CALC

中國飛機租賃集團控股有限公司

China Aircraft Leasing Group Holdings Limited

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

Stock code : 01848

INTERIM REPORT 2014

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Chairman and Non-Executive Director

Mr. CHEN Shuang *(Chairman)*

Executive Directors

Mr. POON Ho Man *(Chief Executive Officer)*
Ms. LIU Wanting

Non-executive Directors

Mr. TANG Chi Chun
Mr. GUO Zibin

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NG Ming Wah, Charles
Mr. ZHANG Chongqing
Mr. SUN Quan

COMPOSITION OF COMMITTEE

Audit Committee

Mr. NG Ming Wah, Charles *(Chairman)*
Mr. ZHANG Chongqing
Mr. SUN Quan
Mr. GUO Zibin

Remuneration Committee

Mr. FAN Yan Hok, Philip *(Chairman)*
Mr. NG Ming Wah, Charles
Mr. ZHANG Chongqing
Mr. SUN Quan

Nomination Committee

Mr. ZHANG Chongqing *(Chairman)*
Mr. FAN Yan Hok, Philip
Mr. NG Ming Wah, Charles
Mr. SUN Quan

Strategy Committee

Mr. CHEN Shuang *(Chairman)*
Mr. POON Ho Man
Ms. LIU Wanting
Mr. TANG Chi Chun

COMPANY SECRETARY

Mr. LEUNG Ming Yiu

AUTHORISED REPRESENTATIVES

Mr. POON Ho Man
Mr. LEUNG Ming Yiu

REGISTERED OFFICE

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Dongjiang Free Trade Port Zone
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16 Harcourt Road
Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

PRINCIPAL BANKERS

China Development Bank (Hong Kong Branch)
The Export-Import Bank of China
Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited
China Everbright Bank Co., Ltd. (Hong Kong Branch)

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

Linklaters
K&L Gates

COMPLIANCE ADVISER

China Everbright Capital Limited

COMPANY'S WEBSITE

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INVESTOR RELATIONS CONTACT

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STOCK CODE

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1848

Company Profile

China Aircraft Leasing Group Holdings Limited (the "Company"), together with its subsidiaries (the "Group"), is a leading independent aircraft leasing company focusing on China aircraft leasing market. According to the Ascend Report, we are the largest independent aircraft lessor in China in terms of the total number of aircraft in service and on order as of 31 December 2013.

Throughout our business development history, we have established our business model for long-term direct aircraft purchase and lease transactions and long-term aircraft sale and leaseback transactions engaged with airline operators in China. We have also entered into five lease agreements for five aircraft to be leased and delivered to an airline operator in Asia. Our aircraft leasing business is focused on generating long-term and constant cash inflows of lease income which match the cash outflows for repayments of our long-term bank borrowings for aircraft acquisition. This arrangement is designed to reduce our liquidity risk and re-financing risk associated with short-term aircraft acquisition financing. Upon the expiration of the aircraft lease agreements, we require our airline lessees to return to us the leased aircraft in full-life condition or such other condition as stipulated in the relevant lease agreements. As at 30 June 2014, our aircraft lease agreements were of an average term of around 12 years.

In addition to aircraft leasing, we also provide our airline customers with value-adding services, which include trading and marketing of used aircraft and other advisory services on fleet management. This distinguishes us from other established aircraft leasing companies.

Our business model also includes a key feature — realisation of finance lease receivable, which further demonstrates not only our business innovation capability but also our sustainable and expandable business in the future. The realisation can improve our profitability and enhance our financial resources by realising the unearned finance income while also lower our financial leverage and accelerate our asset rotation by derecognising the asset and liability. Moreover, it extends our business model much further from aircraft leasing to financial product development.

The Group was found in 2006, with the first delivery of aircraft in 2007. As at 30 June 2014, the Group had 34 aircraft delivered and leased.

On 11 July 2014 (the "Listing Date"), the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Management Discussion and Analysis

1 BUSINESS RESULT OVERVIEW

We focus on the aircraft leasing market in China. It is the strategy of our Group to keep in pace of the growing aircraft leasing market in China.

For the six months ended 30 June 2014, our Group delivered nine aircraft, which represented the full-year delivery in 2013. Revenues grew by 63.5% to HK$432.4 million and recurring net profit after tax excluding one-off IPO listing expenses, increased by 79.3% to HK$87.5 million, when comparing with the corresponding period of last year. Recurring net operating profit margin excluding one-off IPO listing expenses, was at 20%, or around 2% higher than that of the corresponding period of last year. The profit growth is mainly driven by the Group's expansion and business growth.

After deducting one-off IPO listing expenses, the net profit attributable to owners of the Company was HK$62.8 million (six months ended 30 June 2013: HK$44.1 million), or 42.4% higher than that of the corresponding period of last year.

Total assets, mainly include aircraft and finance lease receivables, amounted to HK$14.3 billion as at 30 June 2014, representing 11.6% increase from that as at 31 December 2013. As our aircraft acquisition is based on project financing, the borrowings increased to HK$12.9 billion correspondingly. The total liabilities increased in line with the assets growth.

Equity attributable to owners of the Company was HK$897.9 million as at 30 June 2014 (31 December 2013: HK$938.6 million). Including the non-controlling interests, the total equity is HK$917.3 million as at 30 June 2014 (31 December 2013: HK$958.1 million) and return on total equity maintained at 20.4%* as at 30 June 2014 (31 December 2013: 21.1%). Taking out the one-off IPO listing expenses, the return on total equity was 23.6% (31 December 2013: 22.3%).

* For the purpose of calculating the 2014 first half year's return on total equity, the annual return is on rolling basis, ie, the sum of 2014 first half actual + 2013 second half actual profit after tax. The total equity is the average of opening and closing balances of total equity.

2 ANALYSIS OF PROFIT AND LOSS

For the six months ended 30 June 2014, the Group had a healthy and rapid growth in its business. Comparing with the corresponding period of last year, revenues was HK$432.4 million, increased by 63.5%; recurring net profit after tax was HK$87.5 million, increased by 79.3%; and the net profit after one-off IPO listing expenses was HK$62.8 million, increased by 42.4%:

	For the six months ended 30 June 2014 HK$'million Unaudited	2013 HK$'million Unaudited	Change
Revenues	**432.4**	264.5	63.5%
Recurring* profit before tax	**111.0**	69.5	59.7%
Income tax	**(23.5)**	(20.7)	13.5%
Recurring* net profit after tax	**87.5**	48.8	79.3%
Recurring* net profit margin %	**20%**	18%	2.0%
IPO listing expenses	**(24.7)**	(4.7)	425.5%
Net profit after IPO listing expenses	**62.8**	44.1	42.4%

* Recurring net profit does not include one-off IPO listing expenses.

2.1 Revenues

Our revenues are principally generated from the lease income of aircraft leases, which may broadly be classified into finance lease income and operating lease income according to our accounting policies.

For the six months ended 30 June 2014, revenues amounted to HK$432.4 million, or 63.5% increased from that in the corresponding period of last year, mainly due to the increase in the finance lease income.

	For the six months ended 30 June 2014 HK$'million Unaudited	2013 HK$'million Unaudited	Change
Finance lease income	**342.0**	189.6	80.4%
Operating lease income	**73.8**	72.6	1.7%
Other income	**16.6**	2.3	621.7%
Total revenues	**432.4**	264.5	63.5%

2 ANALYSIS OF PROFIT AND LOSS *(Continued)*

2.1 Revenues *(Continued)*

The growth in finance lease income during the six months ended 30 June 2014 was principally attributable to the increase in our fleet size. During the six months ended 30 June 2014, seven additional aircraft were delivered and classified under finance lease and two aircraft under operating lease (six months ended 30 June 2013: 2 aircraft under finance lease), making the fleet size to 34 aircraft as at 30 June 2014 from 25 aircraft as at 31 December 2013.

In addition to the lease incomes, we recorded other income of HK$16.6 million (six months ended 30 June 2013: HK$2.3 million), which mainly consisted of interest income and other sundry income of HK$0.8 million (six months ended 30 June 2013: HK$0.5 million) and VAT tax refund of HK$15.8 million (six months ended 30 June 2013: HK$1.8 million).

2.2 Expenses

During the six months ended 30 June 2014, we had three principal types of operating expenses, namely (a) interest expense on aircraft acquisition financing and business expansion, (b) depreciation, and (c) other operating expenses. In addition, we had one-off IPO listing expenses incurred for our listing exercise.

	For the six months ended 30 June		
	2014	2013	Change
	HK$'million	HK$'million	
	Unaudited	Unaudited	
Recurring			
Interest expense	**237.6**	139.5	70.3%
Depreciation	**27.5**	27.0	1.9%
Other operating expenses (without IPO listing expenses)	**71.6**	27.7	158.5%
Non-recurring			
IPO listing expenses	**24.7**	4.7	425.5%

(a) Interest expense

For the six months ended 30 June 2014, the interest expense on borrowings for the acquisition of aircraft amounted to HK$237.6 million, or 70.3% increase from the corresponding period of last year, mainly due to the increase in the aircraft fleet size. The interest rates were in the range of 2.65% to 6.72% per annum.

2 ANALYSIS OF PROFIT AND LOSS *(Continued)*

2.2 Expenses *(Continued)*

(b) Depreciation

It consisted of depreciation on our leasehold improvements, motor vehicles, office equipment and four aircraft, which were leased and classified under operating lease. Two aircraft under operating lease were acquired in June 2014.

	For the six months ended 30 June		
	2014	2013	Change
	HK$'million	HK$'million	
	Unaudited	Unaudited	
Aircraft under operating lease	**27.1**	26.7	1.5%
Leasehold improvements	**0.1**	0.1	–
Office equipment	**0.2**	0.1	100%
Motor vehicles	**0.1**	0.1	–
Total	**27.5**	27.0	1.9%

(c) Other operating expenses

During the six months ended 30 June 2014, our other operating expenses were incurred as follows:

	For the six months ended 30 June		
	2014	2013	Change
	HK$'million	HK$'million	
	Unaudited	Unaudited	
Employee benefit expenses	**18.8**	7.7	144.2%
Business tax and VAT	**23.1**	4.3	437.2%
Professional fees	**12.2**	3.7	229.7%
Office and travelling expenses	**7.7**	6.2	24.2%
Rental and utilities expenses	**4.5**	3.2	40.6%
Others	**5.3**	2.6	103.8%
Other operating expenses (without IPO listing expenses)	**71.6**	27.7	158.5%
IPO listing expenses	**24.7**	4.7	425.5%

2 ANALYSIS OF PROFIT AND LOSS *(Continued)*

2.2 Expenses *(Continued)*

(c) Other operating expenses *(Continued)*

To cope with our Group's business expanding, new talents were recruited and the staff number increased to 72 as at 30 June 2014 from last year end's 64 (six months ended 30 June 2013: 59). In view of the completion of the IPO, an incentive bonus of HK$12.3 million was paid to various levels of staff and management for recognising their effort and contribution. Moreover, the aircraft delivery was nine aircraft in the first half of 2014 versus only two aircraft in the corresponding period of last year, which led to the increased VAT and increased use of professional services. All these factors resulted in the significant increase in the other operating expenses.

On 11 July 2014, our Company's shares were listed on the Main Board of the Stock Exchange. One-off IPO listing expenses amounting to HK$24.7 million were incurred up to 30 June 2014. As the IPO was completed in July 2014, our Group is still in the process of finalising the final sum of the IPO listing expenses with the relevant professional firms.

2.3 Income tax

The income tax for the six months ended 30 June 2014 was HK$23.5 million (six months ended 30 June 2013: HK$20.7 million). The change resulted from the increased profits following the business growth. The effective tax rate of 27.2% (six months ended 30 June 2013: 32.0%) was mainly due to the fact that, in the six months ended 30 June 2013, some aircraft were still registered overseas which led to higher withholding tax but they have been novated to China since the second half of 2013 and the tax benefit was thus reflected in the first half of 2014.

2.4 Profit attributable to owners of the Company

Based on the above discussion and analysis, profit attributable to owners of the Company was HK$62.8 million (six months ended 30 June 2013: HK$44.1 million). Net profit margin was 14.5% (six months ended 30 June 2013: 16.7%).

3 ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 30 June 2014, the Group's total assets increased by HK$1.5 billion, or 11.6%, to HK$14.3 billion as compared with that as at 31 December 2013:

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Finance lease receivables, net	**9,566.5**	7,678.9	24.6%
Property, plant and equipment	**1,758.2**	1,487.1	18.2%
Prepayments and other receivables			
• *Pre-delivery payments ("PDP")*	**2,448.4**	2,078.0	17.8%
• *Other receivable*	**194.3**	105.6	84.0%
Derivative financial assets	**7.5**	13.6	(44.9%)
Restricted cash	**121.6**	102.4	18.8%
Cash on hand	**230.1**	1,367.3	(83.2%)
Total assets	**14,326.6**	12,832.9	11.6%

3.1.1 Finance lease receivables

According to our accounting policies, there are 30 aircraft which were leased and classified under finance lease while 4 aircraft were leased and classified under operating lease, included under the heading of property, plant and equipment. The increase in finance lease receivables was due to the delivery of 7 aircraft during the six months ended 30 June 2014.

3.1.2 Property, plant and equipment

The increase in property, plant and equipment was mainly due to the fact that, two additional aircraft were acquired in June 2014, and leased and classified under operating lease.

3.1.3 Prepayments and other receivables

PDP

PDP is part of the terms of the Aircraft Purchase Agreement with Airbus. PDP paid by us increased from HK$2.1 billion as at 31 December 2013 to HK$2.4 billion as at 30 June 2014. The increase is commensurated with the aircraft delivery schedule as specified in the Aircraft Purchase Agreement with Airbus.

Other receivable

Increase in other receivable was mainly due to prepayments for aircraft acquisition and capitalised interest, which was associated with the PDP financing.

3 ANALYSIS OF FINANCIAL POSITION *(Continued)*

3.1 Assets *(Continued)*

3.1.4 Derivative financial assets

The amount of the derivative financial assets of HK$7.5 million (31 December 2013: HK$13.6 million) represented the unrealised gain recognised in the hedging reserve in equity on the interest rate swap contracts entered into by us in 2012, 2013 and the six months ended 30 June 2014 and one currency swap. The interest rate swap contracts were entered into for the purpose of exchanging our exposure to floating interest rates with reference to LIBOR under eight long-term bank borrowings agreements into fixed interest rate in the range between 1.55% and 2.15%.

As at 31 December 2013, the Group entered into 5 interest rate swap contracts which will expire on 21 September 2018, 21 September 2018, 21 September 2018, 19 September 2019, and 21 March 2024, respectively. The contracts were to exchange floating interest rates from LIBOR into fixed interest rates of 1.55%, 1.75%, 1.95%, 2.00% and 2.15%, respectively. During the six months ended 30 June 2014, the Group entered into 3 new interest rate swap contracts which will expire on 21 December 2018, 21 March 2019 and 21 June 2019, respectively. The contracts are to exchange floating interest rates form LIBOR into fixed interest rates of 1.98%, 2.00% and 1.86%, respectively.

The above interest rate swap contracts were accounted for as cash flow hedges, which were virtually effective in the six months ended 30 June 2014 and 2013.

As at 30 June 2014, the notional principal of the 8 (31 December 2013: 5) outstanding interest rate swap contracts amounted to US$309.5 million (equivalent to HK$2,414.2 million) (31 December 2013: US$187.3 million (equivalent to HK$1,460.8 million)). These interest rate swap contracts were secured by pledged deposits of HK$17.1 million as at 30 June 2014 (31 December 2013: nil). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

We are not engaged in any interest rate hedging activity for the PDP financing and working capital facilities as PDP financing is short term of approximately two years.

3 ANALYSIS OF FINANCIAL POSITION *(Continued)*

3.1 Assets *(Continued)*

3.1.5 Restricted cash

The analysis of restricted cash is shown as follows:

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Pledged for bank borrowings	**74.2**	70.6	5.1%
Pledged for letter of guarantee issued by a bank	**16.2**	19.4	(16.5%)
Pledged for aircraft acquisition	**7.8**	6.1	27.9%
Pledged for interest rate swap contracts	**17.1**	–	not applicable
Pledged for a currency swap contract	**6.3**	6.3	–
Total	**121.6**	102.4	18.8%

The deposits pledged were used as part of the security for our long-term bank borrowings for aircraft acquisition. The other collaterals included legal charges on all of our aircraft leased, pledge of shares of the SPCs owning the related aircraft, and corporate guarantees from certain members of our Group.

The pledged deposits for letter of guarantee was issued by China Everbright Bank Co., Ltd. (Tianjin Branch) in favour of one of our subsidiaries for the purchase price payable for two aircraft purchased by us.

The deposits pledged for interest rate swap contracts were made under eight interest rate swap contracts entered into by us.

3 ANALYSIS OF FINANCIAL POSITION *(Continued)*

3.1 Assets *(Continued)*

3.1.6 Cash on hand

The analysis of cash on hand is shown as follows:

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
US$	**120.0**	452.3	(73.5%)
RMB	**106.7**	909.2	(88.3%)
HK$	**3.0**	5.4	(44.4%)
Others	**0.4**	0.4	–
Total	**230.1**	1,367.3	(83.2%)

Upon the completion of realisation of finance lease receivable for one aircraft, total amount of HK$851.7 million was received in December 2013 and such amount included in cash balance as at 31 December 2013. The said amount was subsequently used to repay the relevant bank borrowings of HK$769.1 million during the six months ended 30 June 2014. During the six months ended 30 June 2014, after the payments for dividend of HK$69.0 million, PDP of HK$112.0 million (net), aircraft purchase and delivery of HK$103.1 million (net), working capital loan repayment of HK$56.4 million and pledged deposit increase of HK$19.2 million, the cash balance decreased by HK$1.1 billion.

3.2 Liabilities

As at 30 June 2014, the Group's total liabilities increased by HK$1.5 billion, or 12.9% to HK$13.4 billion as compared with that as at 31 December 2013. The increase was principally due to business expansion and the increase in our fleet size. The analysis is shown as follows:

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Bank borrowings	**12,868.9**	11,436.4	12.5%
Long-term borrowing	**154.6**	155.2	(0.4%)
Derivative financial liabilities	**28.3**	7.5	277.3%
Others	**357.5**	275.7	29.7%
Total	**13,409.3**	11,874.8	12.9%

3 ANALYSIS OF FINANCIAL POSITION *(Continued)*

3.2 Liabilities *(Continued)*

3.2.1 Bank borrowings

As at 30 June 2014, a significant portion of the balance of bank borrowings was relating to the long-term bank borrowings for aircraft acquisition and PDP financing. The increase in our balance of bank borrowings was due to our business expansion and the increase in our fleet size. We had banking facilities for general working capital purpose amounting to HK$448.5 million as at 30 June 2014.

The analysis of bank borrowings is shown as follows:

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Secured bank borrowings for aircraft acquisition	**10,387.4**	9,195.7	13.0%
PDP financing	**2,111.5**	1,820.1	16.0%
Working capital borrowings	**370.0**	420.6	(12.0%)
Total bank borrowings	**12,868.9**	11,436.4	12.5%

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Current portion (due within 12 months)	**3,061.2**	2,821.0	8.5%
Non-current portion	**9,807.7**	8,615.4	13.8%
Total bank borrowings	**12,868.9**	11,436.4	12.5%

The bank borrowings for aircraft acquisition are secured bank borrowings mainly subject to fixed or floating three-month or six-month US$ LIBOR. The bank borrowings are secured by, in addition to the legal charges on our aircraft leased to airline companies under either finance lease or operating lease, pledge of the shares of the subsidiaries which are the registered owner of the related aircraft, corporate guarantees from certain members of our Group, and pledged deposits amounting to HK$70.6 million and HK$74.2 million as of 31 December 2013 and 30 June 2014, respectively.

The original repayment term of the long-term bank borrowings for aircraft acquisition is in the range of 12 and 20 years. Each leased aircraft as part of our fleet is subject to a separate long-term bank borrowing with the repayment term generally in line with to the relevant lease term.

3 ANALYSIS OF FINANCIAL POSITION *(Continued)*

3.2 Liabilities *(Continued)*

3.2.1 Bank borrowings *(Continued)*

As at 30 June 2014, we have entered into 32 long-term bank borrowings agreements for 33 aircraft acquisition, of which 15 bank borrowings agreements are under fixed interest rate between 4.5% and 6.5% and the remaining 17 loan agreements are under floating interest rate with margin in the range between 2.6% and 4.6% with reference to three-month or six-month US$ LIBOR adjusted on a regular basis and the Renminbi benchmark loan interest rate published by the People's Bank of China applicable to loan with terms of 3 to 5 years or over 5 years.

PDP are required to be made under the Aircraft Purchase Agreement with Airbus. The PDP financing was subject to floating interest rates and was used for the settlement of the PDP for the aircraft committed to be purchased and delivered to us under the Aircraft Purchase Agreement with Airbus. As at 30 June 2014, we have 6 aircraft to be delivered before the end of 2014 under Aircraft Purchase Agreement with Airbus, where PDP were fully paid for.

As of 31 December 2013 and 30 June 2014, the PDP financing was secured by our rights and benefits in respect of the purchase of the aircraft and pledged deposits of HK$6.1 million and HK$7.8 million, respectively.

As at 30 June 2014, we also had short-term working capital financing from banks amounting to HK$370.0 million and HK$78.0 million undrawn facility.

3.2.2 Long-term borrowings

CALC (Tianjin) entered into a loan agreement with an independent third party for the loan amount of RMB122.0 million as part of the arrangement for the realisation of the finance lease receivables in respect of one aircraft completed in December 2013. The term of the loan, with an annual interest rate of 6.43%, is 12 years. The loan was pledged by the aircraft held by the Group. The proceeds of the loan has been used for the repayment of the relevant long-term bank borrowings for the aircraft in 2014.

3.2.3 Derivative financial liabilities

The derivative financial liabilities represented the unrealised loss recognised in the hedging reserve in equity on the interest rate swap contracts and a currency swap (Note 3.1.4).

3 ANALYSIS OF FINANCIAL POSITION *(Continued)*

3.3 Equity

As at 30 June 2014, the equity of our Group was HK$917.3 million, a decrease of HK$40.8 million from that as at 31 December 2013, mainly due to the net effect of comprehensive income for the six months ended 30 June 2014 and the dividend payment of HK$69.0 million, which was declared and paid in the six months ended 30 June 2014.

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Issued capital	**46.9**	–	not applicable
Reserves	**850.9**	938.6	(9.3%)
Non-controlling interests	**19.5**	19.5	–
Total equity	**917.3**	958.1	(4.3%)

Upon listing on 11 July 2014, the Group issued 116,800,000 new ordinary shares of HK$0.1 each at offer price of HK$5.53 per share. The net proceeds obtained were HK$591.1 million.

4 ANALYSIS OF CASH FLOW STATEMENT

The following table illustrates the cash position and cash flow for the six months ended 30 June 2014:

	For the six months ended 30 June 2014 HK$'million	2013 HK$'million
I. Aircraft in operation		
Lease income	**573.6**	316.1
Bank repayment	**(478.7)**	(282.9)
	94.9	33.2
II. New aircraft purchase and delivery		
Capital expenditure	**(2,327.5)**	(755.6)
Bank borrowings	**2,224.4**	711.6
	(103.1)	(44.0)
III. New aircraft not yet delivered		
PDP	**(966.1)**	(616.6)
PDP financing	**837.3**	592.2
PDP refund	**595.7**	12.6
Repayment of PDP financing	**(578.9)**	(37.9)
	(112.0)	(49.7)
IV. Net capital movement	**(1,012.1)**	168.2
Net (decrease)/increase in cash and cash equivalents	**(1,132.3)**	107.7
Cash and cash equivalents at beginning of the period	**1,367.3**	73.5
Foreign exchange difference on cash and cash equivalents	**(4.9)**	1.7
Cash and cash equivalents at end of the period	**230.1**	182.9

Our business operation requires a significant amount of financing for aircraft acquisition. Before IPO, we principally use the cash generated from our business operations, long-term bank borrowings, and PDP financing to satisfy our liquidity needs. Following completion of IPO, our liquidity and capital expenditure requirements will be funded by a combination of the net proceeds from the IPO, cash generated from our operating activities, long-term bank borrowings, PDP financing, and the proceeds from realisation of finance lease receivables as part of our financing strategies.

5 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit standing as well as healthy capital ratios in order to support its business and maximize shareholder value. For the six months ended 30 June 2014, the objective, policies or processes for managing capital remained largely unchanged.

The Group monitors capital by gearing ratio:

	30 June 2014 HK$'million Unaudited	31 December 2013 HK$'million Audited	Change
Total assets	**14,326.6**	12,832.9	11.6%
Total liabilities	**13,409.3**	11,874.8	12.9%
Borrowings (included in the total liabilities)	**13,023.5**	11,591.6	12.4%
Total equity	**917.3**	958.1	(4.3%)
Gearing ratio (Borrowings vs total assets)	**91%**	90%	1%

For the six months ended 30 June 2014, the Group made full use of capital leverage to keep in pace of aircraft delivery.

6 CAPITAL EXPENDITURE

During the six months ended 30 June 2014, our capital expenditure was principally used for business expansion purpose including the purchase of aircraft to generate lease income. The primary source of financing for our capital expenditure was our bank borrowings. The following table sets forth our capital expenditure during the six months ended 30 June 2014:

	For ths six months ended		
	2014 HK$'million Unaudited	2013 HK$'million Unaudited	Change
Acquisition of aircraft	**2,327.5**	755.6	208.0%
Acquisition of property, plant and equipment	**0.1**	0.2	(50.0%)
Total	**2,327.6**	755.8	208.0%

7 RISK MANAGEMENT

Our principal financial instruments include finance lease receivables, interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to support our business operations and aircraft acquisition plans. We also have various financial assets and financial liabilities arising from our business operations. The principal risks arising from our financial instruments are market risk (including the foreign exchange risk and the interest rate risk), credit risk, and liquidity risk. We intend to achieve an appropriate balance between the risks and the investment returns so as to minimize the potential adverse impact on our business and financial condition.

Foreign exchange risk

We are exposed to foreign exchange risks as certain portion of cash and cash equivalent, financial assets included in prepayments and other receivables, finance lease receivables, other payables and accruals and bank borrowings held by entities within our Group are denominated in currencies other than the entity's function currency, primarily with respect to RMB and US dollars. We currently do not have a foreign currency hedging policy as we consider that our exposure to foreign exchange risk is insignificant. However, we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

Interest rate risk

Our interest rate risk mainly arises from finance lease receivables and bank borrowings. Finance lease receivables and bank borrowings issued at floating rates expose us to cash flow interest rate risk. Finance lease receivables and bank borrowings issued at fixed rates expose us to fair value interest rate risk.

We manage the interest rate risk by the way of matching the interest rates of the finance lease receivables with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the finance lease receivables and the corresponding bank borrowings cannot be matched. As at 30 June 2014, there were 16 aircraft lease agreements with the rentals fixed for the whole lease term while the associated bank borrowings bear floating rates. Given the above scenario, we have managed our cash flow interest rate risk by entering into floating-to-fixed interest rate swaps for the associated floating-rate bank borrowings for nine aircraft lease projects. Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, we agree with other parties to exchange, at specified intervals (primarily quarterly), the difference in amounts between the fixed leg and the floating leg calculated by reference to the agreed notional amounts. For the remaining cases of interest rate mismatch, management monitors the interest rate exposure closely and will consider hedging the exposure where necessary and appropriate. We are not engaged in any interest hedging activity for the PDP financing and working capital facilities as PDP financing is short term of approximately two years.

7 RISK MANAGEMENT *(Continued)*

Interest rate risk *(Continued)*

As at 30 June 2014, out of the 34 aircraft (including one aircraft under the realisation arrangement) currently owned by us, only 8 aircraft has floating interest rate without any interest hedge. The following table sets forth an analysis of the interest rate exposure against the lease income received by us:

	Number of aircraft
Aircraft with fixed rental and fixed interest rate repayment	15
Aircraft with fixed rental and floating interesting repayment (with hedging)	8
Aircraft with floating rental and floating interesting repayment (with hedging)	1
Aircraft with floating rental and floating interesting repayment (without hedging)	1
Aircraft under realisation arrangement	1
Aircraft with fixed rental and floating interest (without hedging)	8
Total	34

Given the availability of the US$ interest rate swap, we will continue to use interest rate swap arrangement for the aircraft with interest rate mismatch.

Credit risk

We take on exposure to credit risk, which is the risk that counterparty will cause a financial loss for us by failing to discharge an obligation. Significant changes in economy or in the operating environment of a particular industry segment that represents a concentration in our portfolio, could result in losses that are different from those provided for as of the balance sheet date. We therefore carefully manage our exposure to credit risk. Our credit exposure is generally arising from the counterparty risk in the course of providing aircraft leasing service. We implement our risk management system according to our plan based on our industry research, counterparty credit rating, and understanding of the counterparty's operation, financial condition, and its shareholders' support. We believe that all of these are able to strengthen the control and the management of our credit risk.

Default risk — in the event of default, we may demand return of aircraft, repossession of aircraft or disposal of aircraft, whenever appropriate.

7 RISK MANAGEMENT *(Continued)*

Credit risk *(Continued)*

Late payment risk — in the event of late payment, we are 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, we may request for a security deposit where we may apply towards the payment or discharge of any obligation owned by the lessee.

We manage, limit and control concentrations of credit risk wherever they are identified, in particular, to assess the lessee' repayment ability periodically.

As to impairment and allowance policies, we assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Our policy requires the review of the financial statements of the lessee or its parent company and the valuation and residual value of the aircraft (effectively the collateral held) under the lease at least annually or more regularly when circumstances require.

Lease receivables (both finance lease and operating lease) and financial assets of our Group are neither past due nor impaired. We have not encountered any delay or default in the collection of lease receivables. No impairment allowance was made for our finance lease receivables and financial assets of our Group as of 30 June 2014.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from mismatches in amounts or duration with regard to the maturity of financial assets and liabilities.

Our Group manages its liquidity risk through daily monitoring with the following objectives: maintaining the stability of the leasing business, projecting cash flows and evaluating the level of current assets, and maintaining an efficient internal fund transfer mechanism to ensure liquidity of the Group.

7 RISK MANAGEMENT *(Continued)*

Liquidity risk *(Continued)*

The table below summarises the maturity profile of our Group's financial assets and liabilities based on the contractual undiscounted cash flows.

	Less than 1 year HK$'million	1 to 5 years HK$'million	Over 5 years HK$'million	Total HK$'million
As at 30 June 2014				
PDP	**1,484.7**	**963.7**	**–**	**2,448.4**
Total financial assets	**1,463.2**	**4,798.9**	**8,504.7**	**14,766.8**
Total financial liabilities	**(3,826.8)**	**(4,926.6)**	**(8,125.3)**	**(16,878.7)**
Net	**(878.9)**	**836.0**	**379.4**	**336.5**
As at 31 December 2013				
PDP	1,337.7	740.3	–	2,078.0
Total financial assets	2,322.5	3,728.3	7,350.0	13,400.8
Total financial liabilities	(3,791.0)	(3,999.3)	(7,841.7)	(15,632.0)
Net	(130.8)	469.3	(491.7)	(153.2)

8 CHARGE ON ASSETS

The long-term bank borrowings for aircraft acquisition are secured by legal charges over the leased aircraft, pledge of the shares of the relevant subsidiaries, as the registered owners of the aircraft, corporate guarantees provided by certain members of our Group (including China Aircraft Leasing Company Limited (BVI)), and pledged deposits amounting to HK$70.6 million and HK$74.2 million as at 31 December 2013 and 30 June 2014, respectively. Bank borrowings for deposits placed for purchase of aircraft were secured by our Group companies' rights and benefits in respect of the purchase of aircraft and pledged deposits of HK$6.1 million and HK$7.8 million as at 31 December 2013 and 30 June 2014, respectively.

The Group had lease receivables in the amount of HK$9,566.5 million and cash in the amount of HK$98.2 million pledged to the bank as at 30 June 2014 in order to secure the bank borrowings.

9 MATERIAL INVESTMENT, ACQUISITION AND DISPOSAL

As at 30 June 2014, the Company had no material investment and there was no material acquisition and disposal of subsidiaries and associated companies.

Management Discussion and Analysis

10 HUMAN RESOURCES

During the six months ended 30 June 2014, the Group incurred employee benefit expenses of HK$18.8 million (six months ended 30 June 2013: HK$7.7 million), representing approximately 4.3% of the Group's total revenue for the period (six months ended 30 June 2013: 2.9%).

Our Group believes it has a high quality work force with specialised aircraft industry expertise. They are located in Hong Kong, China and oversea. Approximately 75% of the Group's employees had bachelor's degrees and above.

Our Group has established effective employee incentive schemes to correlate the remuneration of our employees with their overall performance and contribution to the Company, and have established a merit-based remuneration awards system.

Employee benefits

As at 30 June 2014, the Group had complied with all statutory social insurance, housing fund and mandatory provident fund obligations applicable to the Group under the laws of PRC, Hong Kong and overseas in all material aspects.

11 CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

11.1 Contingent liabilities

As at 30 June 2014, no legal proceedings were initiated by any of the third parties against the Group as defendant, or any outstanding claims.

11.2 Capital commitments

The following table sets forth our capital commitment contracted for as at 30 June 2014, but not yet incurred by us:

	30 Jun 2014 HK$'million Unaudited	31 Dec 2013 HK$'million Audited	Change
Acquisition of aircraft	**7,779.0**	10,162.5	(23.5%)

In October 2012, we entered into the Aircraft Purchase Agreement with Airbus for the purchase of 36 current generation of A320 family aircraft which are currently planned to be delivered to us before the end of 2016, out of which six aircraft have been delivered as at 30 June 2014. Our agreement to purchase these aircraft has secured a series of scheduled deliveries which will enable us to achieve our targeted growth. For each aircraft, we are obliged to make PDP at specific dates prior to its scheduled delivery.

11 CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS *(Continued)*

11.2 Capital commitments *(Continued)*

The amount of aircraft purchase commitment of HK$7,779.0 million as at 30 June 2014 represented our estimated total purchase costs of the aircraft which are contracted to be purchased and delivered to us under the Aircraft Purchase Agreement, net of PDP paid as at 30 June 2014. The prices are not fixed at the time of entering into the relevant agreement and can only be determined upon the final specifications of the aircraft. The final purchase prices paid by us will be lower than the listed prices because of different aircraft specifications and various price concessions, credits or discounts that may be provided by the aircraft manufacturer. These concessions take the form of credit memoranda, which we may apply towards the purchase of goods and services. These credit memoranda are generally incorporated into the final aircraft invoices and thus reduce the amount to be paid by us for each aircraft. As a result, the final purchase prices of the aircraft purchased by us are expected to be substantially less than the manufacturer's listed prices.

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

12 UNAUDITED INTERIM RESULTS

The board of directors of the Company (the "Board") is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2014, together with comparative amounts as follows. The Company's auditor has reviewed the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014, and issued the relevant review report, details of which are set out on pages 34 to 72 of this interim report.

13 PROSPECTS

In the second half of 2014, the Chinese government will continue with placing emphasis on stable growth, actively expanding internal demand and guiding investments to develop the real economy. Current and future economic development will be balanced through reforms and innovation.

According to Ascend China Holding Limited, a Flightglobal advisory service and part of Reed Business Information Limited, the demand for aircraft in China market will continue to grow and the total number of leased commercial aircraft in China will increase by 262 aircraft to 1,061 aircraft during the three years ending 31 December 2016.

Because of our successful business development experience in aircraft leasing, we have established business relationships with most of the leading airlines in China, which we believe their demand for leased aircraft will continue to increase in the future.

Management Discussion and Analysis

13 PROSPECTS *(Continued)*

Lease agreements are signed for aircraft to be delivered in the second half of 2014 under the Aircraft Purchase Agreement with Airbus. For 2015, under Aircraft Purchase Agreement, we have entered into aircraft lease agreements for six aircraft to be delivered and leased in China, five aircraft to an airline operator in Asia, as well as entered into a binding letter of intent for two aircraft to be delivered and leased in China. Purchase agreements of four aircraft were signed on 25 August 2014 as well as their respective lease agreements. The delivery is expected to be in the second half of 2014.

Following with our first realisation of finance lease receivables in respect of one aircraft completed in December 2013, we completed another aircraft realisation transaction in July 2014, and the financial impact would be reflected in the annual results of 2014.

After considering the acquisition of additional four aircraft in the second half of 2014, the fleet size is expected to grow to 68 at the end of 2016.

We believe that our fleet expansion plan is reasonable in light of the prevailing demand and supply condition of the China aircraft leasing industry.

After successful listing in Hong Kong, the Group has started its planning in two important projects in China, namely, a RMB debt issuance and a new business in aircraft disassembly plant respectively. The implication of RMB debt issuance will positively confirm the Group's capability and qualification of fund raising in the PRC debt market as well as its credit rating in China. The aircraft disassembly plant will further demonstrate the Group's capability in providing full aircraft solutions to airlines.

Other Information

DISCLOSURE OF INTEREST

1 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

The Company's shares were listed on the Stock Exchange on 11 July 2014, which is after 30 June 2014 (end of this reporting period). Accordingly, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 352 of the SFO were not applicable to the Company/the Company's Directors as at 30 June 2014.

As at the date of this report, the interest or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of Director	Relevant member of the Group	Capacity/Nature of interest	Number and class of shares(1)	Approximate percentage of shareholding
POON Ho Man(2)	the Company	Interest of controlled corporation	181,254,589(L)	30.94%

Notes:

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

(2) Friedmann Pacific Asset Management Limited ("FPAM") is a substantial shareholder which is owned as to 0.000001% by Ms. Christina NG and 99.999999% by Capella Capital Limited ("Capella"), which in turn is owned as to 10% by Ms. Christina NG and 90% by Mr. POON Ho Man. Accordingly, Mr. POON Ho Man is deemed to be interested in all the shares held by FPAM.

Save as disclosed above and under the heading "Share Option Schemes" below, as at the date of this report, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she was taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code.

Other Information

DISCLOSURE OF INTEREST *(Continued)*

2 Arrangements for the Directors to Purchase Shares or Debentures

Saved as disclosed above and under the heading "Share Option Schemes" below, at no time from the Listing Date to the date of this report 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.

3 Substantial Shareholders' Interests in the Shares

As stated above, the Company's shares were not listed on the Stock Exchange as at 30 June 2014. Accordingly, no disclosure of interests or short positions in any shares or underlying shares of the Company was required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2014.

As at the date of this report, the following persons have the following interests or short positions in the shares or underlying shares of the Company who 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, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of shares carrying the right to vote in all circumstances at general meetings of the Company:

Name of shareholders	Capacity/Nature of interest	Number and class of shares[1]	Approximate percentage of shareholding
China Everbright Aerospace Holdings Limited ("CE Aerospace")[2]	Beneficial Owner	206,979,479[L]	35.33%
China Everbright Limited ("CEL")[2]	Interest of controlled corporation	215,199,479[L]	36.74%
China Everbright Holdings Company Limited ("CE Holdings")[3]	Interest of controlled corporation	215,199,479[L]	36.74%
FPAM[4]	Beneficial Owner	181,254,589[L]	30.94%
Capella[5]	Interest of controlled corporation	181,254,589[L]	30.94%
POON Ho Man[5]	Interest of controlled corporation	181,254,589[L]	30.94%
Christina NG[6]	Interest of a Spouse	181,254,589[L]	30.94%
Easy Smart Limited ("Easy Smart")[7]	Beneficial Owner	37,773,755[L]	6.45%
China Aerospace Investment Holdings Ltd. ("China Aerospace")[7]	Interest of controlled corporation	37,773,755[L]	6.45%

DISCLOSURE OF INTEREST *(Continued)*

3 Substantial Shareholders' Interests in the Shares *(Continued)*

Notes:

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

(2) The entire issued share capital of CE Aerospace is wholly-owned by CEL. Accordingly, CEL is deemed to be interested in all the shares held by CE Aerospace. CEL is also deemed to be interested in 8,220,000 shares held by its indirect wholly-owned subsidiary.

(3) CE Holdings indirectly holds more than one-third of the voting power at general meetings of CEL. Accordingly, CE Holdings is deemed to be interested in all the shares held by CEL.

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

(5) The issued share capital of Capella is owned as to 10% by Ms. Christina NG and 90% by Mr. POON Ho Man. Accordingly, Mr. POON Ho Man is deemed to be interested in all the shares held by Capella.

(6) Ms. Christina NG is the spouse of Mr. POON Ho Man.

(7) The entire issued share capital of Easy Smart is wholly-owned by China Aerospace. Accordingly, China Aerospace is deemed to be interested in all the shares held by Easy Smart.

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

Other Information

CORPORATE GOVERNANCE

4 Corporate Governance Practices

The Board has committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good corporate governance to the Group's success and sustainability. We are committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

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 and accountability.

The Company's corporate governance practices are based on the Principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company has complied with all the Code Provisions set out in the CG Code since the Listing Date and up to the date of this report.

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

5 Directors' Securities Transactions

The Company has devised its own code of conduct regarding directors' dealings in the Company's securities (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Code of Conduct since the Listing Date and up to the date of this report.

BOARD COMMITTEES

6 Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal control system and to provide advice and comments to the Board. As at the date of this report, the Audit Committee consisted of Mr. NG Ming Wah, Charles, Mr. ZHANG Chongqing, Mr. SUN Quan and Mr. GUO Zibin. The chairman of the Audit Committee is Mr. NG Ming Wah, Charles.

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the condensed consolidated financial statements for the six months ended 30 June 2014.

7 Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. As at the date of this report, the Remuneration Committee consisted of Mr. FAN Yan Hok, Philip, Mr. NG Ming Wah, Charles, Mr. ZHANG Chongqing and Mr. SUN Quan. Mr. FAN Yan Hok, Philip has been appointed as the chairman of the Remuneration Committee. The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by us to the Directors and senior management. The remuneration of all the Directors and senior management is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate.

8 Nomination committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference in compliance with paragraph A.5.1 of Appendix 14 to the Listing Rules. As at the date of this report, the Nomination Committee consisted of Mr. ZHANG Chongqing, Mr. FAN Yan Hok, Philip, Mr. NG Ming Wah, Charles and Mr. SUN Quan. Mr. ZHANG Chongqing has been appointed as the chairman of the Nomination Committee. The Nomination Committee considers and recommends to the Board suitably qualified persons to become the Board members and is responsible for reviewing the structure, size and composition of the Board on a regular basis.

Other Information

SHARE OPTION SCHEMES

9 Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was conditionally approved and adopted pursuant to a resolution in writing passed by the shareholders of the Company on 23 June 2014, which became effective on the Listing Date. A summary of the principal terms of the Post-IPO Share Option Scheme is set out in Appendix IV to the prospectus of the Company dated 30 June 2014 (the "Prospectus").

No options have been granted or agreed to be granted by the Company under the Post-IPO Share Option Scheme as at the Listing Date.

10 Pre-IPO Share Option Scheme

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

As at 30 June 2014 or the Listing Date, options to subscribe for an aggregate of 45,000,000 shares have been granted under the Pre-IPO Share Option Scheme, of which no options have been exercised. All the options under the Pre-IPO Share Option Scheme were granted on 7 October 2011, 10 October 2011 and 30 December 2011 and no further options have been granted under the Pre-IPO Share Option Scheme prior to the Listing Date. Out of the 45,000,000 shares for subscription under the Pre-IPO Share Option Scheme to a total of 25 grantees, options for the subscription of 270,000 shares allocated as Tranche A Options to 8 employee grantees have lapsed as a result of cease of employment and 200,000 shares allocated as Tranche A Options to a senior management and 2,500,000 shares allocated as Tranche B Options to a consultant have lapsed and became non-exercisable due to non-fulfilment of their respective performance conditions. Hence, only options for subscription of 42,030,000 shares are outstanding as at 30 June 2014 or the Listing Date.

SHARE OPTION SCHEMES *(Continued)*

10 Pre-IPO Share Option Scheme *(Continued)*

Particulars of the outstanding options granted under the Pre-IPO Share Option Scheme as at 30 June 2014 or the Listing Date are set out below:

Name of grantees	Relevant option tranche	Number of share options outstanding as at 30 June 2014/ Listing Date
Substantial Shareholders		
CE Aerospace	Tranche A	2,000,000
FPAM	Tranche A	1,300,000
	Sub-total: 2 grantees	3,300,000
Connected persons		
Equal Honour Holdings Limited[(1)]	Tranche A	15,000,000
Smart Vintage Investments Limited[(2)]	Tranche B	10,000,000
	Sub-total: 2 grantees	25,000,000
Consultants		
Wealth Amass Limited[(3)]	Tranche A	10,000,000
Loft Profit Limited[(4)]	Tranche B	2,500,000
	Sub-total: 2 grantees	12,500,000
Senior Management and Other Employees	Tranche A	1,230,000
	Sub-total: 11 grantees	1,230,000
	Total: 17 grantees	42,030,000

Notes:

(1) Equal Honour Holdings Limited is wholly-owned by Mr. POON Ho Man.

(2) Smart Vintage Investments Limited is wholly-owned by Ms. LIU Wanting.

(3) Wealth Amass Limited is wholly-owned by Mr. YANG Jianjun and has made available Mr. YANG to provide consultancy services to the Group which commenced on 1 October 2011. Save as disclosed above, each of Mr. YANG and Wealth Amass Limited is an independent third party not connected with any of the Directors, chief executive officer, senior management, other consultants, substantial shareholders of the Company or any of their respective associates.

(4) Loft Profit Limited is wholly-owned by Mr. WEI Tinghui and has made available Mr. WEI to provide consultancy services to the Group which commenced on 1 October 2011. Save as disclosed above, each of Mr. WEI and Loft Profit Limited is an independent third party not connected with any of the Directors, chief executive officer, senior management, other consultants, substantial shareholders of the Company or any of their respective associates.

Other Information

SHARE OPTION SCHEMES *(Continued)*

10 Pre-IPO Share Option Scheme *(Continued)*

The Tranche A Options shall, subject to the fulfilment of performance targets, become exercisable in accordance with the time as described below:

(i) 33% of the Tranche A Options (i.e. options to subscribe for a maximum of 9,900,000 shares) shall become exercisable on the publication date of the first audited financial results of the Group after the Listing Date (the "1st Publication Date"), and the exercise period in respect thereof shall commence on the 1st Publication Date and end on the third anniversary of the 1st Publication Date (the "Expiration Date");

(ii) 33% of the Tranche A Options (i.e. options to subscribe for a maximum of 9,900,000 shares) shall become exercisable on and from the first anniversary date of the 1st Publication Date and expires on the Expiration Date; and

(iii) 34% of the Tranche A Options (i.e. options to subscribe for a maximum of 10,200,000 shares) shall become exercisable on and from the second anniversary date of the 1st Publication Date and expires on the Expiration Date.

The Tranche B Options shall, subject to the fulfilment of performance targets, become exercisable on and from the 1st Publication Date and expires on the Expiration Date.

The exercise price for the subscription of shares under the Pre-IPO Share Option Scheme shall be calculated from a base price of US$0.121 each as adjusted by a required time value cost of 10% per annum as follows:

(i) US$0.133 per option, for those options exercised on or before 30 June 2013;

(ii) US$0.146 per option, for those options exercised from 1 July 2013 to 30 June 2014;

(iii) US$0.161 per option, for those options exercised from 1 July 2014 to 30 June 2015;

(iv) US$0.177 per option, for those options exercised from 1 July 2015 to 30 June 2016;

(v) US$0.195 per option, for those options exercised from 1 July 2016 to 30 June 2017; and

(vi) US$0.215 per option, for those options exercised from 1 July 2017 to 30 June 2018 or the Expiration Date, whichever is earlier.

Save for the options which have been granted on 7 October 2011, 10 October 2011 and 30 December 2011, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

Other Information

OTHERS

11 Use of Proceeds from the Company's Initial Public Offering

On 11 July 2014, the shares of the Company were listed on the Main Board of the Stock Exchange. Net proceeds from the global offering were approximately HK$591.1 million. The Company intends to use the net proceeds in accordance with the proposed applications set out in the section headed "Futures Plans and Proposed Use of Net Proceeds from the Global Offering" contained in the Prospectus.

12 Public Float

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

13 Interim Dividends

The Board does not recommend the payment of an interim dividend in respect of the period ended 30 June 2014.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the period from the Listing Date to the date of this report.

By order of the Board
China Aircraft Leasing Group Holdings Limited

POON Ho Man
Executive Director and Chief Executive Officer

Hong Kong, 26 August 2014

Report on Review of Interim Financial Information

pwc

羅兵咸永道

To the Board of Directors of China Aircraft Leasing Group Holdings Limited
(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 35 to 72, 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 2014 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2014

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Interim Consolidated Balance Sheet

	Note	Unaudited As at 30 June 2014 HK$'000	Audited As at 31 December 2013 HK$'000
ASSETS			
Property, plant and equipment	6	**1,758,244**	1,487,127
Finance lease receivables — net	7	**9,566,531**	7,678,876
Derivative financial assets	14	**7,499**	13,620
Prepayments and other receivables	8	**2,642,656**	2,183,474
Restricted cash		**121,634**	102,411
Cash and cash equivalents		**230,072**	1,367,344
Total assets		**14,326,636**	12,832,852
EQUITY			
Equity attributable to owners of the Company			
Share capital	9	**46,895**	78
Reserves	10	**656,856**	737,727
Currency translation differences		**4,902**	5,372
Retained earnings		**189,248**	195,421
		897,901	938,598
Non-controlling interests		**19,472**	19,500
Total equity		**917,373**	958,098
LIABILITIES			
Deferred income tax liabilities	11	**33,990**	26,267
Bank borrowings	12	**12,868,851**	11,436,394
Long-term borrowing	13	**154,623**	155,172
Derivative financial liabilities	14	**28,339**	7,488
Income tax payables		**15,066**	8,613
Interest payable		**33,493**	34,547
Other payables and accruals	15	**274,901**	206,273
Total liabilities		**13,409,263**	11,874,754
Total equity and liabilities		**14,326,636**	12,832,852

The notes on page 41 and 72 form an integral part of this interim consolidated financial information.

POON Ho Man	**LIU Wanting**
Director	*Director*

Interim Consolidated Statement of Income

	Note	Unaudited Six months ended 30 June 2014 HK$'000	2013 HK$'000
Revenues			
Finance lease income	16	**342,031**	189,567
Operating lease income	16	**73,742**	72,641
Other income	17	**16,636**	2,292
		432,409	264,500
Expenses			
Interest expense	18	**(237,625)**	(139,470)
Depreciation		**(27,521)**	(27,001)
Other operating expenses	19	**(96,257)**	(32,417)
		(361,403)	(198,888)
Operating profit		**71,006**	65,612
Other gains/(losses)	20	**15,283**	(780)
Profit before income tax		**86,289**	64,832
Income tax expense	21	**(23,490)**	(20,747)
Profit for the period		**62,799**	44,085
Profit for the period attributable to:			
Owners of the Company		**62,827**	44,085
Non-controlling interests		**(28)**	–
		62,799	44,085

Interim Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2014 HK$'000	2013 HK$'000
Profit for the period		**62,799**	44,085
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of interest rate swaps — cash flow hedges	14	**(33,458)**	32,349
Effect of termination of interest rate swap — cash flow hedges	14	**(596)**	–
Currency translation differences		**(470)**	2,506
Total other comprehensive income for the period, net of tax		**(34,524)**	34,855
Total comprehensive income for the period		**28,275**	78,940
Total comprehensive income for the period attributable to:			
Owners of the Company		**28,303**	78,940
Non-controlling interests		**(28)**	–
		28,275	78,940
Earnings per share for profit for the period attributable to owners of the Company (expressed in HK$ per share)			
— Basic earnings per share	23	**0.134**	0.098
— Diluted earnings per share	23	**0.134**	0.098

The notes on page 41 and 72 form an integral part of this interim consolidated financial information.

Details of the dividends proposed and paid for the period are disclosed in Note 22 to the interim consolidated financial information.

Interim Consolidated Statement of Changes in Equity

	Unaudited						
	Attributable to owners of the Company						
	Share capital HK$'000	Reserves HK$'000	Currency translation differences HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2013	–	618,716	72	75,921	694,709	–	694,709
Comprehensive income							
Profit for the period	–	–	–	44,085	44,085	–	44,085
Other comprehensive income							
Change in fair value of interest rate swaps							
— cash flow hedges	–	32,349	–	–	32,349	–	32,349
Currency translation differences	–	–	2,506	–	2,506	–	2,506
Total comprehensive income	–	32,349	2,506	44,085	78,940	–	78,940
Transactions with owners							
Employee share option scheme:							
— Value of employee services	–	577	–	–	577	–	577
Total transactions with owners	–	577	–	–	577	–	577
Balance at 30 June 2013	–	651,642	2,578	120,006	774,226	–	774,226
Balance at 1 January 2014	**78**	**737,727**	**5,372**	**195,421**	**938,598**	**19,500**	**958,098**
Comprehensive income							
Profit for the period	**–**	**–**	**–**	**62,827**	**62,827**	**(28)**	**62,799**
Other comprehensive income							
Change in fair value of interest rate swaps							
— cash flow hedges (Note 14)	**–**	**(33,458)**	**–**	**–**	**(33,458)**	**–**	**(33,458)**
Effect of termination of interest rate swap							
— cash flow hedges (Note 14)	**–**	**(596)**	**–**	**–**	**(596)**	**–**	**(596)**
Currency translation differences	**–**	**–**	**(470)**	**–**	**(470)**	**–**	**(470)**
Total comprehensive income	**–**	**(34,054)**	**(470)**	**62,827**	**28,303**	**(28)**	**28,275**
Transaction with owners							
Issue of shares (Note 9 (iii)(a))	**1**	**(1)**	**–**	**–**	**–**	**–**	**–**
Share repurchase and cancellation (Note 9 (iii)(a))	**(78)**	**78**	**–**	**–**	**–**	**–**	**–**
Capitalisation of shares (Note 9 (iii)(b))	**46,894**	**(46,894)**	**–**	**–**	**–**	**–**	**–**
Dividend (Note 22)	**–**	**–**	**–**	**(69,000)**	**(69,000)**	**–**	**(69,000)**
Total transactions with owners	**46,817**	**(46,817)**	**–**	**(69,000)**	**(69,000)**	**–**	**(69,000)**
Balance at 30 June 2014	**46,895**	**656,856**	**4,902**	**189,248**	**897,901**	**19,472**	**917,373**

The notes on page 41 and 72 form an integral part of this interim consolidated financial information.

Interim Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Profit after income tax		**62,799**	44,085
Adjustments for:			
— Depreciation of property, plant and equipment		**27,521**	27,001
— Interest expense of bank borrowings		**237,625**	137,849
— Interest expense of borrowings from related parties		**–**	1,621
— Share-based payments		**–**	577
— Unrealised foreign exchange losses/(gain)		**4,017**	(2,463)
— Fair value gain on currency swap		**(6,487)**	–
		325,475	208,670
Changes in working capital:			
— Finance lease receivables – net		**(1,887,655)**	(691,522)
— Prepayments and other receivables		**(88,755)**	50,139
— Other payables and accruals		**68,628**	127,490
— Income tax payables		**6,453**	7,982
— Deferred income tax liabilities		**7,723**	2,509
Net cash flows used in operating activities		**(1,568,131)**	(294,732)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(298,677)**	(183)
Deposits paid for acquisition of aircraft		**(370,427)**	(603,989)
Net cash flows used in investing activities		**(669,104)**	(604,172)

Interim Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2014 HK$'000	2013 HK$'000
Cash flows from financing activities			
Proceeds from bank borrowings		**3,198,205**	1,593,994
Proceeds from borrowings from related parties		**–**	93,600
Repayments of bank borrowings		**(1,765,748)**	(440,291)
Repayments of borrowings from related parties		**–**	(93,600)
Repayments of long-term borrowing		**(38)**	–
Interest paid on bank borrowings		**(235,206)**	(152,486)
Interest paid on borrowings from related parties		**–**	(1,621)
Interest paid on long-term borrowing		**(4,068)**	–
Deposits pledged in respect of bank borrowings		**(2,151)**	1,326
Deposits pledged in respect of derivative financial instruments		**(17,072)**	5,696
Dividend paid to shareholders	22	**(69,000)**	–
Net cash flows generated from financing activities		**1,104,922**	1,006,618
Net (decrease)/increase in cash and cash equivalents		**(1,132,313)**	107,714
Cash and cash equivalents at beginning of the period		**1,367,344**	73,499
Foreign exchange difference on cash and cash equivalents		**(4,959)**	1,671
Cash and cash equivalents at end of the period		**230,072**	182,884

The notes on page 41 and 72 form an integral part of this interim consolidated financial information.

Notes to the Interim Consolidated Financial Information

1 GENERAL INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands on 21 December 2012 as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands using the name "China Aircraft Leasing Company Limited". On 19 September 2013, the Company changed its name to "China Aircraft Leasing Group Holdings Limited". The address of the Company's registered office is Maples Corporate Services Limited, P.O. Box 309, 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 since 11 July 2014 (the "Listing").

The Company is an investment holding company and its subsidiaries are principally engaged in the aircraft leasing business. The Group has operations mainly in the People's Republic of China ("PRC").

The consolidated balance sheet as at 30 June 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes of the Group have been approved by the Board of Director on 26 August 2014.

The interim condensed consolidated financial information for the six months ended 30 June 2014 ("Interim Financial Information") is presented in Hong Kong Dollar ("HK$"), unless otherwise stated.

The Interim Financial Information has been reviewed, not audited.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting". The Interim Financial Information should be read in conjunction with the Group's financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and included in the accountant's report of the Company.

The Group's current liabilities exceeded its current assets by HK$2,769,448,000 as at 30 June 2014 (31 December 2013: HK$1,421,421,000) (Note 5.1.3). As at 30 June 2014, the Group had capital commitments amounting to HK$7,779,003,000 (31 December 2013: HK$10,162,469,000) in relation to the acquisition of aircraft (Note 25(b)). The Directors of the Company have given due consideration to the liquidity of the Group and adopted a going concern basis in preparing the Interim Financial Information based on the following assessments:

— For the aircraft under lease contracts, under the business model of the Group, the expected cash inflows from lease receivables generally match the required cash outflows for installment repayments of the bank borrowings for aircraft acquisition over the entire lease term of the aircraft.

2 BASIS OF PREPARATION *(Continued)*

— The net current liabilities position of the Group is mainly due to the fact that the Group used short-term borrowings to finance its aircraft acquisition and pre-delivery payments ("PDP") made to the aircraft manufacturer when the new aircraft ordered by the Group are being built. As at 30 June 2014, PDP amounting to HK$2,448,446,000 (31 December 2013: HK$2,078,019,000) had been paid. According to the relevant aircraft purchase agreements, PDP scheduled to be paid in the next 12 months from 30 June 2014 amounted to HK$1,137,795,000. As at the date of this report, the Group had already signed PDP financing agreements with banks to secure funding commitments for the PDP for 34 aircraft. Based on the PDP financing agreements signed, the funding of HK$898,379,000 will be provided by banks to pay part of the PDP to be paid in the next 12 months from 30 June 2014. The remaining balance of PDP amounting to HK$239,416,000 will be funded by internally generated financial resources of the Group and additional PDP financing which are expected to be obtained in the second half of 2014.

— As at 30 June 2014, the balance of PDP financing amounted to HK$2,111,488,000 (31 December 2013: HK$1,820,074,000). The Group will replace PDP financing with long-term bank borrowings upon the delivery of aircraft as scheduled, which includes 12 aircraft in the next 12 months from 30 June 2014. As at 30 June 2014, the Group has entered into lease agreements with 5 airlines for the leasing of 11 aircraft expected to be delivered in the next 12 months.

— The Company raised additional share capital through an initial public offering of shares ("IPO") in July 2014 (Note 26(a)).

— The Group has entered into a cooperative agreement with a bank, pursuant to which the bank provides a comprehensive loan facility amounting to US$1,500,000,000 to the Group during the period between 2013 and 2018. The granting of each specific loan will be subject to the credit assessment to be performed by the bank and the finalisation of the terms and conditions of the loan agreements, which will only be confirmed shortly before the delivery of aircraft.

Accordingly, the Group expects to have sufficient working capital for its present requirements for at least the next 12 months from 30 June 2014. Based on the above considerations, the Directors of the Company are of the opinion that the Group will be in a position to continue as a going concern and have prepared the financial statements on a going concern basis.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's financial statements for the year ended 31 December 2013.

New standards, amendments and interpretation to the existing standards that are effective during the six months ended 30 June 2014 have been adopted by the Group consistently unless prohibited by the relevant standard to apply retrospectively.

3 ACCOUNTING POLICIES *(Continued)*

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

	Effective for annual periods beginning on or after
Annual improvements 2012," Changes from the 2010–2012 cycle of the annual improvements project"	1 July 2014
Annual improvements 2013, "Changes from the 2011–2013 cycle of the annual improvements project"	1 July 2014
Amendment to HKFRS 11, "Accounting for acquisitions of interests in joint operation"	1 January 2016
Amendments to HKAS 16 and HKAS 38, "Clarification of acceptable methods of depreciation and amortisation"	1 January 2016
HKFRS15, "Revenue from Contracts with Customers"	1 January 2017
HKFRS 9, "Financial Instruments"	1 January 2018

Management's preliminary assessment is that the application of the above standard, interpretation 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 the same as those that applied to the Group's financial statements for the year ended 31 December 2013.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The Interim Financial Information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2011, 2012 and 2013.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

5.1.1 Market risk

(a) *Foreign exchange risk*

The Group is exposed to foreign exchange risks as certain portion of cash and cash equivalents, financial assets included in prepayments and other receivables, finance lease receivables, other payables and accruals and bank borrowings held by entities within the Group are denominated in currencies other than the entity's functional currency. The functional currencies of entities within the Group are principally United State dollars ("US$"). The Group currently does not have a currency hedging policy as the Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

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

The Group's interest rate risk mainly arises from finance lease receivables and bank borrowings. Finance lease receivables and bank borrowings at floating rates expose the Group to cash flow interest rate risk. Finance lease receivables and bank borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages the interest rate risk by matching the interest rates of the finance lease receivables with interest rates of bank borrowings. Interest rate exposure arises when interest rates of the finance lease receivables and the corresponding bank borrowings do not match. As at 30 June 2014, there are 16 aircraft leases (31 December 2013: 10 aircraft leases) where the effective interest rates implicit in finance lease receivables are fixed for the whole lease term while the associated bank borrowings bear floating rates. Given the above scenario, the Group has managed its cash flow interest rate risk by entering into 8 floating-to-fixed interest rate swaps for the associated floating-rate bank borrowings for 9 of the aircraft lease projects as at 30 June 2014 (31 December 2013: 6 of the aircraft lease projects). Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining cases of interest rate mismatch, management monitors the interest rate exposure closely and will consider hedging the exposure where necessary and appropriate.

5 FINANCIAL RISK MANAGEMENT *(Continued)*

5.1 Financial risk factors *(Continued)*

5.1.1 Market risk *(Continued)*

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

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2014. 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 2014 by approximately HK$14,510,000 (six months ended 30 June 2013: HK$7,786,000); and would also have increased/decreased the Group's reserves by approximately HK$51,202,000 (31 December 2013: HK$29,574,000) because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the impact on the Group that would arise assuming that the change in interest rates had occurred at the balance sheets 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 sheets date.

5.1.2 Credit risk

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

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as shareholders support. The Group also obtained deposits from the lessees (Note 15(i)). All these strengthen the control and management of credit risk.

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

5 FINANCIAL RISK MANAGEMENT *(Continued)*

5.1 Financial risk factors *(Continued)*

5.1.2 Credit risk *(Continued)*

(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.

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 the Group may apply towards the payment or discharge of any obligation owed by the lessee.

(b) *Risk limit control and mitigation policies*

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

(c) *Impairment allowance policies*

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

The Group's policy requires a review of the financial statements of the lessee or its parent company and a valuation of the residual value of the aircraft (effectively the collateral held) under the lease at least annually or more regularly when circumstances require.

Finance lease receivables and financial assets of the Group are neither past due nor impaired. The Group has not encountered any delay or default in the collection of lease receivable balances. No impairment allowance was made for finance lease receivables and financial assets of the Group as at 30 June 2014 (31 December 2013: nil).

(d) *Concentration of risks of financial assets with credit exposure*

During the six months ended 30 June 2014, all the lessees of the Group are airline companies located in Mainland China. Please see Note 7 for an analysis of concentration of lessees. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

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

5 FINANCIAL RISK MANAGEMENT *(Continued)*

5.1 Financial risk factors *(Continued)*

5.1.3 Liquidity risk

The following table sets forth the assets and liabilities of the Group which are expected to be recovered or settled within 12 months after the balance sheet dates:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Current assets		
Finance lease receivables — net	**353,947**	262,544
Prepayments and other receivables	**31,268**	19,199
Cash and cash equivalents	**230,072**	1,367,344
	615,287	1,649,087
Current liabilities		
Other payables and accruals	**274,901**	206,273
Income tax payables	**15,066**	8,613
Interest payable	**33,493**	34,547
Bank borrowings	**3,061,198**	2,820,997
Long-term borrowings	**77**	78
	3,384,735	3,070,508
Net current liabilities	**(2,769,448)**	(1,421,421)

The assets and liabilities of the Group not included in the above table are expected to be recovered or settled more than 12 months after the balance sheet dates.

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

5 FINANCIAL RISK MANAGEMENT *(Continued)*

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder 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. The objectives, policies or processes for managing capital remained largely unchanged during the six months ended 30 June 2014. Please refer to Note 26(a) for information relating to the Company's IPO of new shares subsequent to 30 June 2014.

5.3 Fair value estimation

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

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

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

5 FINANCIAL RISK MANAGEMENT *(Continued)*

5.3 Fair value estimation *(Continued)*

Financial assets and financial liabilities measured at fair values

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2013				
Assets				
Interest rate swaps for hedging	–	13,620	–	13,620
Liabilities				
Interest rate swaps for hedging	–	6,520	–	6,520
Currency swap	–	968	–	968
Total liabilities	–	7,488	–	7,488
At 30 June 2014				
Assets				
Interest rate swaps for hedging	**–**	**1,980**	**–**	**1,980**
Currency swap	**–**	**5,519**	**–**	**5,519**
Total assets	**–**	**7,499**	**–**	**7,499**
Liabilities				
Interest rate swaps for hedging	**–**	**28,339**	**–**	**28,339**

The fair values of the interest rate swaps for hedging and currency swap are determined by using valuation techniques, mainly discounted cash flow analysis. Interest rate swaps are fair valued using forward interests extracted from observable yield curves. The Group uses its judgements to select a variety of methods and make 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.

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, restricted cash, other receivables, interest payable and other payables approximate their carrying amounts because these financial assets and liabilities, which are short term in nature, mature within one year.

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

	30 June 2014		31 December 2013	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Finance lease receivables	**9,566,531**	**10,634,110**	7,678,876	8,135,697
Bank borrowings	**12,868,851**	**14,009,465**	11,436,394	11,669,027
Long-term borrowing	**154,623**	**156,661**	155,172	155,172

The fair values of finance lease receivables and borrowings 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 value of financial assets and liabilities approximate their carrying amount.

6 PROPERTY, PLANT AND EQUIPMENT

	Aircraft HK$'000	Leasehold improvement HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Six months ended 30 June 2014					
Opening net book amount	**1,485,546**	**530**	**288**	**763**	**1,487,127**
Additions	**298,531**	**–**	**–**	**146**	**298,677**
Depreciation	**(27,154)**	**(120)**	**(87)**	**(160)**	**(27,521)**
Currency translation difference	**2**	**(60)**	**–**	**19**	**(39)**
Closing net book amount	**1,756,925**	**350**	**201**	**768**	**1,758,244**
Six months ended 30 June 2013					
Opening net book amount	1,538,911	801	461	656	1,540,829
Additions	–	–	–	183	183
Depreciation	(26,682)	(108)	(87)	(124)	(27,001)
Currency translation difference	–	5	–	5	10
Closing net book amount	1,512,229	698	374	720	1,514,021

7 FINANCE LEASE RECEIVABLES — NET

	30 June 2014 HK$'000	31 December 2013 HK$'000
Finance lease receivables	**10,315,720**	8,586,841
Guaranteed residual values	**2,339,579**	1,800,365
Unguaranteed residual values	**3,494,137**	2,880,398
Gross investment in leases	**16,149,436**	13,267,604
Less: unearned finance income	**(6,582,905)**	(5,588,728)
Net investment in leases	**9,566,531**	7,678,876
Less: accumulated allowance for impairment (i)	**–**	–
Finance lease receivables — net	**9,566,531**	7,678,876

7 FINANCE LEASE RECEIVABLES — NET *(Continued)*

(i) The Directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from airline companies is low. The Group has not encountered any delay or default in the collection of the scheduled payments of finance lease receivables. No impairment allowance was made for the finance lease receivables as at 30 June 2014.

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
Gross investment in finance leases	**16,149,436**	13,267,604
Less: Unguaranteed residual values	**(3,494,137)**	(2,880,398)
Minimum lease payments receivable	**12,655,299**	10,387,206
Less: Unearned finance income related to minimum lease payments receivable	**(4,600,094)**	(3,894,212)
Present value of minimum lease payments receivable	**8,055,205**	6,492,994

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
Gross investment in finance leases		
— Not later than 1 year	**1,013,031**	797,122
— Later than 1 year and not later than 5 years	**4,038,508**	3,149,314
— Later than 5 years	**11,097,897**	9,321,168
	16,149,436	13,267,604

7 FINANCE LEASE RECEIVABLES — NET *(Continued)*

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
Present value of minimum lease payments receivable		
— Not later than 1 year	**465,949**	350,180
— Later than 1 year and not later than 5 years	**1,908,842**	1,433,253
— Later than 5 years	**5,680,414**	4,709,561
	8,055,205	6,492,994

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

	30 June 2014 HK$'000	**%**	31 December 2013 HK$'000	%
Customer:				
Airline Company — A	**2,964,091**	**31%**	2,301,170	30%
Airline Company — B	**1,621,144**	**17%**	1,648,771	21%
Airline Company — C	**1,666,449**	**17%**	1,692,276	22%
Airline Company — D	**969,875**	**10%**	970,851	13%
Airline Company — E	**725,769**	**8%**	733,706	10%
Airline Company — F	**573,942**	**6%**	332,102	4%
Airline Company — G	**691,457**	**7%**	–	–
Airline Company — H	**353,804**	**4%**	–	–
	9,566,531	**100%**	7,678,876	100%

8 PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2014 HK$'000	31 December 2013 HK$'000
PDP (i)	**2,448,446**	2,078,019
Interest capitalised	**53,829**	46,448
Deposits paid	**1,472**	7,914
Prepayments for aircraft acquisition	**109,113**	39,808
Prepayments for listing expenses	**9,065**	3,931
Others	**20,731**	7,354
	2,642,656	2,183,474

(i) The Group entered into Aircraft Purchase Agreement with Airbus S.A.S, which related to the acquisition of 36 aircraft for future lease projects. Such prepayments were made according to the payment schedules set out in the Aircraft Purchase Agreement.

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

9 SHARE CAPITAL

Movements of the ordinary share capital of the Company are as follows:

	Number of shares of US$1 each		Number of shares of HK$0.1 each (thousands)		Share capital in HK$'000	
	Six months ended 30 June 2014	Year ended 31 December 2013	Six months ended 30 June 2014	Year ended 31 December 2013	Six months ended 30 June 2014	Year ended 31 December 2013
Authorised						
Beginning of period/year	**50,000**	50,000	**–**	–	**390**	390
Share cancellation (iii)(a)	**(50,000)**	–	**–**	–	**(390)**	–
New authorised shares (iii)(a)	**–**	–	**10,000,000**	–	**1,000,000**	–
End of period/year	**–**	50,000	**10,000,000**	–	**1,000,000**	390

9 SHARE CAPITAL *(Continued)*

	Par value of each share	Number of issued shares	Share capital in HK$
Issued			
At 1 January 2013 (i)		10	78
Issue of ordinary shares (ii)	US$1	10	78
At 30 June 2013		20	156
At 1 January 2014		10,000	78,000
Share repurchase and cancellation (iii)(a)	US$1	(10,000)	(78,000)
Issue of new shares (iii)(a)	HK$0.1	10,000	1,000
Capitalisation of shares (iii)(b)	HK$0.1	468,941,929	46,894,193
At 30 June 2014		468,951,929	46,895,193

(i) On 21 December 2012, the Company issued 1 ordinary shares of US$1 to China Aircraft Leasing Holdings Limited ("CALH") upon its incorporation and 9 ordinary shares of US$1 each to CALH in exchange for 37.5% equity interest in China Aircraft Leasing Company Limited ("CALC (BVI)"), a subsidiary of the Group. The total number of issued shares of the Company was 10 shares as at 1 January 2013.

(ii) On 29 April 2013, the Company issued 10 ordinary shares of US$1 each to CALH in exchange for 62.5% equity interest in CALC (BVI).

On 23 July 2013, the Company issued 9,980 ordinary shares of US$1 each to CALH for cash at a subscription price of HK$89,610,300, recognised share capital of approximately HK$78,000 and share premium of approximately HK$89,132,000 after deducting related share issuance cost.

The total number of issued shares of the Company was 10,000 shares as at 31 December 2013.

(iii) On 23 June 2014, the following changes in the share capital of the Company took place:

(a) The authorised share capital of the Company was increased to HK$1,000,000,000 by the creation of 10,000,000,000 new shares of HK$0.1 each. The Company repurchased from CALH all of the 10,000 shares of US$1 each then in issue in the consideration of allotment and issue of 10,000 new shares of HK$0.1 each to CALH. Immediately thereafter, the Company cancelled 50,000 shares of US$1 each in the authorised capital of the Company.

9 SHARE CAPITAL *(Continued)*

(iii) *(Continued)*

(b) The Company allotted and issued 468,941,929 new shares credited as fully paid at par, by capitalising and applying in full up to an amount of HK$46,894,192.90 standing to the credit of the reserves of the Company.

(c) Pursuant to a shareholders' resolution dated 23 June 2014, conditional on the share premium account of the Company being credited as a result of the global offering, the Directors were authorised to capitalise the amount of HK$2,907.10 standing on the credit of the share premium account of the Company to pay up in full at par value of 29,071 shares for allotment and issue to the shareholders in proportion to their respective shareholdings. As at 30 June 2014, the global offering was not completed and the 29,071 shares were not issued.

As at 30 June 2014, the number of issued shares of the Company was 468,951,929 shares.

Subsequent to 30 June 2014, the Company issued new shares through an IPO (Note 26(a)).

10 RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Share-based payment HK$'000	Cash flow hedges HK$'000	Total HK$'000
Balance as at 1 January 2013	–	623,720	1,434	(6,438)	618,716
Employee share option scheme:					
— Value of employee services	–	–	577	–	577
Net effect of cash flow hedges					
— Change in fair value of interest rate swaps — cash flow hedges (Note 14)	–	–	–	32,349	32,349
Balance as at 30 June 2013	–	623,720	2,011	25,911	651,642
Balance as at 1 January 2014	**89,132**	**623,720**	**2,588**	**22,287**	**737,727**
Issue of new shares (Note 9(iii)(a))	**(1)**	**–**	**–**	**–**	**(1)**
Share repurchase and cancellation (Note 9(iii)(a))	**78**	**–**	**–**	**–**	**78**
Capitalisation of shares (Note 9(iii)(b))	**(46,894)**	**–**	**–**	**–**	**(46,894)**
Net effect of cash flow hedges					
— Change in fair value of interest rate swaps — cash flow hedges (Note 14)	**–**	**–**	**–**	**(33,458)**	**(33,458)**
— Effect of termination of interest rate swap — cash flow hedges (Note 14)	**–**	**–**	**–**	**(596)**	**(596)**
Balance as at 30 June 2014	**42,315**	**623,720**	**2,588**	**(11,767)**	**656,856**

11 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Deferred tax liabilities:		
— To be settled after 12 months	**33,990**	26,267

The movement of the deferred income tax liabilities during the six months ended 30 June 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of leased assets HK$'000
Deferred income tax liabilities	
At 1 January 2013	13,966
Charged to profit or loss	2,509
As at 30 June 2013	16,475
At 1 January 2014	**26,267**
Charged to profit or loss	**7,723**
As at 30 June 2014	**33,990**

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

12 BANK BORROWINGS

	30 June 2014 HK$'000	31 December 2013 HK$'000
Secured bank borrowings for aircraft acquisition financing (i)	**10,387,413**	9,195,670
PDP financing (ii)	**2,111,488**	1,820,074
Working capital borrowings (iii)	**369,950**	420,650
	12,868,851	11,436,394

(i) Secured bank borrowings for aircraft acquisition financing are mainly based on fixed or floating US$ LIBOR rates. The bank borrowings were secured by, in addition to other legal charges, all of the Group's aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain of the Group companies, and pledge of deposits amounting to HK$74,194,000 as at 30 June 2014 (31 December 2013: HK$70,579,000).

(ii) As at 30 June 2014, the bank borrowings for deposit/PDP for the acquisition of aircraft amounting to HK$2,111,488,000 (31 December 2013: HK$1,820,074,000) were secured by certain of the Group companies' certain rights and benefits in respect of the acquisition of the aircraft, guarantees from CALC (BVI), pledge of the shares in certain subsidiaries of the Group and pledge of deposits of HK$7,800,000 (31 December 2013: HK$6,110,000).

Included in borrowings for PDP financing were borrowings of HK$780,000,000 from China Development Bank ("CDB") under a facility agreement ("CDB Facility Agreement") as at 30 June 2014 (31 December 2013: HK$740,435,000). The Group has obtained a standby loan facility of US$40,000,000 from China Everbright Finance Limited ("CE Finance") in 2012 for the sole purpose of paying CDB in satisfaction of the indebtedness outstanding under the CDB Facility Agreement (Note 24(d)).

12 BANK BORROWINGS *(Continued)*

(iii) As at 30 June 2014, the Group obtained short-term borrowings for working capital financing amounting to US$47,500,000 (equivalent to HK$369,950,000) (31 December 2013: HK$420,650,000) from banks which were secured by guarantees from certain subsidiaries of the Group.

The Group had the following undrawn bank borrowing facilities:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Floating rate:		
— expiring within one year	78,000	–
— expiring beyond one year	754,183	692,610
	832,183	692,610

13 LONG-TERM BORROWING

	30 June 2014 HK$'000	31 December 2013 HK$'000
Borrowing from an independent third party	154,623	155,172

The borrowing of RMB121,970,000 (equivalent to HK$154,623,000) (31 December 2013: RMB122,000,000 (equivalent to HK$155,172,000)) was provided by an independent third party to the Group at a fixed interest rate of 6.43% per annum for a term of 12 years from 30 December 2013 with an aircraft held by the Group being pledged as security.

14 DERIVATIVE FINANCIAL INSTRUMENTS — GROUP

	30 June 2014 HK$'000	31 December 2013 HK$'000
Derivative financial assets		
— Interest rate swaps-cash flow hedges (i)	**1,980**	13,620
— Currency swap (ii)	**5,519**	–
	7,499	13,620
Derivative financial liabilities		
— Interest rate swaps-cash flow hedges (i)	**28,339**	6,520
— Currency swap (ii)	**–**	968
	28,339	7,488

(i) As at 31 December 2013, the Group entered into 5 interest rate swap contracts which will expire on 21 September 2018, 21 September 2018, 21 September 2018, 19 September 2019, and 21 March 2024, respectively. The contracts were to exchange floating interest rates from LIBOR into fixed interest rates of 1.55%, 1.75%, 1.95%, 2.00% and 2.15%, respectively. During the six months ended 30 June 2014, the Group entered into 3 new interest rate swap contracts which will expire on 21 December 2018, 21 March 2019 and 21 June 2019, respectively. The contracts are to exchange floating interest rates form LIBOR into fixed interest rates of 1.98%, 2.00% and 1.86%, respectively.

The above interest rate swap contracts were accounted for as cash flow hedges, which were virtually fully effective in the six months ended 30 June 2014 and 2013.

As at 30 June 2014, the notional principal of the 8 (31 December 2013: 5) outstanding interest rate swap contracts amounted to US$309,516,000 (equivalent to HK$2,414,223,000) (31 December 2013: US$187,276,000 (equivalent to HK$1,460,753,000)). These interest rate swap contracts were secured by pledged deposits of HK$17,083,000 as at 30 June 2014 (31 December 2013: nil). Such pledged deposits can be used to settle the derivative financial liabilities under certain conditions.

14 DERIVATIVE FINANCIAL INSTRUMENTS — GROUP *(Continued)*

(ii) 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 Independent Third Party. CALC Baoli will convert the US$ lease rentals received on behalf of the Independent Third Party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own cost or benefit. This arrangement constitutes a derivative — a currency swap contract. The notional principal of this currency swap contract amounted to US$15,684,296 (equivalent to HK$122,338,000). As at 30 June 2014, the fair value of this currency swap contract amounted to HK$5,519,000 and the fair value change of HK$6,487,000 was recognised in other gains for the six months ended 30 June 2014 (Note 20).

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Recognised in other comprehensive income		
— Change in fair value of interest rate swaps	**(33,458)**	32,349
— Reclassified from other comprehensive income to profit or loss (iii)	**(596)**	–
Recognised in profit or loss	**6,487**	–

(iii) In December 2013, the Group terminated one interest rate swap contract with a realised gain of US$1,947,000 (equivalent to HK$15,187,000). This realised gain was recognised in cash flow hedges reserve and will remain in the reserve until the hedged bank borrowing repayments occur during the period from 2014 to 2026, when the associated realised gain in the reserve will be progressively reclassified from equity to profit. During the six months ended 30 June 2014, the realised gain of HK$596,000 was reclassified from cash flow hedges reserve to the profit or loss.

15 OTHER PAYABLES AND ACCRUALS

	30 June 2014 HK$'000	31 December 2013 HK$'000
Deposits received (i)	**115,042**	90,326
Amounts due to related parties (Note 24(f))	**–**	845
Consultant and professional fees payable	**86,413**	43,940
Business tax, value-added tax and withholding tax payables	**40,079**	40,552
Operating lease rentals received in advance	**22,627**	5,300
Director fee payable	**1,050**	1,110
Rentals received to be paid	**–**	14,401
Others	**9,690**	9,799
	274,901	206,273

(i) Deposits received from airline companies for lease projects.

Except for the "Operating lease rental received in advance", the above amounts were unsecured, interest-free and repayable within one year.

16 LEASE RENTAL INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2014, the Group was engaged in a single business segment, i.e. provision of aircraft leasing services to airline companies within Mainland China. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

For the six months ended 30 June 2014, the Group leased aircraft to 8 (six months ended 30 June 2013: 5) airline companies.

The following table sets forth the amounts of rentals attributable to individual airline companies:

	Six months ended 30 June			
	2014		2013	
	HK$'000	**%**	HK$'000	%
Customer:				
Airline Company — A	**106,175**	**26%**	67,434	26%
Airline Company — B	**68,524**	**17%**	57,752	22%
Airline Company — C	**68,240**	**16%**	57,584	22%
Airline Company — D	**111,410**	**27%**	72,641	28%
Airline Company — E	**25,873**	**6%**	6,797	2%
Airline Company — F	**24,788**	**6%**	–	–
Airline Company — G	**8,746**	**2%**	–	–
Airline Company — H	**2,017**	**–**	–	–
Total finance and operating lease income	**415,773**	**100%**	262,208	100%

17 OTHER INCOME

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Government subsidies (i)	**15,829**	1,782
Others	**807**	510
	16,636	2,292

(i) Government subsidies represent the grants and subsidies received from the Management Committee of Tianjin Dongjiang Free Trade Port Zone.

18 INTEREST EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Interest expense on bank borrowings	**273,190**	160,820
Interest expense on borrowings from related parties	**–**	1,621
Less: Interest capitalised	**(35,565)**	(22,971)
	237,625	139,470

19 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Key management and employee expenses	**18,819**	7,749
Listing expenses	**24,695**	4,661
Business tax and surcharges	**23,128**	4,263
Professional service expenses	**12,157**	3,728
Rental and utilities expenses	**4,534**	3,202
Office and meeting expenses	**3,346**	3,174
Travelling and training expenses	**4,341**	3,047
Others	**5,237**	2,593
	96,257	32,417

20 OTHER GAINS/(LOSS)

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Unrealised gain on currency swap (Note 14)	**6,487**	–
Foreign exchange gain/(loss)	**8,796**	(780)
	15,283	(780)

Notes to the Interim Consolidated Financial Information

21 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Current income tax: Mainland China, Hong Kong and others	**15,767**	18,238
Deferred income tax	**7,723**	2,509
	23,490	20,747

Mainland China

For the six months ended 30 June 2014, the subsidiaries incorporated in Mainland China were subject to the PRC corporate income tax ("CIT") at a rate of 25%. The leasing income was subject to business tax ("BT") at 5% or value added tax ("VAT") at 17% depending on when the leasing contracts were entered into between the subsidiaries and the customers. The comparative tax rates for the six months ended 30 June 2013 were same.

For the six months ended 30 June 2014, BT at 5% and CIT at 10% or 6% (tax treaty rate) are withheld on lease rental income payable by lessees in Mainland China to non-Mainland China tax resident subsidiaries of the Group. Interest payable to the Group companies incorporated in Hong Kong was subject to BT at 5% and CIT at 7%. The comparative tax rates for the six months ended 30 June 2013 were same.

Hong Kong

For the six months ended 30 June 2014, the subsidiaries incorporated in Hong Kong were subject to Hong Kong profits tax at a rate of 16.5% (six months ended 30 June 2013: 16.5%).

Others

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

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

The subsidiaries incorporated in Ireland are subject to income tax at a rate of 25% under the S110 tax regime.

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

The subsidiaries incorporated in Labuan are subject to income tax at a rate of 3% on the net profits or to be taxed at Malaysian Ringgit 20,000 if annual election is made.

22 DIVIDENDS

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2014 (six months ended 30 June 2013: HK$53,000,000).

On 19 May 2014, the Company proposed to declare a final dividend of HK$69,000,000 for the year ended 31 December 2013. Such dividends was paid in June 2014.

23 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares, the increase of ordinary shares of 468,941,929 due to the capitalisation of shares (Note 9(iii)(b)) have been adjusted retrospectively to the numbers of ordinary shares for the six months ended 30 June 2014 and 2013.

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company (HK$'000)	**62,827**	44,085
Weighted average number of ordinary shares in issue	**468,951,929**	450,841,955
Weighted average number of ordinary shares in issue	**0.134**	0.098

(b) Diluted

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares as the performance-based share options could not be exercised until the Company has completed its IPO. As at 30 June 2014, such contingent event had not taken place.

24 RELATED PARTY TRANSACTIONS

As at 30 June 2014, the Company was owned as to 45.72%, 44.13%, 8.05% and 2.1% by Friedmann Pacific Asset Management Limited ("FPAM"), China Everbright Aerospace Holdings Limited ("CE Aerospace"), Easy Smart Limited ("Easy Smart") and Prosper Victory Limited ("Prosper Victory"), respectively. FPAM is owned by Mr. Poon. China Everbright Aerospace Holdings Limited is a subsidiary of China Everbright Limited.

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

(a) Management fee and consultancy fee charged by related parties

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Management fee and consultancy fee charged by:		
— Friedmann Pacific Financial Services Limited ("FPFS")	**–**	278
— China Everbright Global Investment Advisors Company Limited ("CEGIA")	**–**	1,170
— Beijing Fujing Investment Limited Company ("Beijing Fujing")	**–**	740
	–	2,188

CEGIA is a subsidiary of China Everbright Limited. FPFS and Beijing Fujing are subsidiaries of FPAM.

(b) Operating lease expenses on office premises

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
CEL Venture Capital (Shenzhen) Limited	**488**	187

CEL Venture Capital (Shenzhen) Limited is a subsidiary of China Everbright Limited.

24 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Borrowings from related parties

(i) Borrowings from CE Finance

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
At 1 January	**–**	–
Proceeds from borrowings during the period	**–**	62,400
Repayments of borrowings during the period	**–**	(62,400)
At 30 June	**–**	–

The borrowings were obtained from CE Finance, which is a fellow subsidiary of China Everbright Aerospace Holdings Limited. These borrowings were guaranteed by Mr. Poon and bore an interest rate ranged from 10% to 12% in 2013. During the six months ended 30 June 2014, interest expense charged by CE Finance amounted to nil (six months ended 30 June 2013: HK$568,000).

(ii) Borrowings from FPAM

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
At 1 January	**–**	–
Proceeds from borrowings during the period	**–**	31,200
Repayments of borrowings during the period	**–**	(31,200)
At 30 June	**–**	–

The borrowing of US$6,000,000 from FPAM were guaranteed by Mr. Poon and bore a fixed interest rate ranged from 10% to 12%. During the six months ended 30 June 2014, interest expense charged by FPAM amounted to nil (six months ended 30 June 2013: HK$390,000).

24 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Standby facilities provided by CE Finance and FPAM

On 28 November 2012, CALC AC Limited, a subsidiary of the Company, entered into an agreement with CE Finance, pursuant to which CE Finance provided a loan facility to CALC AC Limited for an amount up to US$40,000,000 (equivalent to HK$312,000,000) for the period from 28 November 2012 to 28 December 2015, for the sole purpose of paying CDB in satisfaction of the indebtedness outstanding under the CDB Facility Agreement (Note 12 (ii)). CE Finance charged an upfront fee of US$600,000 and an annual fee of 0.25% of the amount of commitment per annum.

During the six months ended 30 June 2014, the facility fee charged by CE Finance amounted to nil (six months ended 30 June 2013: HK$390,000).

Pursuant to a revolving loan facility agreement entered into between FPAM and CE Finance as lenders, Sino Teamwork Limited as borrower and CALC (BVI) as guarantor on 25 September 2013, FPAM and CE Finance have agreed to provide a standby revolving loan facility of up to US$50 million, of which up to US$25 million is extended by FPAM and up to US$25 million by CE Finance, at an interest rate of 12% per annum from the date of drawdown for a term of one year from the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. As security for the facility, a corporate guarantee was provided by CALC (BVI) in favour of each of FPAM and CE Finance. An arrangement fee of US$25,000 was payable on the acceptance date of the revolving loan agreement and a standby fee of US$62,500 was payable quarterly to each of FPAM and CE Finance during the availability period. The revolving loan facility agreement was terminated on 25 April 2014.

(e) On 27 September 2013, CALC (BVI) and Ever Alpha Investment Limited ("Ever Alpha"), a subsidiary of China Everbright Limited, entered into a consultancy agreement pursuant to which Ever Alpha has agreed to support the Group by providing onsite supporting services to facilitate Qingdao Airlines Co., Ltd. ("Qingdao Airlines") to lease current generation of A320 aircraft from the Group. The onsite supporting services to be provided by Ever Alpha under the consultancy agreement included liaising and participating in preliminary discussion with Qingdao Airlines, providing relevant information to CALC (BVI) in respect of Qingdao Airlines and the leasing, providing strategic advice to CALC (BVI) to facilitate the leasing, assisting CALC (BVI) in negotiation, and contacting relevant government department and arranging for consultation when necessary. During the six months ended 30 June 2014, the supporting service fee charged by Ever Alpha amounted to HK$15,600,000 (six months ended 30 June 2013: nil).

24 RELATED PARTY TRANSACTIONS *(Continued)*

(f) Amounts due to related parties

	30 June 2014 HK$'000	31 December 2013 HK$'000
CE Finance	–	512
FPAM	–	317
Beijing Fujing	–	16
	–	845

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

25 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

The Group had no material contingent liabilities outstanding as at 30 June 2014 (31 December 2013: nil).

(b) Capital commitments

Capital expenditures contracted for at the end of the reporting period but not yet incurred is as follows:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Acquisition of aircraft	**7,779,003**	10,162,469

26 EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed elsewhere in the report, the following significant events took place after 30 June 2014:

(a) On 11 July 2014, the Company issued 116,800,000 new ordinary shares of HK$0.1 each in the Company at HK$5.53 per share by way of initial public offering. The gross proceeds amounted to HK$645,904,000. On the same date, the Company's shares were listed on The Stock Exchange of Hong Kong Limited.

(b) On 25 July 2014, CALC Yongtai Limited ("CALC Yongtai"), a wholly-owned subsidiary of the Group, signed a contract with an Independent Third Party, pursuant to which CALC Yongtai transfers its future aircraft lease receivable under an aircraft lease agreement with an airline company to a Independent Third Party, for a cash consideration of RMB521 million (equivalent to HK$656 million). At the same time, a borrowing of RMB124 million (equivalent to HK$156 million) was provided by the Independent Third Party to China Asset Leasing Company Limited, another wholly-owned subsidiary of the Group, at a fixed interest rate of 8.121% per annum for a term of 11 years from 28 July 2014 to 1 August 2025 with an aircraft held by CALC Yongtai being pledged as security. As the Group has transferred substantially all the risks and rewards related to the lease receipts to the Independent Third Party, it de-recognised the corresponding finance lease receivable.

(c) On 25 August 2014, the Group entered into purchase agreements of 4 aircraft as well as lease agreements. The delivery is expected to be in the second half of 2014.