAL 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 743,535,237 Shares in issue as at 30 June 2022.
- (3) These interests represented the interests in the underlying Shares in respect of share options granted by the Company to Directors pursuant to the post-IPO share option scheme of the Company.
- (4) Mr. POON Ho Man was deemed to be interested in 185,827,261 Shares in the following manner:
 - (a) 176,496,672 Shares were held by Friedmann Pacific Asset Management Limited, a substantial shareholder of the Company and wholly-owned by Capella Capital Limited which in turn was owned as to 50% by Ms. Christina NG and 50% by Mr. POON; and
 - (b) 9,330,589 Shares were held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.
- (5) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. LIU Wanting.

Save as disclosed above, as at 30 June 2022, 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 interests and short positions in 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 in this report, at no time during the six months ended 30 June 2022 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.

GENERAL 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 2022 (including such information as was available on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") or so far as they are aware of, as at 30 June 2022, 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 held	Total interests	
CEL Aviation Investment Holdings Limited ("CEL Aviation")	Beneficial owner	244,065,373 ⁽³⁾	244,065,373	32.82%
China Everbright Limited ("CEL")	Interest of controlled corporation	283,417,693 ⁽³⁾	283,417,693	38.12%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	283,417,693 ⁽⁴⁾	283,417,693	38.12%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.12%
Central Huijin Investment Limited ("Central Huijin")	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.12%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	176,496,672 ⁽⁶⁾	176,496,672	23.74%
Capella Capital Limited ("Capella")	Interest of controlled corporation	176,496,672 ⁽⁶⁾	176,496,672	23.74%
POON Ho Man	Interest of controlled corporation	185,827,261 ^{(7) & (8)}	185,827,261	24.99%
Christina NG	Interest of controlled corporation Beneficial owner	176,496,672 ⁽⁷⁾ 7,500,000	183,996,672	24.75%

GENERAL 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 743,535,237 Shares in issue as at 30 June 2022.
- (3) CEL was deemed to be interested in 244,065,373 and 39,352,350 Shares held by CEL Aviation and China Everbright Financial Investments Limited respectively, both of which were wholly-owned by CEL.
- (4) CE Hong Kong indirectly held more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong was deemed to be interested in all Shares mentioned in note (3) above.
- (5) Central Huijin held 63.16% equity interest in CE Group which in turn held 100% of the issued share capital of CE Hong Kong. Accordingly, CE Group and Central Huijin were deemed to be interested in all Shares mentioned in notes (3) and (4) above.
- (6) The issued share capital of FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM.
- (7) The issued share capital of Capella was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man. Accordingly, Mr. POON and Ms. NG were deemed to be interested in all Shares mentioned in note (6) above.
- (8) Mr. POON Ho Man was interested in 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

Save as disclosed above, as at 30 June 2022, 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.

GENERAL 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 applicable Code Provisions as set out in the CG Code during the six months ended 30 June 2022, except for the following deviation:

Under Code Provision F.2.2, the chairman of the board should attend the annual general meeting. Dr. ZHAO Wei absented at the annual general meeting held on 23 May 2022 (the "AGM") due to other business arrangement. In his absence, Mr. POON Ho Man, an executive Director and the Chief Executive Officer of the Company chaired the AGM, and the chairmen of Audit, Remuneration and Nomination Committees also attended the AGM to answer questions from shareholders of the Company (the "Shareholders") to ensure an effective communication with the Shareholders.

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 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 2022.

GENERAL INFORMATION

BOARD COMMITTEES

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.21 of the Listing Rules and Code Provision D.3 of the CG Code, and have been posted on the websites of both HKEX and the Company. 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. CHEOK Albert Saychuan (chairman), Mr. FAN Yan Hok, Philip and Dr. TSE Hiu Tung, Sheldon, all of them are independent non-executive Directors (the "INEDs"). The chairman of the Audit Committee holds 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 PricewaterhouseCoopers ("PwC"), the external auditor of the Company, 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 2021 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2022, 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.

GENERAL INFORMATION

BOARD COMMITTEES *(continued)*

Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.25 of the Listing Rules and Code Provision E.1 of the CG Code, and have been posted on the websites of both HKEX and the Company. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration policy for 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. CHEOK Albert Saychuan and Dr. TSE Hiu Tung, Sheldon, all of them are INEDs; and Dr. ZHAO Wei and Mr. POON Ho Man, both of them are executive Directors.

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 which aligned with Code Provision B.3 of the CG Code, and have been posted on the websites of both HKEX and the Company. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, reviewing the structure, size and composition of the Board 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 and Dr. TSE Hiu Tung, Sheldon, all of them are INEDs.

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

POST-IPO SHARE OPTION SCHEME

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

As at the date of this interim report, the total number of Shares available for issue under the Post-IPO Share Option Scheme is 20,900,000 Shares, which represented approximately 2.81% of 744,355,352 Shares in issue as at 24 August 2022 (as at the date of the 2021 interim report of 24 August 2021: 10,000,000 Shares, which represented approximately 1.36% of 733,545,229 Shares in issue as at 24 August 2021).

On 6 April 2022, options to subscribe for 20,900,000 Shares in aggregate were granted to Ms. LIU Wanting, an executive Director, and certain employees of the Group pursuant to the Post-IPO Share Option Scheme.

GENERAL INFORMATION

POST-IPO SHARE OPTION SCHEME (continued)

During the period under review, no share options were exercised and 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				Price of the Company's Shares			Exercise period
		At 1 January 2022	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2022	Exercise price per Share HK\$	Immediately before the grant date of share options per Share HK\$	
Directors									
ZHAO Wei	2 Jan 2020	10,000,000	-	-	-	10,000,000	8.13 (Note 1)	8.29	up to 17 Apr 2024 (Note 2)
LIU Wanting	6 Apr 2022	-	2,400,000	-	-	2,400,000	6.36	5.31	6 Apr 2023 to 5 Apr 2025
	6 Apr 2022	-	2,400,000	-	-	2,400,000	6.36	5.31	6 Apr 2024 to 5 Apr 2025
Sub-total		10,000,000	4,800,000	-	-	14,800,000			
Employees									
	6 Apr 2022	-	8,050,000	-	-	8,050,000	6.36	5.31	6 Apr 2023 to 5 Apr 2025
	6 Apr 2022	-	8,050,000	-	-	8,050,000	6.36	5.31	6 Apr 2024 to 5 Apr 2025
Sub-total		-	16,100,000	-	-	16,100,000			
Total		10,000,000	20,900,000	-	-	30,900,000			

Notes:

- (1) On 29 October 2020, the original exercise price of each share option granted to Dr. ZHAO Wei was adjusted from HK\$9.00 to HK\$8.46 as a result of capitalization issues in 2020. On 4 November 2021, the exercise price of each such share option was further adjusted from HK\$8.46 to HK\$8.13 as a result of capitalization issues in 2021.
- (2) The exercise period of all share options granted to Dr. ZHAO Wei is extended by two years up to 17 April 2024 (the "Extension"), which has been approved by the Shareholders at an extraordinary general meeting of the Company held on 23 May 2022 and is subject to acceptance by Dr. ZHAO.
- (3) As at the date of this report, all share options granted to Dr. ZHAO Wei were lapsed due to non-acceptance of the Extension by Dr. ZHAO.

GENERAL INFORMATION

OTHER INFORMATION

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:

Dr. ZHAO Wei, the Chairman of the Board and an executive Director, resigned as the chairman and an executive director of China Everbright Limited, a company listed on the Stock Exchange and a substantial Shareholder of the Company, with effect from 21 June 2022.

Mr. NIEN Van Jin, Robert retired as an INED with effect from the conclusion of the annual general meeting of the Company held on 23 May 2022. Mr. NIEN also ceased to act as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 23 May 2022.

Dr. TSE Hiu Tung, Sheldon, an INED, was appointed as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 23 May 2022. Accordingly, Dr. TSE has been entitled to a total fee of HK\$370,000 per annum (including a Director's fee of HK\$200,000, fees of HK\$80,000 for being a member of the Audit Committee, HK\$50,000 for being a member of the Remuneration Committee and HK\$40,000 for being a member of the Nomination Committee since 23 May 2022).

The basic salary of Mr. POON Ho Man, an executive Director and the Chief Executive Officer of the Company, has been increased from HK\$1,748,400 to HK\$1,818,000 per annum with effect from 1 April 2022.

The basic salary of Ms. LIU Wanting, an executive Director, has been increased from HK\$3,024,000 to HK\$3,144,000 per annum with effect from 1 April 2022.

Mr. FAN Yan Hok, Philip, an INED, resigned as an independent non-executive director of PFC Device Inc., a company listed on the Stock Exchange, with effect from the close of business on 24 March 2022 and was appointed as an external director of Sumida Corporation, a company listed on Tokyo Stock Exchange, on 25 March 2022.

Mr. CHEOK Albert Saychuan, an INED, continued to be an independent non-executive director of Supermax Corporation Berhad, a company listed in Malaysia, after stepping down from the chairman of its board in December 2021.

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

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.

GENERAL INFORMATION

OTHER INFORMATION *(continued)*

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 Shares in issue is held by the public pursuant to the Listing Rules.

Interim Dividend

The Board has declared the payment of an interim dividend of HK\$0.15 per Share in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$0.15 per Share) to the Shareholders whose names appear on the register of members of the Company (the "Register of Members") on 29 September 2022. The 2022 interim dividend will be paid on or about 31 October 2022.

Closure of Register of Members

For the purpose of determining the Shareholders' entitlement to the interim dividend, the Register of Members will be closed from 27 September 2022 to 29 September 2022, both days inclusive, during which period, no transfer of Shares will be registered. The record date on which the Shareholders are qualified to receive the interim dividend is 29 September 2022. 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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 26 September 2022.

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

During the six months ended 30 June 2022, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed Shares.

By order of the Board
China Aircraft Leasing Group Holdings Limited

POON HO MAN

Executive Director and Chief Executive Officer

Hong Kong, 24 August 2022

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 the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 80, which comprises the interim consolidated balance sheet of China Aircraft Leasing Group Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2022 and the interim consolidated statement of income, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. 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” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2022

INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
ASSETS			
Property, plant and equipment and right-of-use assets	6	22,240,518	23,243,760
Investments in and loans to associates and joint ventures	7	1,379,707	1,273,350
Finance lease receivables – net	8	7,984,946	7,714,408
Financial assets at fair value through profit or loss	9	748,371	750,841
Derivative financial assets	19	153,180	114,937
Prepayments and other assets	10	14,152,703	11,232,542
Assets classified as held for sale	11	2,428,268	675,569
Aircraft components trading assets		6,087	10,136
Restricted cash		343,840	237,187
Cash and cash equivalents		4,535,909	4,776,389
Total assets		53,973,529	50,029,119
EQUITY			
Share capital	12	74,354	74,762
Reserves	13	2,292,226	1,987,850
Retained earnings		2,184,142	2,507,621
Equity attributable to shareholders of the Company		4,550,722	4,570,233
Perpetual capital securities and other non-controlling interests	14	1,490,737	1,447,022
Total equity		6,041,459	6,017,255
LIABILITIES			
Deferred income tax liabilities	15	944,883	898,240
Borrowings	16	37,166,221	32,477,860
Medium-term notes	17	2,692,566	979,816
Bonds and debentures	18	4,335,726	7,022,708
Derivative financial liabilities	19	10,801	143,226
Income tax payables		37,007	40,274
Interest payables		224,609	210,268
Other liabilities and accruals	20	2,520,257	2,239,472
Total liabilities		47,932,070	44,011,864
Total equity and liabilities		53,973,529	50,029,119

The notes on page 37 to 80 form an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information was approved by the Board of Directors on 24 August 2022 and was signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited	
		2022	2021
		HK\$'000	HK\$'000
Total revenue			
Lease income			
Finance lease income		284,403	265,253
Operating lease income		1,369,364	890,707
	21	1,653,767	1,155,960
Other operating income			
Net income from aircraft transactions and aircraft components trading	22	66,492	177,921
Other income	23	170,532	251,362
		1,890,791	1,585,243
Expenses			
Interest expenses	24	(757,857)	(577,097)
Depreciation	6	(590,692)	(375,947)
Expected credit losses		(51,834)	(45,699)
Other operating expenses	25	(140,600)	(117,359)
		(1,540,983)	(1,116,102)
Net write-off of two aircraft remained in Russia	26	(439,029)	–
Share of results from associates and joint ventures		1,800	–
Other gains/(losses), net	27	118,363	(14,872)
Profit before income tax		30,942	454,269
Income tax expenses	28	(101,381)	(100,819)
(Loss)/Profit for the period		(70,439)	353,450
(Loss)/Profit attributable to			
Shareholders of the Company		(130,160)	302,611
Holders of perpetual capital securities and other non-controlling interests		59,721	50,839
		(70,439)	353,450
(Losses)/Earnings per share for (loss)/profit attributable to shareholders of the Company (expressed in HK\$ per share)			
– Basic (losses)/earnings per share	30(a)	(0.175)	0.421
– Diluted (losses)/earnings per share	30(b)	(0.175)	0.421

The notes on page 37 to 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited	
		2022	2021
		HK\$'000	HK\$'000
(Loss)/Profit for the period		(70,439)	353,450
Other comprehensive income for the period:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges	19	249,339	100,709
Currency translation differences		53,042	23,378
		302,381	124,087
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences attributed to non-controlling interests		(279)	2,619
Total other comprehensive income for the period, net of tax		302,102	126,706
Total comprehensive income for the period		231,663	480,156
Total comprehensive income for the period attributable to			
Shareholders of the Company		172,221	426,698
Holders of perpetual capital securities and other non-controlling interests		59,442	53,458
		231,663	480,156

The notes on page 37 to 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to shareholders of the Company				Perpetual capital securities and other non-controlling interests	Total equity
	Share capital	Reserves	Retained earnings	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 2022	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255
Comprehensive income						
(Loss)/profit for the period	-	-	(130,160)	(130,160)	59,721	(70,439)
Other comprehensive income						
Cash flow hedges (Note 19)	-	249,339	-	249,339	-	249,339
Currency translation differences	-	53,042	-	53,042	(279)	52,763
Total comprehensive income/(loss)	-	302,381	(130,160)	172,221	59,442	231,663
Transaction with shareholders and non-controlling interests						
Dividends (Note 29)	-	-	(193,319)	(193,319)	-	(193,319)
Dividends distributed to perpetual capital securities (Note 14(a))	-	-	-	-	(15,727)	(15,727)
Cancellation of shares (Note 12(a))	(408)	495	-	87	-	87
Share option scheme:						
- Value of services (Note 13)	-	1,500	-	1,500	-	1,500
Total transactions with shareholders and non-controlling interests	(408)	1,995	(193,319)	(191,732)	(15,727)	(207,459)
Balance as at 30 June 2022	74,354	2,292,226	2,184,142	4,550,722	1,490,737	6,041,459
Balance as at 1 January 2021	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769
Comprehensive income						
Profit for the period	-	-	302,611	302,611	50,839	353,450
Other comprehensive income						
Cash flow hedges (Note 19)	-	100,709	-	100,709	-	100,709
Currency translation differences	-	23,378	-	23,378	2,619	25,997
Total comprehensive income	-	124,087	302,611	426,698	53,458	480,156
Transaction with shareholders and non-controlling interests						
Dividends	-	-	(144,001)	(144,001)	-	(144,001)
Dividends distributed to perpetual capital securities (Note 14(a))	-	-	-	-	(87,089)	(87,089)
Buy-back of shares (Note 12(b))	(251)	(15,835)	-	(16,086)	-	(16,086)
Total transactions with shareholders and non-controlling interests	(251)	(15,835)	(144,001)	(160,087)	(87,089)	(247,176)
Balance as at 30 June 2021	71,749	1,693,730	2,394,170	4,159,649	1,489,100	5,648,749

The notes on page 37 to 80 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Cash flows from operating activities		
Profit before income tax	30,942	454,269
Adjustments for:		
– Depreciation	590,692	375,947
– Net income from aircraft transactions (Note 22)	(64,756)	(175,415)
– Expected credit losses	51,834	45,699
– Net write-off of two aircraft remained in Russia (Note 26)	439,029	–
– Interest expenses (Note 24)	757,857	577,097
– Share-based payments (Note 13)	1,500	–
– Unrealised currency exchange (gains)/losses	(193,958)	67,778
– Fair value losses/(gains) on interest rate swaps, currency swap and currency forward contracts (Note 19)	80,189	(20,543)
– Share of results from associates and joint ventures	(1,800)	–
– Gain on repurchase of bonds	–	(3,166)
– Interest income (Note 23)	(57,121)	(52,270)
– Fair value gains on financial assets at fair value through profit or loss (Note 27)	(18,364)	(20,153)
	1,616,044	1,249,243
Changes in working capital:		
– Finance lease receivables – net	(221,569)	(246,570)
– Prepayments and other assets	(100,899)	170,041
– Aircraft components trading assets	4,049	(6,139)
– Other liabilities and accruals	224,623	91,458
Cash generated from operations	1,522,248	1,258,033
Income taxes paid	(62,689)	(29,676)
Net cash flows generated from operating activities	1,459,559	1,228,357
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,468,604)	(700,738)
Proceeds from disposal of aircraft	1,111,281	946,887
Pre-Delivery Payments (“PDP”) and prepayments paid for acquisition of aircraft	(5,128,287)	(1,058,202)
PDP refunded for acquisition of aircraft	947,304	399,989
Interest received	61,192	52,270
Investment in financial assets at fair value through profit or loss	(3,136)	–
Proceeds from distribution of financial assets at fair value through profit or loss	28,698	1,602
Investment in associates and joint ventures	(5,057)	–
Payments relating to loans to associates and joint ventures	(141,044)	(191,743)
Repayments of loans to associates and joint ventures	22,473	15,626
Net cash flow used in investing activities	(4,575,180)	(534,309)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Cash flows from financing activities		
Proceeds from borrowings	10,847,022	6,851,889
Issue of notes, bonds and debentures, net of transaction costs	3,308,567	271,348
Repayments of borrowings	(6,238,678)	(6,519,938)
Repurchase and repayment of bonds and debentures, including transaction costs	(4,041,501)	(1,848,693)
Repayment of lease liabilities	(7,499)	(7,877)
Interest paid in respect of derivative financial instruments	(54,458)	(69,310)
Interest paid in respect of borrowings, notes and bonds and debentures	(777,307)	(752,827)
Increase in deposits pledged in respect of borrowings	(245,229)	(444,235)
Decrease in deposits pledged in respect of derivative financial instruments	138,480	107,172
Buy-back of shares, including transaction costs	–	(16,086)
Net cash flows generated from/(used in) financing activities	2,929,397	(2,428,557)
Net decrease in cash and cash equivalents	(186,224)	(1,734,509)
Cash and cash equivalents at beginning of the period	4,776,389	4,877,557
Currency exchange difference on cash and cash equivalents	(54,256)	12,538
Cash and cash equivalents at end of the period	4,535,909	3,155,586

The notes on page 37 to 80 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The interim condensed consolidated financial information for the six months ended 30 June 2022 ("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 consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2021 annual report of the Company.

Going concern

As at 30 June 2022, the Group's current liabilities exceeded its current assets by HK\$7,524.1 million. The Group had total capital commitments of HK\$90,126.0 million as at 30 June 2022, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years till the end of 2027. Out of the total capital commitments, HK\$9,916.8 million is forecasted to be incurred and payable within one year based on the current delivery schedule and forecasted delivery schedule with the Original Equipment Manufacturers ("OEMs"), including Pre-Delivery Payments ("PDP") of HK\$3,321.2 million scheduled and forecasted to be paid in the next twelve months from 30 June 2022 in accordance with the relevant aircraft purchase agreements. The Group will satisfy these capital commitments through the Group's internal resources, available banking facilities and may also require additional aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 30 June 2022, the Group had cash and bank balances of HK\$4,879.7 million and undrawn borrowing facilities of HK\$6,168.4 million.

During the years 2020 to 2022, Covid-19 and responsive travel restrictions imposed by the governments have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, which have a negative effect on the business operation and financial condition of certain airline customers of the Group. The Group experienced delay in lease payments from a few airline customers during the six months ended 30 June 2022. Moreover, the Group also adjusted the delivery schedules of new aircraft and agreed to defer lease payments due to the impact of Covid-19.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

The Group will need to secure a substantial amount of funds in the foreseeable future to finance these financial obligations and capital expenditures under contractual and other arrangements. The directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than twelve months from 30 June 2022. The directors have taken into account the following plans and measures for the purposes of their assessment:

- The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful to adjust the delivery schedules in the past and during Covid-19 pandemic. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs may accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances after mutual discussion in good faith. Based on its experience, the Group is confident that it would be able to obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next twelve months from 30 June 2022 as and when needed.
- New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and the repayments of the PDP financing due upon delivery of aircraft. Such aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes finances the new aircraft with internal resources or short-term bridging financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the six months ended 30 June 2022, the Group has obtained 22 aircraft project loan facilities of US\$681.7 million (approximately equivalent to HK\$5,334.6 million) from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time and has concluded three aircraft project loan facility subsequent to 30 June 2022. Based on these aircraft project loan arrangements, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 30 June 2022.
- The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approvals from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience and industry knowledge. The directors are of the view that they are able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances. The Group had already obtained PDP financing facilities from certain banks to provide financing to the Group to fully satisfy all the forecasted committed PDP payments of HK\$3,321.2 million in the next twelve months from 30 June 2022.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

- As at 30 June 2022, the Group had working capital loan and revolving loan facilities of HK\$7,165.9 million out of which HK\$5,978.4 million has been utilised. The directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK\$1,187.5 million as and when required and will be able to renew substantially all the existing revolving facilities.
- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes, as well as other debt and capital financing. In February and April 2022, the Group completed the issuance of private bonds of RMB1.2 billion and medium-term notes of RMB1.5 billion in China. The Group will review the market conditions and consider to issue the RMB super short-term debentures, RMB medium-term notes and US\$ bonds under the MTN programme if appropriate. Based on the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.
- The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled certain aircraft to be disposed of in the next twelve months from 30 June 2022, of which the Group has signed letters of intent or sale and purchase agreements for the disposals of eight aircraft. During the six months ended 30 June 2022, the Group completed two aircraft disposals and received proceeds from relevant disposals of HK\$328.6 million. Based on the Group's experience in aircraft portfolio trading in previous years, the directors are confident that the scheduled disposals of aircraft in the next twelve months from 30 June 2022 will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 30 June 2022.
- The Group is closely monitoring the impact of Covid-19 on its airline customers and communicated with those airline customers to work out mutually agreeable solution if required. The Group is also closely monitoring the collection and urge these airline customers to settle the deferral lease rent according to the schedule. The directors are of the view that the international passengers' travel demand under the global aviation industry is gradually recovering from the impact of Covid-19. In relation to the aviation industry in China, the Chinese government has successively issued a number of policies and measures to support the recovery of the aviation industry in China. Recently, China's three major airline companies have placed order in large quantity on Airbus A320 NEO family, which demonstrated a positive signal of long term demand recovery in China's aviation industry. And such recovery trend emerged in late first half of 2022. The Group expects there will not be any material deterioration in the operating cashflow in the next twelve months from 30 June 2022.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, continued availability of existing banking facilities for working capital and PDP payments, the cash flows generated from its business operations, the successful rescheduling of delivery schedules for new aircraft, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments and the successful disposals of aircraft as planned, the Group has sufficient working capital for its present requirements in the next twelve months from 30 June 2022. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and hence prepared the consolidated financial statements on a going concern basis.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's consolidated financial statements for the year ended 31 December 2021.

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 2022:

Property, Plant and Equipment: Proceeds before intended use – Amendments to HKAS 16
Reference to the Conceptual Framework – Amendments to HKFRS 3
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)
Annual Improvements to HKFRS Standards 2018 – 2020

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 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 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk. The 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 2021.

There have been no significant changes in the risk management department or in any risk management policies since 31 December 2021.

5.1.1 Market risk

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other assets, financial liabilities including bank borrowings, medium-term notes, bonds and debentures and 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 certain borrowings used to finance the leases are denominated in US\$, while some borrowings are denominated in RMB. Currency exchange risk may arise when the finance lease receivables, operating lease receivables and certain borrowings are denominated in different currencies. The management of the Group closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group uses the currency swaps and currency forward contracts to hedge its exposure to currency exchange risk. The foreign currency swaps and foreign currency forward contracts do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains or losses, net, please refer to Note 27.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(a) Currency exchange risk (continued)

The following table is the breakdown of financial assets and liabilities denominated in RMB held by companies whose functional currency is US\$ or HK\$:

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Cash and cash equivalents	894,718	697,006
Other financial assets	246,474	269,513
Total financial assets	1,141,192	966,519
Bank borrowings	(688,825)	(95,794)
Medium-term notes	(2,692,566)	(979,816)
Bonds and debentures	(1,517,694)	(2,573,699)
Other financial liabilities	(349,796)	(378,201)
Total financial liabilities	(5,248,881)	(4,027,510)
Notional amount of foreign currency forward contracts	2,695,140	2,942,880
Net exposure	(1,412,549)	(118,111)

As at 30 June 2022, the Group had one outstanding currency swap contract with notional principal of US\$15,684,000 (equivalent to approximately HK\$123,063,000) (31 December 2021: US\$15,684,000 (equivalent to approximately HK\$122,290,000)). For details, please refer to Note 19.

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US\$ for six months ended 30 June in 2022 and 2021:

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Profit before tax		
– 5% appreciation of RMB against US\$	(76,147)	(29,372)
– 5% depreciation of RMB against US\$	76,147	29,372

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk

Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables, bank borrowings, long-term borrowings, bonds and debentures 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 and other borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank and other borrowings do not match. The following table indicates the amount of bank and other borrowings exposed to interest rate risk as at 30 June 2022 and 31 December 2021.

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Borrowings exposed to US\$ London Interbank Offered Rate ("LIBOR")	18,434,223	19,220,602
Borrowings exposed to US\$ Secured Overnight Financing Rate ("SOFR")	1,346,418	222,982
Borrowings exposed to RMB Loan Prime Rate ("LPR")	3,270,267	922,499
	23,050,908	20,366,083

Interest rate swaps are used to manage the variability in future interest cash flows of bank borrowings, arising due to changes in market interest rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for bank borrowings on the basis of their contractual terms and other relevant factors, including estimates of prepayments. The cash flows are used to determine the effectiveness and ineffectiveness.

As at 30 June 2022, the Group had 27 outstanding floating-to-fixed interest rate swaps (31 December 2021: 31 swaps) to manage its unmatched interest rate risk exposure. 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 trend and will consider hedging the exposure where necessary and appropriate.

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5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk (continued)

	As at 30 June 2022		As at 31 December 2021	
	Notional amount HK\$'000	Carrying Value HK\$'000	Notional amount HK\$'000	Carrying Value HK\$'000
Interest rate swaps				
Exposed to US\$ LIBOR	5,556,469	110,919	6,639,160	(132,923)
Exposed to US\$ SOFR	199,693	8,068	227,484	(1,769)
	5,756,162	118,987	6,866,644	(134,692)

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2022. 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 2022 by approximately HK\$14,417,000 (six months ended 30 June 2021: increased/decreased by HK\$175,000); and would also have increased/decreased the Group's reserves by approximately HK\$19,091,000 (31 December 2021: increased/decreased by HK\$39,317,000) 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.

As at 30 June 2022, the bank borrowings and interest rate swaps relating to hedge accounting as below referenced to US\$ LIBORs will be affected by the IBOR reforms.

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY LIBOR settings and the one-week and two-month US\$ LIBOR settings had discontinued after 31 December 2021. The remaining US\$ LIBOR settings will discontinue after 30 June 2023. The detailed transition plan of interest benchmark rate is still under negotiation. There is currently uncertainty around the timing and precise nature of these change.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.1 Market risk *(continued)*

(b) Cash flow and fair value interest rate risk *(continued)*

The Group has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to HKFRS 9 and HKAS 39 applicable to hedge accounting, which has no material impact to the Group. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

Such reform has no impact on the Group's risk management strategy. The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to processes, risk management procedures and valuation models that may arise as a consequence of the reform.

5.1.2 Credit risk

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

Credit risk on aircraft lease 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.

(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.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****5 FINANCIAL RISK MANAGEMENT** *(continued)***5.1 Financial risk factors** *(continued)***5.1.2 Credit risk** *(continued)**Credit risk on aircraft lease service (continued)*

(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.

(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 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 of credit risk are estimated according to net exposure analysis and assumptions about risk of default and expected loss rates. The net exposure is determined based on the finance lease receivable or operating lease receivable balance, net of the unguaranteed residual value in the case of a finance lease, and other cash collaterals such as security deposits over the contractual term. 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.

The Group assesses the business performance and credit risks of the airline companies on a regular basis. Due to the Covid-19 pandemic, some of the airline customers have curtailed their commercial operations, which could result in lease defaults. The Group have agreed with some of the lessees to defer upcoming rent obligations. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of Covid-19, management provided expected credit loss of HK\$7,699,000 (31 December 2021: HK\$10,118,000) for finance lease receivables (Note 8) and HK\$213,566,000 (31 December 2021: HK\$174,313,000) for operating lease receivables (Note 10) as at 30 June 2022.

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5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.2 Credit risk (continued)

Credit risk on aircraft lease service (continued)

(c) Impairment allowance policies (continued)

Credit risk exposure on operating leases receivables:

	Unaudited As at 30 June 2022		Audited As at 31 December 2021	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	456,927	190,659	362,027	173,964
Europe	29,429	22,891	22,259	333
Americas	193,512	16	169,484	16
	679,868	213,566	553,770	174,313

Credit risk exposure on finance lease receivables (excluding the unguaranteed residual values):

	Unaudited As at 30 June 2022		Audited As at 31 December 2021	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	4,131,064	7,699	4,020,082	10,118

(d) Concentration of credit risk

During six months ended 30 June 2022, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 8, Note 10 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 and operating lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.2 Credit risk *(continued)*

Credit risk on loans to associates and joint ventures and other financial assets

The Group is also exposed to credit risk associated with loans and loan commitments, and financial guarantees to associates and joint ventures.

The Group assesses whether there are any indicators of impairment for investments in associates and joint ventures at the end of each reporting period. Investments in associates and joint ventures are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in associates or joint ventures exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose a discount rate commensurate with the associated risk in order to calculate the present values of those cash flows.

The Group evaluates expected credit losses of loans to associates and joint ventures at the end of each reporting period. Management considers a number of factors in expected credit loss assessment including but not limited to associates and joint ventures' current and expected financial positions, business environment and industry performance, current and forward-looking economic factors, collection history and past experience. For loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, the expected credit loss is likely to be immaterial. If the borrower could not repay the loan if demanded at the reporting date, the Group considers the expected manner of recovery, including a 'repay over time' strategy or a fire sale of less liquid assets, to measure expected credit losses. Please refer to Note 7 and Note 31 for details.

In addition, the Group is exposed to credit risk associated with cash in banks and derivative financial assets. Management considers that these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.3 Liquidity risk

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

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Current assets		
Loans to associates and joint ventures	68,697	6,763
Financial assets at fair value through profit or loss	105,498	114,827
Finance lease receivables – net	150,370	143,753
Derivative financial assets	63,910	19,428
Aircraft components trading assets	6,087	10,136
Prepayments and other assets	936,308	1,742,647
Assets classified as held for sale	2,428,268	675,569
Restricted cash	58,513	127,918
Cash and cash equivalents	4,535,909	4,776,389
	8,353,560	7,617,430
Current liabilities		
Deferred income tax liabilities	174,551	173,938
Borrowings	12,446,355	9,499,333
Medium-term notes	937,284	979,816
Bonds and debentures	–	4,039,787
Derivative financial liabilities	–	94,688
Income tax payables	37,007	40,274
Interest payables	224,609	210,268
Other liabilities and accruals	2,057,821	1,807,538
	15,877,627	16,845,642
Net current liabilities	(7,524,067)	(9,228,212)

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.

As at 30 June 2022, borrowings of HK\$12.4 billion (31 December 2021: HK\$9.5 billion) under current liabilities mainly comprised of borrowings of HK\$6.7 billion (31 December 2021: HK\$4.4 billion) from aircraft acquisition financing (“aircraft loans”), HK\$3.4 billion (31 December 2021: HK\$2.5 billion) from PDP financing, and HK\$2.3 billion (31 December 2021: HK\$2.6 billion) from other unsecured bank borrowings. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 11). The repayment of above aircraft loans will be partially funded by the collection of operating lease receivables of HK\$3.2 billion (31 December 2021: HK\$2.8 billion) (Note 32(d)) (which has not been included under current assets above) that is expected to be received from airlines in the next twelve months from 30 June 2022. Repayment of PDP loans and other financing is expected to be funded by existing loan facilities and/or new aircraft loans when aircraft is delivered based on industry practice and prior experience.

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5 FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Capital risk management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six months ended 30 June 2022.

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 and interest-bearing debts to equity ratio, which is calculated as interest-bearing debts included in total liabilities divided by total equity. The ratios are as follows:

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Interest-bearing debts included in total liabilities	44,194,513	40,480,384
Total liabilities	47,932,070	44,011,864
Total assets	53,973,529	50,029,119
Total equity	6,041,459	6,017,255
Gearing ratio	81.9%	80.9%
Asset-liability ratio	88.8%	88.0%
Interest-bearing debts to equity ratio	7.3:1	6.7:1

5.3 Fair value estimation

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

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5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities measured at fair values

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

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2022 – unaudited				
Assets				
Interest rate swaps	–	118,987	–	118,987
Currency swaps and forward contracts	–	34,193	–	34,193
Financial asset at fair value through profit or loss	–	–	748,371	748,371
	–	153,180	748,371	901,551
Liabilities				
Currency forward contracts	–	10,801	–	10,801
As at 31 December 2021 – audited				
Assets				
Interest rate swaps	–	3,590	–	3,590
Currency swaps and forward contracts	–	111,347	–	111,347
Financial asset at fair value through profit or loss	–	–	750,841	750,841
	–	114,937	750,841	865,778
Liability				
Interest rate swaps	–	143,226	–	143,226

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

The fair value of the financial asset at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, risk-adjusted discount rate, and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy. The Group accessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease or increase HK\$10,000,000 (31 December 2021: HK\$9,000,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase or decrease the fair value by HK\$158,000,000 (31 December 2021: HK\$182,000,000) and HK\$273,000,000 (31 December 2021: HK\$185,000,000), respectively.

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5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities measured at fair values (continued)

The following table presents the change in level 3 instrument for the six months ended 30 June 2022.

	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2022	750,841
Investment in financial assets at fair value through profit or loss	3,136
Proceeds from financial assets at fair value through profit or loss	(28,698)
Fair value gains on the financial assets at fair value through profit or loss	18,364
Currency translation difference	4,728
As at 30 June 2022	748,371
	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2021	797,888
Proceeds from financial assets at fair value through profit or loss	(2,898)
Fair value gains on the financial assets at fair value through profit or loss	20,153
Currency translation difference	1,296
As at 30 June 2021	816,439

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5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities carried at amortised cost

The fair values of cash and cash equivalents, other receivables, loans to associates and joint ventures, 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 finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures are as follows:

	Unaudited As at 30 June 2022		Audited As at 31 December 2021	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Finance lease receivables (excluding the unguaranteed residual values)	4,131,064	4,370,558	4,020,082	4,305,034
Borrowings	37,166,221	37,633,672	32,477,860	32,893,234
Medium-term notes	2,692,566	2,805,576	979,816	1,005,829
Bonds and debentures	4,335,726	4,477,282	7,022,708	7,129,559

The fair values of the above finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures (which are not traded in the active market) 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 other bonds and debentures (which are traded in the active market) are determined based on the quoted prices in the respective markets. Their fair values are considered to be of level 1 within the fair value hierarchy.

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6 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Unaudited						
	Aircraft and engine HK\$'000	Leasehold improvements HK\$'000	Office equipment HK\$'000	Office building HK\$'000	Right-of-use assets HK\$'000	Others HK\$'000	Total HK\$'000
Net book value as at							
1 January 2022	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
Additions	2,849,292	-	4,255	-	3,314	-	2,856,861
Assets classified as held for sale	(1,752,350)	-	-	-	-	-	(1,752,350)
Disposals	(910,192)	-	-	-	-	-	(910,192)
Write-off (Note 26)	(565,631)	-	-	-	-	-	(565,631)
Depreciation	(580,402)	(802)	(1,633)	(473)	(6,562)	(820)	(590,692)
Currency translation difference	(40,810)	-	29	281	(742)	4	(41,238)
Net book value as at							
30 June 2022	22,151,070	1,869	10,707	41,683	27,695	7,494	22,240,518
Net book value as at							
1 January 2021	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Additions	1,291,994	-	196	-	2,133	420	1,294,743
Assets classified as held for sale	(2,034,595)	-	-	-	-	-	(2,034,595)
Disposals	(1,110,846)	-	-	-	-	-	(1,110,846)
Depreciation	(366,232)	(801)	(953)	(452)	(6,681)	(828)	(375,947)
Currency translation difference	37,872	-	5	69	2	-	37,948
Net book value as at							
30 June 2021	16,166,612	3,472	3,082	42,156	37,435	9,187	16,261,944

Lease rentals amounting to HK\$1,369,364,000 relating to the lease of aircraft and engine for the six months ended 30 June 2022 are included in "operating lease income" in the consolidated statement of income (six months ended 30 June 2021: HK\$890,707,000).

As at 30 June 2022, the net book value of aircraft amounted to HK\$21,727,186,000 (31 December 2021: HK\$22,854,960,000).

As at 30 June 2022, the net book value of aircraft under operating leases amounting to HK\$19,402,322,000 (31 December 2021: HK\$17,914,127,000) were pledged as collateral for bank and other borrowings for aircraft acquisition financing and borrowings from trust plans (Note 16).

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7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Investments in and loans to associates and joint ventures – carrying amount after share of results	1,543,134	1,421,777
Expected credit loss on loans to associates and joint ventures	(163,427)	(148,427)
	1,379,707	1,273,350

As at 30 June 2022, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Nature of relationship	Measurement method
Aircraft Recycling International Limited (“ARI”) (a)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG Bermuda 1 Limited (“CAG”) (Note 9)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd (“FLARI”) (b)	The PRC	Line maintenance, base maintenance, technical training.	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited (“HNCA One (Tianjin)”) (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited (“HNCA Two (Tianjin)”) (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
PT Transnusa Aviation Mandiri (“TAM”) (d)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity
PT Linkaviasi Asia Indonesia (“LAI”) (e)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity

- (a) ARI is an investment holding company and its subsidiaries (collectively as “ARI Group”) have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 30 June 2022, the net liabilities of ARI were HK\$472,656,000 (31 December 2021: net liabilities of HK\$390,909,000), and as a result, the Group’s equity interests in ARI was reduced to zero (2021: Zero). No further losses were recorded unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate. As at 30 June 2022, the Group’s outstanding balance of advance to ARI amounted to HK\$293,000 (31 December 2021: HK\$618,000). As at 30 June 2022, the Group’s carrying amount of outstanding loans to ARI amounted to HK\$1,224,933,000 (31 December 2021: HK\$1,162,453,000). For details, please refer to Note 31(b)(ii).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES** *(continued)*

- (b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 30 June 2022, the Group's outstanding balance of advance to FLARI amounted to HK\$19,405,000 (31 December 2021: HK\$24,376,000). As at 30 June 2022, the Group's outstanding loan balance receivable from FLARI amounted to HK\$15,932,000 (31 December 2021: HK\$4,809,000). For details, please refer to Note 31(b)(iii).

As the result of FLARI is not material to the Group, no summarised financial information of FLARI is disclosed.

- (c) HNCA One (Tianjin) and HNCA Two (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 30 June 2022, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK\$36,103,000 (31 December 2021: HK\$37,063,000) and HK\$36,055,000 (31 December 2021: HK\$37,014,000), respectively. For details, please refer to Note 31(d).

As the result of HNCA One (Tianjin) and HNCA Two (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin) and HNCA Two (Tianjin) are disclosed.

- (d) CALC IDN Limited ("CALC IDN"), a wholly-owned subsidiary of the Company, holds approximately 72.82% of the share capital in Linkasia Airlines Group Limited ("Linkasia Airlines"). The remaining shares of Linkasia Airlines are owned as to 14.13% by Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) and 13.05% by Smart Aviation Investment Limited (wholly-owned by Ms. Liu, an executive director and deputy chief executive officer of the Company).

Linkasia Airlines indirectly (i) holds 49% equity interest in TAM and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in TAM. The principal activity of TAM is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, TAM is jointly controlled by the Group and other investor.

As at 30 June 2022, the Group held rental deposit of US\$900,000 (equivalent to HK\$7,062,000) from TAM (31 December 2021: US\$900,000 (equivalent to HK\$7,017,000)) in relation to an operating lease of one aircraft, please refer to Note 31(h).

As the result of TAM is not material to the Group, no summarised financial information of TAM is disclosed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES** (continued)

- (e) Linkasia Airlines indirectly (i) holds 49% equity interest in LAI and (ii) is beneficially interested in 50% of the voting rights and 75% of the economic interest in LAI. The principal activity of LAI is the operation of an airline based in Indonesia. It also engages in the provision of commercial air transportation services.

Under the Indonesia Law No.1 of 2009 on Aviation and the Indonesian Negative List, air transportation activities are limited to up to 49% foreign shareholding. In addition, a single majority rule applies where it is required that one of the Indonesian shareholders' shareholding must be larger than the shareholding of the foreign investors combined. According to the contractual rights and obligations of each investor, LAI is jointly controlled by the Group and other investor.

As at 30 June 2022, the Group's outstanding loan balance receivable from LAI amounted to US\$4,215,000 (equivalent to HK\$33,073,000) (31 December 2021: Nil).

As the result of LAI is not material to the Group, no summarised financial information of LAI is disclosed.

Save as those disclosed elsewhere in other notes, the above transactions were carried out with related parties at terms negotiated between the Group and the respective parties.

Besides the contingent liabilities disclosed in Note 32(a), there are no other contingent liabilities relating to the Group's interests in associates and joint ventures.

8 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Lease payments receivables		
– Not later than 1 year	131,752	128,815
– Later than 1 year but not later than 2 years	209,449	126,887
– Later than 2 years but not later than 3 years	249,419	204,456
– Later than 3 years but not later than 4 years	1,691,458	1,085,977
– Later than 4 years but not later than 5 years	1,708,437	1,844,533
– Later than 5 years	1,587,132	2,198,585
Total	5,577,647	5,589,253
Less: Unearned finance lease income relating to lease payment receivables	(1,446,583)	(1,569,171)
Present value of lease payment receivables	4,131,064	4,020,082
Add: Present value of unguaranteed residual value	3,861,581	3,704,444
Net investment in leases	7,992,645	7,724,526
Less: Accumulated expected credit losses allowance	(7,699)	(10,118)
Finance lease receivables – net	7,984,946	7,714,408

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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8 FINANCE LEASE RECEIVABLES – NET (continued)

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

	Unaudited		Audited	
	As at 30 June 2022	%	As at 31 December 2021	%
	HK\$'000		HK\$'000	
Categorised by customer in terms of lease receivables:				
Five largest airline companies	5,865,093	73%	5,665,273	73%
Others	2,119,853	27%	2,049,135	27%
Finance lease receivables – net	7,984,946	100%	7,714,408	100%

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Long-term investments – CAG (Note)	745,227	750,841
Others	3,144	–
	748,371	750,841

Note:

CAG uses the fund injected through a performance-linked 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 shareholders' loan agreement, all investors of CAG committed to invest in CAG through shareholders' loan according to the mezzanine financing proportion.

10 PREPAYMENTS AND OTHER ASSETS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	12,272,684	8,806,714
Operating lease receivables (b)	679,868	553,770
Interest capitalised	843,185	741,742
Deposits paid	31,094	32,865
Prepayments and amounts due from related parties (Note 31(e))	253,454	269,612
Deductible in-put value-added taxes	101,827	115,493
Receivables arising from aircraft transactions (c)	–	773,338
Others (d)	184,157	113,321
	14,366,269	11,406,855
Less: Expected credit losses allowance (b)	(213,566)	(174,313)
	14,152,703	11,232,542

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10 PREPAYMENTS AND OTHER ASSETS (continued)

- (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 entered into supplementary agreement with Airbus for the purchase of additional 65 aircraft. In January 2020, the Group entered into supplemental agreement to the aircraft purchase agreements in December 2014 to purchase additional 40 aircraft from Airbus.

In June 2017, the Group entered into aircraft purchase agreement (the “2017 Aircraft Purchase Agreement”) 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. In November 2019, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement and 2018 Aircraft Purchase Agreement with Boeing to adjust its order from 100 aircraft to 92 aircraft. In March 2021, the Group entered into the agreement with Boeing to adjust its order from 92 aircraft to 66 aircraft and to reschedule the delivery of certain aircraft.

PDP were made according to the payment schedules set out in the aircraft purchase agreements. The aircraft will be delivered in stages by 2027.

- (b) The Group recognised an allowance for impairment losses by providing for expected credit losses when the lessee does not pay the amounts due under its lease agreements.

The aging of the operating lease receivables based on due date was as follows:

	Current/ Deferral HK\$'000	Less than 30 days past due HK\$'000	30 to 90 days past due HK\$'000	More than 90 days past due HK\$'000	Total HK\$'000
As at 30 June 2022					
Gross carrying amount	199,323	10,624	49,879	420,042	679,868
As at 31 December 2021					
Gross carrying amount	191,743	50,130	65,161	246,736	553,770

As at 30 June 2022, the expected credit losses allowance amounted to HK\$213,566,000 (31 December 2021: HK\$174,313,000) and the net operating lease receivables amounted to HK\$466,302,000 (31 December 2021: HK\$379,457,000).

- (c) The receivables arising from aircraft transactions as at 31 December 2021 was fully settled in January 2022.
- (d) The “Others” above were mainly deferred expenses and prepayment to third parties.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****11 ASSETS CLASSIFIED AS HELD FOR SALE**

During the six months ended 30 June 2022, the Group has signed letters of intent or sale and purchase agreements for the disposals of several lease-attached aircraft. These aircraft intended to be disposed of were consequently classified as held for sale. As at 30 June 2022, the carrying amount of assets classified as held for sale was HK\$2,428,268,000 (31 December 2021: HK\$675,569,000) and the carrying amount of borrowings related to the assets held for sale was HK\$1,152,060,000 (31 December 2021: HK\$505,689,000). The borrowings related to the assets held for sale will be repaid before the disposals of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

12 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK\$
Issued:			
As at 1 January 2022	HK\$0.1	747,619,737	74,761,974
Cancellation of shares (a)	HK\$0.1	(4,084,500)	(408,450)
As at 30 June 2022	HK\$0.1	743,535,237	74,353,524
As at 1 January 2021	HK\$0.1	720,004,837	72,000,484
Buy-back of shares (b)	HK\$0.1	(2,519,500)	(251,950)
As at 30 June 2021	HK\$0.1	717,485,337	71,748,534

- (a) In the prior year, the Company acquired 4,084,500 of its own shares through purchases on the Stock Exchange and these purchased shares were subsequently cancelled during the six months ended 30 June 2022.
- (b) The Company acquired 2,519,500 of its own shares through purchases on the Stock Exchange and those purchased shares were subsequently cancelled during the six months ended 30 June 2021. The total amount paid to acquire the shares was HK\$16,086,000, including transaction costs.

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13 RESERVES

	Unaudited							Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Treasury shares HK\$'000	Share- based payments HK\$'000	Hedging reserves HK\$'000	Currency translation difference HK\$'000	
Balance as at 1 January 2022	1,540,209	623,720	(166)	(22,385)	330	(127,842)	(26,016)	1,987,850
Cancellation of shares	(21,890)	-	-	22,385	-	-	-	495
Cash flow hedges (Note 19)	-	-	-	-	-	249,339	-	249,339
Currency translation differences	-	-	-	-	-	-	53,042	53,042
Share option scheme (a)								
– Value of services	-	-	-	-	1,500	-	-	1,500
Balance as at 30 June 2022	1,518,319	623,720	(166)	-	1,830	121,497	27,026	2,292,226
Balance as at 1 January 2021	1,382,441	623,720	(108)	-	330	(323,652)	(97,253)	1,585,478
Buy-back of shares	(15,777)	-	(58)	-	-	-	-	(15,835)
Cash flow hedges (Note 19)	-	-	-	-	-	100,709	-	100,709
Currency translation differences	-	-	-	-	-	-	23,378	23,378
Balance as at 30 June 2021	1,366,664	623,720	(166)	-	330	(222,943)	(73,875)	1,693,730

- (a) On 2 January 2020 and 6 April 2022, the Company granted 10,000,000 share options (“2020 Share Options”) and 20,900,000 share options (“2022 Share Options”), respectively, under the share option scheme adopted by the Company for the purpose of recognizing the contribution participants including certain directors of the Company and selected employees of the Group in relation to the growth of the Group. None of the options have been exercised as at 30 June 2022.

During the six months ended 30 June 2022, the exercise period of all 2020 Share Options granted to Dr. Zhao, an executive director of the Company, was extended by two years up to 17 April 2024 (the “Extension”), which has been approved by the shareholders at an extraordinary general meeting of the Company held on 23 May 2022 and was subject to acceptance by Dr. Zhao.

As at the date of this report, all 2020 Share Options granted to Dr. Zhao were lapsed due to non-acceptance of the Extension by Dr. Zhao.

Movement of outstanding share options during the six months ended 30 June 2022 and 2021 is as follows:

	Number of share options
As at 1 January 2022	10,000,000
Granted (i)	20,900,000
As at 30 June 2022	30,900,000
As at 1 January 2021 and 30 June 2021	10,000,000

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****13 RESERVES** (continued)

- (i) The values of the 2020 Share Options and 2022 Share Options granted were in the total amount of HK\$330,000 and HK\$5,108,000 on 2 January 2020 and 6 April 2022, respectively.

For share options outstanding as at 30 June 2022, the adjusted exercise price per share of 2020 Share Options and 2022 Share Options was HK\$8.13 (31 December 2021: HK\$8.13) and HK\$6.36, respectively.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the six months ended 30 June 2022 and 2021 are as follows:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Directors and employees	1,500	–

14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Perpetual capital securities (a)	1,519,352	1,474,620
Other non-controlling interests of ordinary shares	(28,615)	(27,598)
	1,490,737	1,447,022

(a) Perpetual capital securities

On 16 December 2020, a subsidiary of the Group (the "Issuer") issued US\$200 million floating rate guaranteed perpetual capital securities with the aggregate net proceeds (after transaction cost of HK\$5.0 million) of HK\$1,545.5 million. The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of the Issuer. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the Company elects to declare dividends to ordinary shareholders, the Issuer shall make distribution to the holders of perpetual capital securities at the distribution rate as defined in the subscription agreements. As at 30 June 2022, the dividend of HK\$105,686,000 (31 December 2021: HK\$89,007,000) scheduled to be paid in December 2022 could not be elected for deferral by the Group and has been recognised as dividend payable as at 30 June 2022.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS**
(continued)**(a) Perpetual capital securities (continued)**

The movement of the perpetual capital securities during the period is as follows:

	HK\$'000
As at 1 January 2022	1,474,620
Profit for the period	60,459
Dividend distributed to perpetual capital securities	(15,727)
As at 30 June 2022	1,519,352
As at 1 January 2021	1,548,332
Profit for the period	50,839
Currency translation differences	2,522
Dividend distributed to perpetual capital securities	(87,089)
As at 30 June 2021	1,514,604

15 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Deferred income tax liabilities:		
– To be settled within 12 months	174,551	173,938
– To be settled after 12 months	770,332	724,302
	944,883	898,240

The movement of the deferred income tax liabilities during the six months ended 30 June 2022 is as follows:

	Accelerated depreciation of leased assets HK\$'000
Deferred income tax liabilities:	
As at 1 January 2022	898,240
Charged to profit or loss (Note 28)	41,959
Currency translation difference	4,684
As at 30 June 2022	944,883
As at 1 January 2021	788,716
Charged to profit or loss (Note 28)	73,692
Currency translation difference	1,225
As at 30 June 2021	863,633

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16 BORROWINGS

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	18,909,592	15,514,817
PDP financing (b)	7,267,986	6,303,373
Other unsecured bank borrowings (c)	5,944,363	5,600,145
	32,121,941	27,418,335
Long-term borrowings		
Borrowings from trust plans (d)	4,662,718	4,689,311
Other borrowings (e)	381,562	370,214
	5,044,280	5,059,525
	37,166,221	32,477,860

Bank and other borrowings

- (a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating rates (including US\$ LIBOR, US\$ SOFR and RMB LPR). As at 30 June 2022, 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\$290,982,000 (31 December 2021: HK\$46,498,000). As at 30 June 2022, bank and other borrowings of HK\$3,496,396,000 (31 December 2021: HK\$1,855,308,000) were unsecured.
- (b) As at 30 June 2022, PDP financing of HK\$7,267,986,000 (31 December 2021: HK\$5,929,576,000) was unsecured, of which HK\$6,616,959,000 (31 December 2021: HK\$5,929,576,000) was guaranteed by the Company. All PDP financing as at 30 June 2022 were unsecured. Remaining PDP financing as at 31 December 2021 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 2022, the Group had aggregate unsecured bank borrowings of HK\$5,944,363,000 (31 December 2021: HK\$5,600,145,000), of which HK\$4,296,619,000 (31 December 2021: HK\$4,586,834,000) were guaranteed by the Company or certain companies of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**16 BORROWINGS** (continued)**Bank and other borrowings** (continued)

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
– Expiring within one year	854,484	335,275
– Expiring beyond one year	5,313,948	2,781,717
	6,168,432	3,116,992

Long-term borrowings

- (d) As at 30 June 2022, 46 borrowings (31 December 2021: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposals of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (31 December 2021: 3.5% to 7.8%) per annum for remaining terms of two to eight years (31 December 2021: two to eight 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\$44,414,000 (31 December 2021: HK\$44,133,000).
- (e) As at 30 June 2022, four borrowings (31 December 2021: four borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2021: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2021: 3.9% to 5.7%) per annum for their remaining terms of three to four years (31 December 2021: three to four years) and are guaranteed by the Company.

17 MEDIUM-TERM NOTES

In August 2019, the Group issued three-year senior unsecured medium-term notes in a principal amount of RMB800 million due in 2022, bearing coupon interest at 4.93% per annum.

In April 2022, the Group issued three-year medium-term notes, with coupon rate adjustment option for the Group and sell-back option for investors exercisable at the end of the second year, in a principal amount of RMB1.5 billion due in 2025, bearing coupon interest at 4.5% per annum.

As at 30 June 2022, after deducting the issuing cost, the total carrying amount of these notes was HK\$2,692,566,000 (31 December 2021: HK\$979,816,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 BONDS AND DEBENTURES

In March 2017, the Group issued five-year senior unsecured bonds of US\$300 million due in 2022. The bonds bore coupon interest at 4.7% per annum and were payable semi-annually. These bonds were listed on the Stock Exchange and were guaranteed by the Company. These bonds had been fully repaid on maturity.

In March 2017, the Group issued seven-year senior unsecured bonds of US\$200 million due in 2024. The bonds bear coupon interest at 5.5% per annum and are payable semi-annually. These bonds above were listed on the Stock Exchange and are guaranteed by the Company.

In June 2019, the Group issued three-year RMB1.0 billion unsecured bonds due in 2022, bearing coupon rate of 5.2% per annum. These bonds were listed on the Shanghai Stock Exchange. These bonds had been fully repaid on maturity.

In November 2020, the Group entered into a subscription agreement with an independent third party in relation to the issuance of five-year US\$70 million senior unsecured bonds, of which US\$35 million were issued in November 2020 and due in 2025 and US\$35 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

In July 2021, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.98%. These debentures had been fully repaid on maturity.

In August 2021, the Group issued three-year unsecured bonds, with coupon rate adjustment option for the Group and sell-back option for investors exercisable at the end of the second year, in a principal amount of RMB100 million due in 2024, bearing coupon rate of 4.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

In December 2021, the Group issued three-year US\$100 million unsecured guaranteed notes due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Company and were listed on the Stock Exchange.

In February 2022, the Group issued three-year RMB1.2 billion private bonds due in 2025, bearing coupon rate of 4.4% per annum.

During the six months ended 30 June 2022, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US\$8,200,000.

As at 30 June 2022, the total carrying amount of bonds and debentures was HK\$4,335,726,000 (31 December 2021: HK\$7,022,708,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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19 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Derivative financial assets		
– Currency swap (a)	9,647	10,622
– Currency forward contracts (b)	24,546	100,725
– Interest rate swaps (c)	118,987	3,590
	153,180	114,937
Derivative financial liabilities		
– Currency forward contracts (b)	10,801	–
– Interest rate swaps (c)	–	143,226
	10,801	143,226

- (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 (equivalent to approximately HK\$123,063,000). As at 30 June 2022, the fair value of this currency swap contract amounted to HK\$9,647,000 (31 December 2021: HK\$10,622,000) and the fair value losses of HK\$1,040,000 was recognised in “Other gains/(losses), net (Note 27)” for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$3,127,000). As at 30 June 2022, this arrangement was secured by a pledge deposit of HK\$3,564,000 (31 December 2021: HK\$3,728,000).
- (b) As at 30 June 2022, the Group had 22 outstanding currency forward contracts with notional amount of RMB2,300,000,000 (equivalent to approximately HK\$2,695,140,000) (31 December 2021: 21 outstanding currency forward contracts with notional amount of RMB2,400,000,000 (equivalent to approximately HK\$2,942,880,000)) which will expire at various dates from 30 January 2023 to 15 March 2024 (31 December 2021: expire at various dates from 20 December 2022 to 18 September 2023), to mitigate RMB exchange rate risks. These forward contracts did not satisfy the requirements for hedge accounting, the fair value changes of which were recognised in other gains or losses, net.
- (c) As at 30 June 2022, the Group had 27 outstanding interest rate swap contracts (31 December 2021: 35 contracts) which will expire at various dates from 28 August 2023 to 24 December 2025 (31 December 2021: 21 March 2022 to 24 December 2025), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 0.4% to 3.0% (31 December 2021: 0.4% to 2.6%). As at 30 June 2022, this arrangement was secured by margin deposits of HK\$4,879,000 (31 December 2021: HK\$142,828,000).

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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	
	2022	2021
	HK\$'000	HK\$'000
Recognised in other comprehensive income		
Change in fair value of interest rate swaps	199,222	30,278
Reclassified from other comprehensive income to profit or loss in respect of:		
– Hedged items that affected profit or loss	49,087	69,310
– Hedge ineffectiveness	1,030	1,121
	249,339	100,709
Recognised in other gains/(losses), net of profit or loss		
Fair value gains on interest rate swaps	3,933	6,496
Fair value (losses)/gains on currency forward contracts	(83,082)	17,174
Unrealised losses on currency swap	(1,040)	(3,127)
	(80,189)	20,543

20 OTHER LIABILITIES AND ACCRUALS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Deposits and fund received for lease and aircraft projects	1,482,224	1,419,777
Consultant and insurance premium payable	80,970	91,921
Value-added tax and other taxes	264,624	278,520
Operating lease rentals received in advance	210,976	151,298
Amounts due to related parties (Note 31(f))	4,275	1,442
Amount due to non-controlling interest of a subsidiary (Note 31(g))	42,732	25,455
Dividend payables to ordinary shareholders and perpetual capital securities holder	300,426	89,007
Lease liabilities	30,388	34,736
Others (including salary and bonus payable)	103,642	147,316
	2,520,257	2,239,472

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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21 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2022, the Group was engaged for 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			
	2022		2021	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Airline company – A	379,186	23%	133,253	12%
Airline company – B	166,038	10%	115,819	10%
Airline company – C	114,916	7%	170,827	15%
Airline company – D	90,799	6%	2,846	–
Airline company – E	88,832	5%	26,044	2%
Others	813,996	49%	707,171	61%
Total finance and operating lease income	1,653,767	100%	1,155,960	100%

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Unaudited Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Aircraft transactions (a)	64,756	175,415
Aircraft components trading (b)	1,736	2,506
	66,492	177,921

(a) Aircraft transactions

The net gain from aircraft transactions for the six months ended 30 June 2021 included disposals of two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. and the disposals of two aircraft to third parties.

The net gain from aircraft transactions for the six months ended 30 June 2022 included disposals of two aircraft to third parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS
TRADING (continued)

(b) Aircraft components trading

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Sales from aircraft components trading assets	6,651	26,118
Less: Cost of aircraft components trading assets	(4,915)	(23,612)
Profit from aircraft components trading assets	1,736	2,506

23 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Government grants (a)	94,880	88,561
Bank interest income	4,391	3,434
Interest income from loans to associates and joint ventures (Note 7)	52,730	48,836
Asset management service fees income from CAG and its subsidiaries (collectively "CAG Group") (Note 31(c))	8,393	8,402
Incidental income and others (b)	10,138	102,129
	170,532	251,362

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

(b) Incidental income and others were mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases, net gains from bonds repurchase and government wage subsidies under a job support scheme.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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24 INTEREST EXPENSES

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interest expense on borrowings	648,583	449,675
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	49,087	69,310
Interest expense on medium-term notes	42,261	33,354
Interest expense on bonds and debentures	166,458	210,682
Less: interest capitalised on qualifying assets (a)	(148,532)	(185,924)
	757,857	577,097

- (a) Interest expenses capitalised on qualifying assets represent 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	
	2022	2021
	HK\$'000	HK\$'000
Employee benefit expenses	70,178	55,745
Professional service expenses	26,353	29,287
Value-added tax and other taxes	16,527	10,540
Rental and utilities expenses	2,246	3,107
Office and meeting expenses	5,356	5,177
Travelling and training expenses	4,046	1,805
Auditor's remuneration		
– Audit service	927	927
– Non-audit service	–	–
Others	14,967	10,771
	140,600	117,359

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****26 NET WRITE-OFF OF TWO AIRCRAFT REMAINED IN RUSSIA**

In February 2022, the military activity in Ukraine happened and subsequent sanctions in relation to commercial activities with businesses in Russia were imposed by the European Union, the United States of America, the United Kingdom and other countries (the "Sanctions"). In March 2022, in compliance with the Sanctions, the Group terminated leasing arrangements with Russian lessees in respect of two owned aircraft, representing less than 2% of the number of the Group's owned fleet of 138 as at 30 June 2022. The Group has been maintaining dialogue with the Russian lessees, actively seeking to repossess the Aircraft. As at 30 June 2022, one of the engines located outside Russia (the "Engine") is under control by the Group.

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the Aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 30 June 2022, the Group has not recognized any claim receivables.

The Group has determined prudently that the net book value of the aircraft amounting to HK\$565.6 million (excluding the net book value of the Engine) should be fully written down, which is offset by the security deposit and maintenance reserves received amounting to HK\$126.6 million, resulting in a net write-off of HK\$439.0 million for the six months ended 30 June 2022, which was a non-cash transaction.

27 OTHER GAINS/(LOSSES), NET

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Unrealised losses on a currency swap (Note 19)	(1,040)	(3,127)
Currency exchange losses in US\$	(12,569)	(13,065)
Currency exchange gains/(losses) in RMB	192,757	(42,503)
Fair value (losses)/gains on currency forward contracts in RMB	(83,082)	17,174
Fair value gains on interest rate swaps	3,933	6,496
Fair value gains on financial assets at fair value through profit or loss	18,364	20,153
	118,363	(14,872)

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28 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	59,422	27,127
Deferred income tax	41,959	73,692
	101,381	100,819

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 2021: 25%), except for certain subsidiaries which are subject to the preferential tax treatments. The leasing income of the subsidiaries in Mainland China is subject to VAT at 13%.

Hong Kong

Certain subsidiaries incorporated in Hong Kong are subject to the standard Hong Kong profits tax rate of 16.5% on their assessable profits.

Profit tax concessions have been announced to the corporations carrying on business as aircraft lessors and aircraft lease managers which satisfy relevant conditions. The taxable amount of rentals derived from leasing of an aircraft to an aircraft operator by a qualifying aircraft lessor is equal to 20% of the tax base. The qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers are subject to the half of the normal rate at 8.25%.

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.

Subsidiaries incorporated in Ireland which are taxed in accordance with Section 110 Taxes Consolidation Act 1997 under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

The subsidiaries incorporated in the Netherlands is subject to income tax at 15% over the first EUR395,000 of its taxable income and a rate of 25.8% over its taxable income in excess of EUR395,000.

The subsidiaries incorporated in France may be subject to income tax at rates of up to 27.5% plus social contribution tax.

The subsidiaries incorporated in Singapore are subject to income tax at rates of up to 17%.

The subsidiaries incorporated in Malta are subject to income tax at rates of up to 35%.

The subsidiaries incorporated in Labuan are subject to income tax at 3%.

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29 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interim dividend declared of HK\$0.15 (2021: HK\$0.15) per ordinary share	111,653	110,032

On 24 August 2021, the Group declared an interim dividend of HK\$0.15 per ordinary share totalling HK\$110.0 million which was paid by cash of HK\$33.7 million and by share issuance of HK\$76.3 million in November 2021.

A final dividend of HK\$0.26 per ordinary share totalling HK\$193.3 million (including cash dividend and script dividend) for the year ended 31 December 2021 was declared and was reflected as dividend payable as at 30 June 2022.

On 24 August 2022, the Board declared an interim dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million, which is calculated based on 744,355,352 issued shares as at 24 August 2022. The declared dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2022, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2022.

30 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2022 and 30 June 2021.

	Unaudited	
	Six months ended 30 June	
	2022	2021
(Loss)/Profit attributable to shareholders of the Company (HK\$'000)	(130,160)	302,611
Weighted average number of ordinary shares in issue (number of shares in thousands)	743,535	719,354
Basic (losses)/earnings per share (HK\$ per share)	(0.175)	0.421

(b) Diluted

Diluted (losses)/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 financial period. For share options outstanding as at 30 June 2022 and as at 30 June 2021, as the exercise price per share is higher than average market price of ordinary shares, it is not assumed that the outstanding share options have been exercised in the calculation of the diluted (losses)/earning per share for the six months ended 30 June 2022 and 30 June 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

31 RELATED PARTY TRANSACTIONS

Apart from the share option arrangement with key management and related parties as disclosed in Note 13(a), the following transactions were carried out with related parties at terms negotiated between the Group and the respective parties:

(a) Transactions with China Everbright Group Ltd. (“CE Group”) and its subsidiaries

CE Group is the sole shareholder of China Everbright Holdings Company Limited (“CE Hong Kong”). CE Hong Kong is the indirect controlling shareholder of China Everbright Limited (“CEL”) and CEL indirectly holds approximately 38.12% equity interest in the Company as at 30 June 2022. 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 may 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 may 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 may assign the finance lease receivables to the trustee.

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interest income from CE Group	1,500	1,889
Interest expenses to CE Group	104,665	102,863
Loans upfront and arrangement fee to CE Group	1,299	670
Transactions handling charges to CE Group	2,138	2,167
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	HK\$'million	HK\$'million
Bank deposits placed in CE Group	847.1	1,796.9
Borrowings due to CE Group	4,300.2	3,653.9
Undrawn facilities provided by CE Group	1,387.5	697.1

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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31 RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries (continued)

(ii) Disposals of two aircraft to Everbright Financial Leasing Co., Ltd.

During the six months ended 30 June 2021, the Group disposed two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. The total consideration from the disposals of aircraft was HK\$782.4 million and recorded net income from aircraft transactions in the consolidated statement of income.

(b) Transactions with ARI Group and FLARI

(i) Service provided by ARI Group

	Unaudited Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Service fee charged by: ARI Group	5,000	7,251

(ii) Transactions with ARI Group

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. 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) Limited with effect from 28 November 2018. As at 30 June 2022, the outstanding shareholders' loan balances receivable from ARI was amounted to HK\$1,224,933,000 (31 December 2021: HK\$1,162,453,000) (Note 7) and the interest income for the six months ended 30 June 2022 was HK\$50,356,000 (six months ended 30 June 2021: HK\$47,305,000).

Pursuant to the factoring arrangement with ARI Group dated 16 November 2020, which is secured by the receivables from a subsidiary of ARI, the Group provided the advance of RMB1.0 million (equivalent to approximately HK\$1.2 million), which is charged at 5% per annum and payable in arrears of three monthly intervals. As at 30 June 2022, the outstanding advance receivables from ARI Group was amounted to HK\$293,000 (31 December 2021: HK\$618,000).

As at 31 December 2021, ARI Group held bonds issued by the Group with principal amount of US\$3,200,000. As at 30 June 2022, ARI Group did not held any bonds issued by the Group.

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31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with ARI Group and FLARI (continued)

(ii) Transactions with ARI Group (continued)

During the year ended 31 December 2020, the Group entered into a letter of intent with ARI Group relating to the purchase of five engines, which would be delivered in 2021, with total consideration of US\$55,000,000 (equivalent to approximately HK\$426,388,000). During the year ended 31 December 2021, the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the above engines to be no later than 2022. As at 30 June 2022, the Group had placed interest-free deposit amounted to HK\$234,003,000 (31 December 2021: HK\$234,796,000).

During the year ended 31 December 2021, the Group entered into a letter of intent with ARI Group relating to the purchase of entire equity interest of Skylink 1-Aircraft Leasing Limited, a wholly-owned subsidiary in ARI Group, with total consideration of US\$8,800,000 (equivalent to approximately HK\$68,614,000). As at 31 December 2021, the Group had placed deposit amounted to US\$4,400,000 (equivalent to approximately HK\$34,307,000). During the six months ended 30 June 2022, the Group settled the remaining consideration and the above transaction was completed.

(iii) Transaction with FLARI

Pursuant to the shareholders' credit line agreement dated 30 October 2019, 25 August 2020 and 25 November 2020, the Group granted loans to FLARI, interest bearing at 6.6% per annum, 6.7% per annum and 6.7% per annum, respectively, which is calculated on quarterly basis on the actual amount of the shareholders' loan drawn down. As at 30 June 2022, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK\$15,932,000 (31 December 2021: HK\$4,809,000) (Note 7) and the interest income for the six months ended 30 June 2022 was HK\$275,000 (six months ended 30 June 2021: HK\$209,000).

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased items of plant and machinery and office equipment and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK\$24,524,000), the proceeds is bearing interest at 8% per annum and payable in arrears of three monthly intervals. As at 30 June 2022, the outstanding advance receivables from FLARI Group was amounted to HK\$19,405,000 (31 December 2021: HK\$24,376,000).

(c) Transactions with CAG Group

	Unaudited Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Fair value gains of long-term investments in CAG Group	18,364	17,271
Asset management service fees income from CAG Group	8,393	8,402

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31 RELATED PARTY TRANSACTIONS (continued)

(d) Transaction with HNCA One (Tianjin) and HNCA Two (Tianjin)

Pursuant to the shareholder's loan agreement signed in December 2020, the Group granted loans to HNCA One (Tianjin) and HNCA Two (Tianjin), unsecured and interest bearing at 4% per annum.

As at 30 June 2022, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK\$36,103,000 (31 December 2021: HK\$37,063,000) (Note 7) and HK\$36,055,000 (31 December 2021: HK\$37,014,000) (Note 7), respectively, and the interest income for the six months ended 30 June 2022 was HK\$661,000 (six months ended 30 June 2021: HK\$661,000) and HK\$660,000 (six months ended 30 June 2021: HK\$660,000), respectively.

(e) Prepayments and amounts due from related parties

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Prepayments to ARI Group (Note 31(b)(ii))	234,003	269,104
Amount due from ARI Group	19,445	502
FPAM Group	6	6
	253,454	269,612

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

(f) Amounts due to related parties

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
ARI Group	4,275	1,442

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

(g) Amount due to non-controlling interest of a subsidiary

As at 30 June 2022, Linkasia Airlines, a non-wholly owned subsidiary of the Group has the outstanding balance due to its shareholder, Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) was HK\$42,732,000 (31 December 2021: HK\$25,455,000). The amount was unsecured, interest-free and repayable on demand.

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31 RELATED PARTY TRANSACTIONS (continued)

(h) Transaction with TAM

During the year ended 31 December 2021, the Group entered into an operating lease arrangement of one aircraft with TAM. The operating lease income earned during the six months ended 30 June 2022 was HK\$6,582,000 (six months ended 30 June 2021: Nil).

32 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 30 June 2022, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$660,667,000 (31 December 2021: HK\$681,467,000), of which HK\$275,715,000 (31 December 2021: HK\$273,982,000) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter-guarantee as mentioned above, the Group guaranteed HK\$384,952,000 (31 December 2021: HK\$407,485,000) of these bank borrowings.

(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 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Contracted but not provided for:		
Purchase of aircraft (i)	90,126,010	93,930,570

- (i) The capital commitments were mainly related to acquisition of 241 aircraft in its order book, comprising 145 Airbus aircraft, 66 Boeing aircraft and 30 ARJ21 series aircraft, which will be delivered in stages by the end of 2027.

(c) Short-term lease arrangement – where the Group is the lessee

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

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Not later than 1 year	387	570

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32 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Not later than 1 year	3,152,812	2,772,322
Later than 1 year but not later than 2 years	3,047,942	2,790,358
Later than 2 year but not later than 3 years	2,668,967	2,628,356
Later than 3 year but not later than 4 years	1,970,155	2,346,342
Later than 4 year but not later than 5 years	1,665,849	1,873,918
Later than 5 years	5,829,530	6,537,183
	18,335,255	18,948,479

The above commitment included amount of HK\$1,939,145,000 (31 December 2021: HK\$465,592,000) related to assets classified as held for sale (Note 11).

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

	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Not later than 1 year	189	44
Later than 1 year but not later than 2 years	141	–
	330	44