

CALC

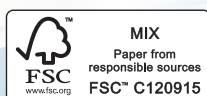
China Aircraft Leasing Group Holdings Limited

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

Stock code: 01848



Ready for takeoff



2021
INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. TANG Chi Chun

Independent Non-executive Directors

Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon

COMPOSITION OF COMMITTEES

Audit Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert

Remuneration Committee

Mr. FAN Yan Hok, Philip (*Chairman*)
Dr. ZHAO Wei
Mr. POON Ho Man
Mr. NIEN Van Jin, Robert
Mr. CHEOK Albert Saychuan

Nomination Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Mr. FAN Yan Hok, Philip
Mr. NIEN Van Jin, Robert

COMPANY SECRETARY

Ms. TAI Bik Yin

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Linklaters

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32nd Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY'S WEBSITE

www.calc.com.hk

INVESTOR RELATIONS CONTACT

ir@calc.com.hk

STOCK CODE

01848

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office

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

Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS AND FINANCIAL INSTITUTIONS

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW

With the growing rate of vaccination in the population, air travel is gradually recovering from the trough hit in the worst of COVID-19 pandemic. Largely driven by restoration of services in key domestic markets such as China, the US and Europe, global domestic connectivity has recovered back to just 20% below the 2019 levels by June 2021, according to International Aviation Transport Association. The organization forecasted that commercial air travel is to recover to 88% of 2019 levels by 2022 and 105% by 2023.

For the six months ended 30 June 2021 (the "Period"), total revenue of the Group was HK\$1,585.2 million, level to that of the same period of last year (1H2020: HK\$1,635.9 million). Profit for the Period increased by 10.8% to HK\$353.5 million (1H2020: HK\$319.0 million). Profit attributable to shareholders of the Company dropped by 8.7% from the same period last year, amounting to HK\$302.6 million (1H2020: HK\$331.6 million). Earnings per share were HK\$0.421 (1H2020: HK\$0.491).

The Board has resolved to declare an interim dividend of HK\$0.15 (1H2020: HK\$0.20) per ordinary share, totaling HK\$110.0 million. The Company has continued its scrip dividend scheme for the interim dividend for 2021.

MAINTAINING STEADY AND CONSISTENT OPERATION STRATEGIES

Our fleet

During the Period, the Group delivered six aircraft, sold four aircraft and disassembled one aircraft. As such, CALC has 129 aircraft in its fleet as of 30 June 2021, including 104 owned and 25 managed aircraft.

In January 2021, the Group entered into an aircraft purchase agreement with Commercial Aircraft Corporation of China, Ltd ("COMAC"), pursuant to which the Group agreed to place order for purchasing 30 ARJ21 series aircraft, which will be delivered in stages up to 2026. The two parties will actively explore cooperation in the areas of overseas operations and aftermarkets for ARJ21 and will expand international markets for China-made aircraft, facilitate extension of the cross-border aviation industry chain, and strengthen the establishment of dual-cycle pattern covering both the domestic and international markets.

In March, CALC restructured its purchase agreement with Boeing to adjust its order book from 92 to 66 aircraft with the delivery rescheduled. The new arrangement is more in line with the Group's interests, and the demand in the aviation market. It also reflects CALC's long-term partnership with the aircraft manufacturers. In March 2021, CALC was ranked eighth by ICF International in terms of the combined asset value of fleet and order book. As of 30 June 2021, CALC has 254 aircraft on backlog, including 158 Airbus, 66 Boeing and 30 COMAC aircraft.

MANAGEMENT DISCUSSION AND ANALYSIS

Highly liquid and most popular aircraft assets

CALC has been adhering strictly to its fleet strategy in identifying appropriate aircraft models to be included in its fleet portfolio. As of 30 June 2021, by number of aircraft, 88.5% of CALC's owned fleet are narrow-body aircraft, a highly liquid asset class and the most popular aircraft type mainly serving domestic routes and short-haul flights, which had been proven to be relatively less impacted by the pandemic.

As at 30 June 2021, CALC's owned fleet has an average age of 6.5 years and an average remaining lease tenor of 7.0 years. With no lease agreements expiring in the next 12 months, CALC has been alleviated the pressure for remarketing aircraft assets in the volatile market in the near term. All aircraft to be delivered in the next 18 months have been mandated for lease.

A modern fleet comprising the most popular aircraft models has contributed to CALC's high fleet utilization rate at 100% for the Period.

Strong airline clientele

CALC has remained prudent in engaging different airline customers. By number of aircraft, 77.9% of CALC's owned fleet as of 30 June 2021 were leased to Chinese airline customers, including Hong Kong, Macau and Taiwan. The majority of CALC's overseas clients are flag-carriers or backed by strong shareholders. As of 30 June 2021, CALC's owned and managed aircraft were on lease to 37 airlines in 16 countries and regions.

During the pandemic, airlines have been looking for more diversified fleet optimization solutions. CALC stands firm backing our customers through redelivery, transfer, and purchase and leaseback services. In the next six months, the Company will successively arrange the purchase and leaseback of more than 10 aircraft with top-tier Chinese airline customers. Faced with accelerating recovery and increasing market demand, this constitutes an important measure for the Group to continue to expand high-quality clientele and maintain mutually beneficial and long-term partnerships.

These aircraft are designated as reserve resources and will be handed over to the Group's associate company, Aircraft Recycling International Limited after the leases end. The Group plans to extend service lives of these aircraft by transforming them from passenger to cargo freights, disassembling and recycling, etc. leveraging its professional one-stop disposal capabilities for middle and old age aircraft to maximize value of the aircraft assets.

Diversified asset management model

CALC is among the few lessors capable of introducing various aviation financial products through global aircraft trading platforms and domestic platforms. Through various structures including rental realization, asset securitization, establishment of joint ventures with other lessors and management of funds investing in the Company's fleet, CALC persists in progressing diversified development of aircraft asset management to accommodate preferences of different investors. During the Period, the Group, through working seamlessly with Chinese investors, sold four aircraft.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the success of CAG, CALC applied the same operation model and established another aircraft investment platform ARG Cayman 1 Limited (“ARG”) focusing on old aircraft portfolios and trading of parts and components. During the Period, the Group introduced two new investors to ARG.

Mobilizing more sources of capital constitutes an important mission of CALC in unleashing the potential of its diversified asset management model, targeting at enlarging the fleet scale under the Group’s management by forging cooperation with institutional investors with preference in aircraft assets, grooming asset management fees to become one of the major sources of income.

Steady financing platform development first endorsed by international rating agencies

In January 2021, CALC completed an issuance to an independent third party US\$35 million five-year senior unsecured bonds that bear a coupon interest rate of 5.9%, as the second issue of the total of US\$70 million agreed on with that third party in November 2020. The first US\$35 million issue had been drawn down in November last year.

During the Period, CALC has received a first-time corporate family rating (CFR) of Ba1 and a foreign currency and local currency issuer ratings of Ba2 from Moody’s Investors Service Pty Ltd, with a stable outlook. This was followed by assignment by Fitch Ratings to the Company for the first time a Long-Term Issuer Default Rating (IDR) of ‘BB+’ with a stable long term outlook.

The two agencies also recognized CALC’s asset quality and caliber of its clients – CALC’s fleet comprises mainly young and highly liquid narrow-body aircraft, and a clientele focusing on Chinese customers, mitigating effectively the Company’s operational risks. At the same time, they recognized the strategic importance of CALC to China Everbright Group and the deep synergies between the two entities, prescribing the continuing support the Company can receive from China Everbright Group. The agencies assess that the proportion of unsecured liabilities to the Company’s total debt has gradually increased from 38% at the end of 2017 to 59% at the end of 2020. Coupled with a large undrawn and uncommitted credit line, CALC is perceived to be capable of continuing its access to the capital markets to further strengthen its financial strength. Having secured credit ratings from international agencies establishes a footing for CALC to move a notch higher in the future and become an investment-grade issuer in the medium term, helping it reduce financing costs, optimize the debt structure, increase the proportion of unsecured loans, and attract a wider group of investors.

With the endorsements from the rating agencies, in July CALC updated its US\$3 billion Guaranteed Medium Term Note Programme it had previously established. CALC continues to monitor the market situation closely for timing the bond issuances to lower its funding costs.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking ahead, the ongoing administration of vaccines on the world population and advancements in testing will lead to the growing list of countries contemplating border reopening. Coupled with the burgeoning eagerness to travel, recovery of the global aviation market is gathering pace. However, the recent rapid spread of highly contagious Delta variant has led to the resurgence in many regions. The long-term growth of the industry is nothing but certain, though the recovery will be gradual and uneven, with timing uncertain.

Despite this, amongst key domestic markets, traffic in China has already recovered to above the pre-COVID-19 levels. After successfully bringing the pandemic under control, China had secured its position as the world's largest air-travel market due to the sustained demand for domestic travel, according to CAPA – Centre for Aviation.

This lead will be accompanied by the continuous increase of the penetration rate of the aircraft leasing business, spurring demand for aircraft leasing as airlines strive to improve their balance sheets. In the second half of the year, CALC will designate purchase and leaseback as one of its key business deployment, and uphold prudent development strategy in the future, continue to cooperate with the world's top-tier airlines. Riding on the market trends, CALC will expand high-quality clientele in regions where growth is accelerating. The Group will also allocate more resources in mainstream markets, mostly in the Chinese market, and build long-term partnerships. With its expertise in aircraft asset management, CALC will continue to strengthen its capabilities in all sectors of the industry chain and provide more comprehensive and quality aircraft full-life-cycle services to its aviation partners.

Meanwhile, the Group pursues corporate environment, social and governance (ESG) management and works together with our stakeholders to actively promote carbon neutrality in the aviation sector. The aircraft orders to be delivered by CALC compose of new generation of energy-saving models with higher fuel efficiency, which fully supports the market demand for a technologically advanced green fleet. Looking ahead, the Group will continue to reinforce the strengths in its business fundamentals and strive to deliver better returns to its shareholders and bond holders, as well as the investors of aircraft assets under its management. We will strive to continue our pursuit of becoming a world-leading aircraft lessor and professional aircraft asset manager of the industry full value chain.

1. RESULTS

Total revenue of the Group for the period ended 30 June 2021 was HK\$1,585.2 million, a decrease of HK\$50.7 million or 3.1% from the corresponding period last year. Profit for the period ended 30 June 2021 amounted to HK\$353.5 million, an increase of HK\$34.5 million or 10.8% compared with the corresponding period last year. Profit attributable to shareholders of the Company for the period ended 30 June 2021 amounted to HK\$302.6 million, a decrease of HK\$29.0 million or 8.7% compared with the corresponding period last year.

Total assets amounted to HK\$45,424.5 million as at 30 June 2021, compared with HK\$46,392.5 million as at 31 December 2020, a decrease of HK\$968.0 million or 2.1%. Total liabilities amounted to HK\$39,775.8 million as at 30 June 2021, a decrease of HK\$1,201.0 million or 2.9% compared with HK\$40,976.8 million as at 31 December 2020. The decrease in liabilities was mainly due to the repayment of RMB debentures with total principal amount of RMB1.3 billion (equivalent to approximately HK\$1.56 billion) upon maturity.

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF INCOME AND EXPENSES

	Unaudited Six months ended 30 June		Change
	2021 HK\$'Million	2020 HK\$'Million	
Finance lease income	265.3	273.6	-3.0%
Operating lease income	890.7	991.6	-10.2%
Total lease income	1,156.0	1,265.2	-8.6%
Net income from aircraft transactions and aircraft components trading	177.9	170.6	4.3%
Government grants	88.6	127.1	-30.3%
Interest income from loans to associates and joint ventures	48.8	45.3	7.7%
Bank interest income	3.4	6.7	-49.3%
Asset management service fees income from CAG Group	8.4	5.7	47.4%
Incidental income and others	102.1	15.3	567.3%
	429.2	370.7	15.8%
Total revenue	1,585.2	1,635.9	-3.1%
Total operating expenses	(1,116.1)	(1,267.1)	-11.9%
Operating profit	469.1	368.8	27.2%
Share of results from associates and joint ventures and other (losses)/gains	(14.8)	30.2	N/A
Profit before income tax	454.3	399.0	13.8%
Income tax expenses	(100.8)	(80.0)	26.0%
Profit for the period	353.5	319.0	10.8%
Profit/(loss) attributable to			
Shareholders of the Company	302.6	331.6	-8.7%
Holder of perpetual capital securities and other non-controlling interests	50.9	(12.6)	N/A
	353.5	319.0	10.8%

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Total Revenue

For the six months ended 30 June 2021, the total revenue amounted to HK\$1,585.2 million compared with HK\$1,635.9 million for the corresponding period last year, a decrease of HK\$50.7 million or 3.1%.

Total lease income from finance leases and operating leases for the six months ended 30 June 2021 amounted to HK\$1,156.0 million, compared with HK\$1,265.2 million for the six months ended 30 June 2020, a decrease of HK\$109.2 million or 8.6%. The decrease in total lease income was mainly due to the fleet size decreased from 114 aircraft as at 30 June 2020 to 104 aircraft as at 30 June 2021.

During the six months ended 30 June 2021, the Group's average lease rental yield of the finance leases and operating leases was 12.7% (During the six months ended 30 June 2020: 12.6%) and 10.3% (During the six months ended 30 June 2020: 9.7%), respectively. Average lease rental yield for finance leases and operating leases is calculated by annual gross lease receipt divided by net book value of aircraft. The weighted average lease rental yield of the Group was 10.5% (During the six months ended 30 June 2020: 10.1%).

During the six months ended 30 June 2021, the Group recognised net gain from disposal of aircraft and aircraft components trading amounted to HK\$177.9 million (During the six months ended 30 June 2020: net gain from disposal of aircraft amounted to HK\$170.6 million). The Group completed disposal of four aircraft with aggregate net book value of HK\$1,313.9 million (During the six months ended 30 June 2020: disposal of four aircraft with aggregate net book value of HK\$1,475.4 million).

Government grants for the six months ended 30 June 2021 amounted to HK\$88.6 million, compared with HK\$127.1 million for the six months ended 30 June 2020, a decrease of HK\$38.5 million or 30.3%.

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

MANAGEMENT DISCUSSION AND ANALYSIS

2.2 Total Operating Expenses

During the six months ended 30 June 2021, the Group had the following operating expenses:

	Unaudited		Change
	Six months ended 30 June		
	2021	2020	
	HK\$'Million	HK\$'Million	
Interest expenses	577.1	687.1	-16.0%
Depreciation	375.9	430.4	-12.7%
Expected credit losses	45.7	31.5	45.1%
Other operating expenses	117.4	118.1	-0.6%
Total operating expenses	1,116.1	1,267.1	-11.9%

(a) Interest Expenses

For the six months ended 30 June 2021, interest expenses incurred by the Group amounted to HK\$577.1 million compared with HK\$687.1 million for the corresponding period last year, a decrease of HK\$110.0 million or 16.0%. The decrease in interest expenses was mainly due to the decrease in US\$ LIBOR rate in the current period compared with the corresponding period (the US\$ LIBOR rate decreased from 1.9% to 0.14% during the period from 1 January 2020 to 30 June 2021). The average effective interest rate of bank and other borrowings during the period was 2.67% (During the six months ended 30 June 2020: 3.84%).

(b) Depreciation

The amount represented depreciation on aircraft under operating leases, leasehold improvements, office equipment, office building, right-of-use assets and other assets. Depreciation for the six months ended 30 June 2021 was HK\$375.9 million compared with HK\$430.4 million for the corresponding period last year, a decrease of HK\$54.5 million or 12.7%. This was mainly attributable to a decrease in the number of aircraft under operating leases from 62 aircraft as at 30 June 2020 to 55 aircraft as at 30 June 2021.

(c) Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, value-added tax surcharge and other taxes, rentals and office administration expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets

As at 30 June 2021, the Group's total assets amounted to HK\$45,424.5 million compared with HK\$46,392.5 million as at 31 December 2020, a decrease of HK\$968.0 million or 2.1%.

	Unaudited As at 30 June 2021 HK\$'Million	Audited As at 31 December 2020 HK\$'Million	Change
Property, plant and equipment and right-of-use assets	16,261.9	18,450.6	-11.9%
Finance lease receivables – net	7,476.1	7,263.7	2.9%
Assets classified as held for sale	2,034.6	–	N/A
Prepayments and other assets and others	13,619.0	13,456.0	1.2%
Investments in and loans to associates and joint ventures	1,311.0	1,134.9	15.5%
Financial assets at fair value through profit or loss	816.4	797.9	2.3%
Cash and bank balances	3,905.5	5,289.4	-26.2%
Total assets	45,424.5	46,392.5	-2.1%

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

Property, plant and equipment and right-of-use assets mainly included the cost of aircraft classified as operating leases, net of their accumulated depreciation. The decrease in property, plant and equipment and right-of-use assets was mainly due to reclassification from property, plant and equipment and right-of-use assets to assets classified as held for sale during the current period.

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

Assets classified as held for sale represented the cost of aircraft expected to be disposed in the next 12 months.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1.2 Aircraft Portfolio

Aircraft portfolio by number of aircraft is as follows:

	As at 30 June 2021 Owned Aircraft	As at 31 December 2020 Owned Aircraft
Aircraft Type		
Airbus A320 CEO family	71	74
Airbus A320 NEO family	7	6
Airbus A330 CEO family	11	8
Boeing B737 NG family	14	14
Boeing B787	1	1
Total	104	103

3.1.3 Prepayments and Other Assets and Others

Prepayments and other assets mainly represented PDP made to aircraft manufacturers for aircraft acquisition from order book.

3.2 Liabilities

As at 30 June 2021, the Group's total liabilities amounted to HK\$39,775.8 million compared with HK\$40,976.8 million as at 31 December 2020, a decrease of HK\$1,201.0 million or 2.9%.

An analysis is given as follows:

	Unaudited As at 30 June 2021 HK\$'Million	Audited As at 31 December 2020 HK\$'Million	Change
Borrowings	27,135.9	26,763.0	1.4%
Bonds and debentures	7,521.9	9,054.8	-16.9%
Medium-term notes	1,357.1	1,338.3	1.4%
Deferred income tax liabilities	863.6	788.7	9.5%
Interest payables	238.1	276.1	-13.8%
Income tax payables	22.3	24.9	-10.4%
Derivative financial liabilities	248.8	355.6	-30.0%
Other liabilities and accruals	2,388.1	2,375.4	0.5%
Total liabilities	39,775.8	40,976.8	-2.9%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.1 Borrowings

	Unaudited As at 30 June 2021 HK\$'Million	Audited As at 31 December 2020 HK\$'Million	Change
Bank and other borrowings			
Bank and other borrowings for aircraft acquisition financing	10,577.1	10,542.0	0.3%
PDP and other financing	8,663.1	8,456.6	2.4%
Other unsecured bank borrowings	2,758.9	2,595.0	6.3%
	21,999.1	21,593.6	1.9%
Long-term borrowings			
Borrowings from trust plans	4,776.9	4,818.5	-0.9%
Other borrowings	359.9	350.9	2.6%
	5,136.8	5,169.4	-0.6%
Borrowings	27,135.9	26,763.0	1.4%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.2 Bonds and debentures

As at 30 June 2021, the following table summarises the senior unsecured US\$ and RMB bonds issued by the Group:

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK\$'Million)	Note
August 2016	Five years	August 2021	4.90%	US\$300.0	1,990.6	(a)&(b)
March 2017	Five years	March 2022	4.70%	US\$300.0	2,244.0	(a)&(b)
March 2017	Seven years	March 2024	5.50%	US\$200.0	1,545.4	(a)
November 2020	Five years	November 2025	5.90%	US\$35.0	269.7	(c)
January 2021	Five years	January 2026	5.90%	US\$35.0	270.5	(c)
				US\$870.0	6,320.2	
June 2019	Three years	June 2022	5.20%	RMB1,000.0	1,201.7	(d)
March 2020	One year	March 2021	3.65%	RMB1,000.0	–	(e)
June 2020	One year	June 2021	4.00%	RMB300.0	–	(e)
				RMB2,300.0	1,201.7	
Total bonds and debentures as at 30 June 2021					7,521.9	
Total bonds and debentures as at 31 December 2020					9,054.8	

- (a) These bonds are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (b) During the period ended 30 June 2021, the Group repurchased certain amount of bonds on the Stock Exchange for a lump sum payment of US\$37,050,000. The principal amount of bonds was US\$37,500,000. A net gain of US\$408,000 (equivalent to approximately HK\$3,166,000) was recognised after deducting the transaction cost.
- (c) The bond is unlisted and subscribed by an independent third party.
- (d) The bond is listed on the Shanghai Stock Exchange.
- (e) The debentures are listed on the Inter-bank Bond Market of China. In March 2021 and June 2021, the Group fully repaid the one-year RMB1,000.0 million and the one-year RMB300.0 million (equivalent to approximately HK\$1,203.1 million and HK\$360.9 million, respectively) debentures, bearing coupon interest at 3.65% and 4.00% per annum at maturity date.

MANAGEMENT DISCUSSION AND ANALYSIS

4. CAPITAL MANAGEMENT

The primary objective of the Group's capital management policy is to ensure that it maintains a strong credit standing, as well as healthy capital ratios in order to support its business and maximise shareholder value.

Operations and capital expenditure requirements are funded by a combination of cash generated from operating activities, bank and other borrowings, long-term borrowings, issuance of bonds, debentures and medium-term notes and the asset-light strategy including disposal of aircraft. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities, and establishing various aircraft investment platform like CAG Bermuda 1 Limited ("CAG"), HNCA&CALC One (Tianjin) Leasing Company Limited ("HNCA One (Tianjin)") and HNCA&CALC Two (Tianjin) Leasing Company Limited ("HNCA Two (Tianjin)").

For the six months ended 30 June 2021, the objectives, policies and processes for managing capital remained largely unchanged. The Group made full use of capital leverage and the asset-light strategy to keep pace with aircraft delivery.

The Group monitors capital through gearing ratios:

	Unaudited As at 30 June 2021 HK\$'Million	Audited As at 31 December 2020 HK\$'Million	Change
Interest-bearing debts included in total liabilities	36,014.9	37,156.1	-3.1%
Total assets	45,424.5	46,392.5	-2.1%
Total equity	5,648.7	5,415.8	4.3%
Gearing ratio	79.3%	80.1%	-0.8p.p.
Interest-bearing debts to equity ratio	6:1	7:1	-14.2%

5. HUMAN RESOURCES

As at 30 June 2021, staff of the Group numbered 156 (30 June 2020: 170). Total remuneration of employees for the six months ended 30 June 2021 amounted to HK\$55.7 million (During the six months ended 30 June 2020: HK\$55.4 million).

The Group has established effective employee incentive schemes to link the remuneration of its employees with their overall performance and contributions, and has established a merit-based remuneration awards system. It has also adopted share option schemes for the purpose of recognising the contribution of eligible employees to the growth of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

6. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

6.1 Contingent Liabilities

As at 30 June 2021, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$706,770,000 (31 December 2020: HK\$729,000,000).

6.2 Capital Commitments for Aircraft Acquisition and Qualified Aircraft Leasing Activity

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

The Group's total aircraft purchase commitment amounted to HK\$92.6 billion as at 30 June 2021 (31 December 2020: HK\$98.0 billion), representing estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 30 June 2021, the Group had 254 aircraft in its order book, comprising 158 Airbus A320 aircraft family and 66 Boeing B737 aircraft family and 30 ARJ21 series aircraft.

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

6.3 Shareholder Loan Commitment for Investment in CAG

The Group committed shareholder loan for investment in CAG amounted to approximately US\$94.7 million (equivalent to approximately HK\$735.3 million), of which US\$90.1 million (equivalent to approximately HK\$699.6 million) had been drawn down up to 30 June 2021. The Group has no outstanding committed shareholder loan for investment in CAG as at 30 June 2021.

6.4 Shareholder Loan Commitment for Investment in ARG Cayman 1 Limited ("ARG")

As at 30 June 2021, the Group's shareholder loan for investment in ARG amounted to US\$12.3 million (equivalent to approximately HK\$95.6 million). The Group committed shareholder loan for investment in ARG amounted to approximately US\$30.0 million (equivalent to approximately HK\$233.0 million), of which US\$13.3 million (equivalent to approximately HK\$103.3 million) had been drawn down up to 30 June 2021. The Group's outstanding committed shareholder loan for investment in ARG as at 30 June 2021 was amounted to US\$16.7 million (equivalent to approximately HK\$129.4 million).

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

MANAGEMENT DISCUSSION AND ANALYSIS

7. OTHER EVENT

1. Pursuant to the share purchase agreements and assignment agreements dated 13 July 2021, entered between the Group and Everbright Absolute Return Fund (“EAR Fund”) and China Chengtong Investment Company Limited (“CCIC”), the Group agreed to sell and EAR Fund and CCIC agreed to purchase 13 ordinary shares and 65 ordinary shares of ARG, respectively and the Group agreed to assign and EAR Fund and CCIC agreed to take the assigned shareholder loan amounted to US\$2,052,000 (equivalent to approximately HK\$15,934,000) and US\$10,259,000 (equivalent to approximately HK\$79,661,000), respectively in accordance with the assignment agreements. The above transactions were completed on 19 July 2021. Shareholder loan commitment for investment in ARG no longer exist in the Group upon the completion of these transactions. The management does not expect to obtain significant gains or losses on the transactions.
2. Pursuant to the announcement dated 28 July 2021, the Group has completed the issuance of the RMB1.0 billion (equivalent to approximately HK\$1.2 billion) super short-term debentures with a term of 270 days at the coupon rate of 3.98%.
3. Pursuant to the announcement dated 17 August 2021, the Group has completed the issuance of the RMB100.0 million (equivalent to approximately HK\$120.3 million) bond with a term of three years at the coupon rate of 4.2% (with coupon rate adjustment option for the issuer and sell-bank option for investors exercisable at the end of the second year).

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2021, the interests and short positions of Directors and the chief executive of the Company in shares of the Company (the "Shares"), underlying Shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange are as follows:

Name of Directors	Capacity	Number of Shares (L) ⁽¹⁾ / underlying Share held	Approximate percentage of Shares in issue ⁽²⁾
ZHAO Wei	Beneficial owner	10,000,000 ⁽³⁾	1.39%
POON Ho Man	Interest of controlled corporation	209,820,979 ⁽⁴⁾	29.24%
LIU Wanting	Interest of controlled corporation	11,011,689 ⁽⁵⁾	1.53%
TANG Chi Chun	Beneficial owner	200,000	0.03%
FAN Yan Hok, Philip	Beneficial owner	200,000	0.03%
NIEN Van Jin, Robert	Beneficial owner	234,000	0.03%
CHEOK Albert Saychuan	Beneficial owner	5,000	0.001%

OTHER INFORMATION

DISCLOSURE OF INTERESTS *(continued)*

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

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 717,485,337 Shares in issue as at 30 June 2021.
- (3) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Dr. ZHAO Wei pursuant to the post-IPO share option scheme of the Company.
- (4) Mr. POON Ho Man was deemed to be interested in 209,820,979 Shares in the following manner:
 - (a) 201,023,453 Shares were held by Friedmann Pacific Asset Management Limited, a substantial shareholder of the Company and wholly-owned by Capella Capital Limited which in turn was owned as to 50% by Ms. Christina NG and 50% by Mr. POON; and
 - (b) 8,797,526 Shares were held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.
- (5) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. LIU Wanting.

Save as disclosed above, as at 30 June 2021, none of the Directors or the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be: i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions in which he/she was taken or deemed to have under such provisions of the SFO); or ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements for the Directors to purchase Shares or Debentures

Save as disclosed in this report, at no time during the six months ended 30 June 2021 were there any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

OTHER INFORMATION

DISCLOSURE OF INTERESTS (continued)

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

Based on the information available to the Directors as at 30 June 2021 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 30 June 2021, the entities and/or persons who had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or had otherwise notified to the Company are as follows:

Name of shareholders	Capacity	Number of Shares Held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares held	Total interests	
China Everbright Aerospace Holdings Limited ("CE Aerospace")	Beneficial owner	230,121,724 ⁽³⁾	230,121,724	32.07%
China Everbright Limited ("CEL")	Interest of controlled corporation	267,225,817 ⁽³⁾	267,225,817	37.24%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	267,225,817 ⁽⁴⁾	267,225,817	37.24%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	267,225,817 ⁽⁵⁾	267,225,817	37.24%
Central Huijin Investment Limited ("Central Huijin")	Interest of controlled corporation	267,225,817 ⁽⁵⁾	267,225,817	37.24%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	201,023,453 ⁽⁶⁾	201,023,453	28.02%
Capella Capital Limited ("Capella")	Interest of controlled corporation	201,023,453 ⁽⁶⁾	201,023,453	28.02%
POON Ho Man	Interest of controlled corporation	209,820,979 ^{(7) & (8)}	209,820,979	29.24%
Christina NG	Interest of controlled corporation Beneficial owner	201,023,453 ⁽⁷⁾ 7,500,000	208,523,453	29.06%

OTHER INFORMATION

DISCLOSURE OF INTERESTS *(continued)*

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

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 717,485,337 Shares in issue as at 30 June 2021.
- (3) CEL was deemed to be interested in 230,121,724 and 37,104,093 Shares held by CE Aerospace and China Everbright Financial Investments Limited respectively, both of which were wholly-owned by CEL.
- (4) CE Hong Kong indirectly held more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong was deemed to be interested in all Shares mentioned in note (3) above.
- (5) Central Huijin held 63.16% equity interest in CE Group which in turn held 100% of the issued share capital of CE Hong Kong. Accordingly, CE Group and Central Huijin were deemed to be interested in all Shares mentioned in notes (3) and (4) above.
- (6) The issued share capital of FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM.
- (7) The issued share capital of Capella was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man. Accordingly, Mr. POON and Ms. NG were deemed to be interested in all Shares mentioned in note (6) above.
- (8) Mr. POON Ho Man was interested in 8,797,526 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

Save as disclosed above, as at 30 June 2021, the Directors are not aware of any person who had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

OTHER INFORMATION

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Board is committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good corporate governance to the Group's success and sustainability.

The Board is also committed to achieving a high standard of corporate governance as an essential component of quality and has applied corporate governance practices appropriate to the conduct and growth of business of the Group.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency, accountability and shareholder value.

The Company has adopted the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its corporate governance practices.

The Company has complied with all Code Provisions as set out in the CG Code during the six months ended 30 June 2021.

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

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its Directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2021.

OTHER INFORMATION

BOARD COMMITTEES

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.21 of the Listing Rules and Code Provision C.3 of the CG Code, and have been posted on the websites of both Hong Kong Exchanges and Clearing Limited (“HKEX”) and the Company. The primary duties of the Audit Committee include but not limited to reviewing and supervising the Group’s financial reporting process, internal audit function, internal control and risk management systems, and providing advices and comments to the Board. As at the date of this report, the Audit Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. FAN Yan Hok, Philip and Mr. NIEN Van Jin, Robert, all of them are independent non-executive Directors of the Company (the “INEDs”). The chairman of the Audit Committee holds appropriate professional qualifications or expertise in accounting or relevant financial management.

During the period under review, the Audit Committee has reviewed with the management team and PricewaterhouseCoopers (“PwC”), the external auditor of the Company, the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control, risk management and financial reporting including the following:

- The review of the audited consolidated financial statements of the Group for the year ended 31 December 2020 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2021, which have been reviewed by PwC in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information performed by the Independent Auditor of the Entity” issued by Hong Kong Institute of Certified Public Accountants;
- The discussion with PwC on the nature and scope of the audit and reporting obligations before commencement of audit;
- The recommendation to the Board for the proposal for re-appointment of PwC and approval of the remuneration and terms of engagement of PwC; and
- The review of the Company’s financial control, internal control and risk management systems, and the effectiveness of the internal audit function.

OTHER INFORMATION

BOARD COMMITTEES *(continued)*

Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code, and have been posted on the websites of both HKEX and the Company. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration policy for all Directors and senior management to ensure that levels of their remuneration and compensation are appropriate. As at the date of this report, the Remuneration Committee consisted of Mr. FAN Yan Hok, Philip (chairman), Mr. NIEN Van Jin, Robert and Mr. CHEOK Albert Saychuan, all of them are INEDs; and Dr. ZHAO Wei and Mr. POON Ho Man, both of them are executive Directors.

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

Nomination Committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference which aligned with Code Provision A.5 of the CG Code, and have been posted on the websites of both HKEX and the Company. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, reviewing the structure, size and composition of the Board and assessing the independence of INEDs. As at the date of this report, the Nomination Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. FAN Yan Hok, Philip and Mr. NIEN Van Jin, Robert, all of them are INEDs.

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

POST-IPO SHARE OPTION SCHEME

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

As at the date of this interim report, the total number of Shares available for issue under the Post-IPO Share Option Scheme is 10,000,000 Shares (as at the date of the 2020 interim report of 14 August 2020: 24,854,000 Shares), which represented approximately 1.36% (as at 14 August 2020: 3.52%) of the Shares in issue.

OTHER INFORMATION

POST-IPO SHARE OPTION SCHEME (continued)

On 2 January 2020, pursuant to the Post-IPO Share Option Scheme, options to subscribe for 10,000,000 Shares were granted to Dr. ZHAO Wei, an executive Director and the Chairman of the Board, which was approved by the Shareholders at an extraordinary general meeting of the Company held on 17 April 2020.

During the period under review, no share options were exercised and the movement of share options granted under the Post-IPO Share Option Scheme is as follows:

Name of grantee	Date of grant	Number of Shares under options				At 30 June 2021	Adjusted exercise price per Share HK\$	Exercise period
		At 1 January 2021	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period			
Director								
ZHAO Wei	2 Jan 2020	10,000,000	-	-	-	10,000,000	8.46 (Note 1)	17 Apr 2020 to 17 Apr 2022 (Note 2)
Total		10,000,000	-	-	-	10,000,000		

Notes:

- (1) On 29 October 2020, the exercise price of each outstanding share option has been adjusted from HK\$9.00 to HK\$8.46 as a result of capitalization issues.
- (2) As approved by the Shareholders at an extraordinary general meeting of the Company held on 17 April 2020 (the "Approval Date"), the initial exercise period of all share options granted to Dr. ZHAO Wei commenced on the Approval Date (without vesting period) and will expire on 17 April 2022 (the "Expiry Date"). Subject to the approval of the Board of Directors on or before the Expiry Date and also compliance with the relevant requirements under the Listing Rules, any share options which have not been exercised by Dr. ZHAO within the initial exercise period will have an additional exercise period of two years from the date following the Expiry Date.
- (3) The closing price of the Shares immediately before the date on which the options were granted to Dr. ZHAO Wei was HK\$8.29.

OTHER INFORMATION

OTHERS

Change of Directors' Information Under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors since the Company's last published annual report and up to the date of this interim report are set out below:

Mr. CHEOK Albert Saychuan resigned as the independent non-executive chairman of MC Payment Limited, a company listed in Singapore, with effect from 1 July 2021.

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

Save as disclosed above, the Company is not aware of other information which is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

Public Float

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

Interim Dividend

The Board has declared the payment of an interim dividend of HK\$0.15 per Share in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$0.20 per Share) to the Shareholders whose names appear on the register of members of the Company (the "Register of Members") on 17 September 2021. Shareholders will be given the option to receive the 2021 interim dividend in new shares in lieu of cash (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is subject to the Stock Exchange granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

A circular containing details of the Scrip Dividend Scheme will be despatched to the Shareholders together with the form of election for scrip dividend in September 2021. Cheques for cash dividend and/or definitive certificates for the scrip shares in respect of the 2021 interim dividend are expected to be despatched to the Shareholders on or about 4 November 2021.

Closure of Register of Members

For the purpose of determining Shareholders' entitlement to the interim dividend, the Register of Members will be closed from 15 September 2021 to 17 September 2021, both days inclusive, during which period, no transfer of Shares will be registered. The record date on which the Shareholders are qualified to receive the interim dividend is 17 September 2021. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 14 September 2021.

OTHER INFORMATION

OTHERS *(continued)*

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

The Company repurchased a total of 2,519,500 ordinary Shares at the highest price and the lowest price per Share of HK\$6.44 and HK\$6.10 respectively on the Stock Exchange for the six months ended 30 June 2021 at an aggregate consideration of approximately HK\$16,028,400 (before expense). All the repurchased Shares were subsequently cancelled by the Company on 11 June 2021.

In August 2016, the Group issued a five-year US\$300 million senior unsecured bonds due in 2021, bearing coupon interest at 4.9% per annum (the "2021 Bonds"). The 2021 Bonds were listed on the Stock Exchange and matured in August 2021. During the period under review, the Group repurchased the principal amount of US\$35,500,000 of the 2021 Bonds on the Stock Exchange, which were subsequently cancelled by the Group.

In March 2017, the Group issued a five-year US\$300 million senior unsecured bonds due in 2022, bearing coupon interest at 4.7% per annum (the "2022 Bonds"). The 2022 Bonds were listed on the Stock Exchange. During the period under review, the Group repurchased the principal amount of US\$2,000,000 of the 2022 Bonds on the Stock Exchange, which were subsequently cancelled by the Group.

Saved as disclosed above, during the six months ended 30 June 2021, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

China Aircraft Leasing Group Holdings Limited

POON HO MAN

Executive Director and Chief Executive Officer

Hong Kong, 24 August 2021

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 76, 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 2021 and the interim consolidated statement of income, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2021

INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
ASSETS			
Property, plant and equipment and right-of-use assets	6	16,261,944	18,450,641
Investments in and loans to associates and joint ventures	7	1,311,021	1,134,904
Finance lease receivables – net	8	7,476,045	7,263,697
Financial assets at fair value through profit or loss	9	816,439	797,888
Derivative financial assets	19	31,803	17,720
Prepayments and other assets	10	13,561,602	13,418,840
Assets classified as held for sale	11	2,034,595	–
Aircraft components trading assets		25,625	19,486
Restricted cash		749,878	411,786
Cash and cash equivalents		3,155,586	4,877,557
Total assets		45,424,538	46,392,519
EQUITY			
Share capital	12	71,749	72,000
Reserves and others	13	1,693,730	1,585,478
Retained earnings		2,394,170	2,235,560
Equity attributable to shareholders of the Company		4,159,649	3,893,038
Perpetual capital securities and other non-controlling interests	14	1,489,100	1,522,731
Total equity		5,648,749	5,415,769
LIABILITIES			
Deferred income tax liabilities	15	863,633	788,716
Borrowings	16	27,135,912	26,763,014
Medium-term notes	17	1,357,100	1,338,308
Bonds and debentures	18	7,521,899	9,054,779
Derivative financial liabilities	19	248,745	355,566
Income tax payables		22,348	24,897
Interest payables		238,079	276,113
Other liabilities and accruals	20	2,388,073	2,375,357
Total liabilities		39,775,789	40,976,750
Total equity and liabilities		45,424,538	46,392,519

The notes on page 34 to 76 form an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information was approved by the Board of Directors on 24 August 2021 and was signed on its behalf.

ZHAO Wei
Director

POON Ho Man
Director

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited	
		Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
Total revenue			
Lease income			
Finance lease income		265,253	273,601
Operating lease income		890,707	991,599
	21	1,155,960	1,265,200
Other income			
Net income from aircraft transactions and aircraft components trading	22	177,921	170,571
Other operating income	23	251,362	200,133
		1,585,243	1,635,904
Expenses			
Interest expenses	24	(577,097)	(687,094)
Depreciation	6	(375,947)	(430,392)
Expected credit losses		(45,699)	(31,504)
Other operating expenses	25	(117,359)	(118,116)
		(1,116,102)	(1,267,106)
Operating profit		469,141	368,798
Share of losses and provisions on investment in associates and joint ventures		–	(2,347)
Other (losses)/gains	26	(14,872)	32,527
Profit before income tax		454,269	398,978
Income tax expenses	27	(100,819)	(79,972)
Profit for the period		353,450	319,006
Profit/(loss) attributable to			
Shareholders of the Company		302,611	331,641
Holders of perpetual capital securities and other non-controlling interests		50,839	(12,635)
		353,450	319,006
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$ per share)			
– Basic earnings per share	29(a)	0.421	0.491
– Diluted earnings per share	29(b)	0.421	0.491

The notes on page 34 to 76 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited	
		2021	2020
		HK\$'000	HK\$'000
Profit for the period		353,450	319,006
Other comprehensive income/(loss) for the period:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges	19	100,709	(279,733)
Currency translation differences		25,997	(44,792)
Total other comprehensive income/(loss) for the period, net of tax		126,706	(324,525)
Total comprehensive income/(loss) for the period		480,156	(5,519)
Total comprehensive income/(loss) for the period attributable to			
Shareholders of the Company		426,698	6,983
Holders of perpetual capital securities and other non-controlling interests		53,458	(12,502)
		480,156	(5,519)

The notes on page 34 to 76 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to shareholders of the Company				Perpetual capital securities and other non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves and others HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Balance as at 1 January 2020	67,727	1,559,472	2,342,515	3,969,714	–	3,969,714
Comprehensive income						
Profit for the period	–	–	331,641	331,641	(12,635)	319,006
Other comprehensive loss						
Cash flow hedges (Note 19)	–	(279,733)	–	(279,733)	–	(279,733)
Currency translation differences	–	(44,925)	–	(44,925)	133	(44,792)
Total comprehensive loss	–	(324,658)	331,641	6,983	(12,502)	(5,519)
Transaction with shareholders and non-controlling interests						
Transactions with non-controlling interests	–	–	–	–	44,119	44,119
Dividends (Note 28)	3,170	214,871	(323,649)	(105,608)	–	(105,608)
Buy-back of shares (Note 12)	(300)	(18,803)	(69)	(19,172)	–	(19,172)
Share option scheme:						
– Value of services (Note 12)	–	330	–	330	–	330
– Share options lapsed (Note 12)	–	(182)	182	–	–	–
Total transactions with shareholders and non-controlling interests	2,870	196,216	(323,536)	(124,450)	44,119	(80,331)
Balance as at 30 June 2020	70,597	1,431,030	2,350,620	3,852,247	31,617	3,883,864
Balance as at 1 January 2021	72,000	1,585,478	2,235,560	3,893,038	1,522,731	5,415,769
Comprehensive income						
Profit for the period	–	–	302,611	302,611	50,839	353,450
Other comprehensive income						
Cash flow hedges (Note 19)	–	100,709	–	100,709	–	100,709
Currency translation differences	–	23,378	–	23,378	2,619	25,997
Total comprehensive income	–	124,087	302,611	426,698	53,458	480,156
Transaction with shareholders and non-controlling interests						
Dividends (Note 28)	–	–	(144,001)	(144,001)	–	(144,001)
Dividend distributed to perpetual capital securities	–	–	–	–	(87,089)	(87,089)
Buy-back of shares (Note 12)	(251)	(15,835)	–	(16,086)	–	(16,086)
Total transactions with shareholders and non-controlling interests	(251)	(15,835)	(144,001)	(160,087)	(87,089)	(247,176)
Balance as at 30 June 2021	71,749	1,693,730	2,394,170	4,159,649	1,489,100	5,648,749

The notes on page 34 to 76 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Cash flows from operating activities		
Profit after income tax	353,450	319,006
Adjustments for:		
– Depreciation	375,947	430,392
– Net income from aircraft transactions (Note 22)	(175,415)	(170,571)
– Expected credit losses	45,699	31,504
– Interest expenses (Note 24)	577,097	687,094
– Share-based payments	–	330
– Unrealised currency exchange losses/(gains)	67,778	(83,416)
– Fair value gains/(losses) on interest rate swaps, currency swap and currency forward contracts (Note 19)	(20,543)	17,052
– Share of losses on investment in associates and joint ventures	–	2,347
– Gain on repurchase of bonds	(3,166)	–
– Interest income	(72,423)	(70,991)
	1,148,424	1,162,747
Changes in working capital:		
– Finance lease receivables – net	(246,570)	(211,084)
– Aircraft components trading assets	(6,139)	–
– Prepayments and other assets	170,041	(228,079)
– Other liabilities and accruals	83,581	13,947
– Income tax payables	(2,549)	21,038
– Deferred income tax liabilities	73,692	37,461
Net cash flows generated from operating activities	1,220,480	796,030
Cash flows from investing activities		
Purchase of property, plant and equipment	(700,738)	(1,849,354)
Proceeds from disposal of aircraft	946,887	1,545,947
Deposits paid for acquisition of aircraft	(1,058,202)	(2,224,343)
Deposits refunded for acquisition of aircraft	399,989	378,451
Investment in associates and joint ventures	–	(3,396)
Interest received	52,270	51,959
Net payments relating to loans to associates and joint ventures	(176,117)	(114,749)
Proceeds from financial assets at fair value through profit or loss	1,602	29,529
Net cash flow used in investing activities	(534,309)	(2,185,956)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Cash flows from financing activities		
Proceeds from borrowings	6,851,889	4,747,549
Issue of bonds and debentures, net of transaction costs	271,348	1,419,954
Repayments of borrowings	(6,519,938)	(4,582,581)
Repurchase and repayment of bonds and debentures	(1,848,693)	–
Interest paid in respect of derivative financial instruments	(69,310)	(16,053)
Interest paid in respect of borrowings, notes and bonds and debentures	(752,827)	(784,723)
Increase in deposits pledged in respect of borrowings and derivative financial instruments	(337,063)	(228,057)
Buy-back of shares, including transaction costs (Note 12)	(16,086)	(19,172)
Dividends paid to shareholders (Note 28)	–	(105,608)
Net cash flows (used in)/generated from financing activities	(2,420,680)	431,309
Net decrease in cash and cash equivalents	(1,734,509)	(958,617)
Cash and cash equivalents at beginning of the period	4,877,557	4,352,327
Currency exchange difference on cash and cash equivalents	12,538	(29,477)
Cash and cash equivalents at end of the period	3,155,586	3,364,233

The notes on page 34 to 76 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The interim condensed consolidated financial information for the six months ended 30 June 2021 ("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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2020 annual report of the Company.

Going concern

As at 30 June 2021, the Group's current liabilities exceeded its current assets by HK\$10,811.5 million. The Group had total capital commitments of HK\$92,550.8 million as at 30 June 2021, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years till the end of 2027. Out of the total capital commitments, HK\$9,823.2 million will be incurred and payable within one year based on the current delivery schedule as agreed with the Original Equipment Manufacturers ("OEMs"). In addition, according to the relevant aircraft purchase agreements, Pre-Delivery Payments ("PDP") scheduled to be paid in the next twelve months from 30 June 2021 amounted to HK\$2,933.1 million excluding the PDP of those aircraft which the delivery schedules are not yet confirmed. The Group will satisfy these capital commitments through the Group's internal resources, available banking facilities and may also require additional aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 30 June 2021, the Group has undrawn borrowing facilities of HK\$3,196.6 million (31 December 2020: HK\$2,993.9 million).

COVID-19 and responsive government actions have caused economic disruption, a reduction in air passenger traffic and demand for commercial aircraft globally, all of which have a negative effect on the business operation and financial condition of certain airline customers of the Group. The Group experienced delay in lease payments from a few airline customers during the six months ended 30 June 2021. Moreover, the Group also received requests from certain airline customers to postpone the delivery of new aircraft and to defer lease payments due to the impact of COVID-19.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

The Group will need to secure a substantial amount of funds in the foreseeable future to finance these financial obligations and capital expenditures under contractual and other arrangements. The directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than twelve months from 30 June 2021. The directors have taken into account the following plans and measures for the purposes of their assessment:

- The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful to delay or change the delivery schedules in the past and during COVID-19 pandemic. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs often accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances after mutual discussion in good faith. Management of the Group will continue to monitor the delivery schedule of the aircraft closely through ongoing discussion with the OEMs, its airline customers and the relevant banks on the delivery and financing arrangements. Based on its experience, the Group is confident that it would be able to obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next twelve months from 30 June 2021 as and when needed.
- New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and the repayments of the PDP financing due upon delivery of aircraft. Such aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes financed the new aircraft with internal resources or short-term financing and the Group may have to obtain refinancing for these aircraft through new aircraft project loans. During the six months ended 30 June 2021, the Group has obtained 12 aircraft project loans facilities of US\$308 million from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loans facilities from time to time and is currently concluding 8 aircraft project loans facilities with certain banks and financial institutions which are expected to be completed in the second half of 2021. Based on these aircraft project loans arrangements, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 30 June 2021.
- The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approval from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience and industry knowledge. The directors are of the view that they are able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances. The Group had PDP financing facilities from certain banks to provide financing up to HK\$2,152.4 million to the Group to satisfy part of the forecasted committed PDP payments of HK\$2,346.5 million in the next twelve months from 30 June 2021. The remaining balances of PDP scheduled to be paid in the next twelve months from 30 June 2021 are expected to be funded by internal resources of the Group. The Group has also initiated the process to obtain new PDP syndicated revolving loan facilities with certain banks.

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

- During the six months ended 30 June 2021, the Group has renewed existing revolving loan facilities of HK\$1,436.5 million with extension of the term of the facility periods from one year to three years. As at 30 June 2021, the Group had working capital loan and revolving loan facilities of HK\$4,215.5 million out of which HK\$3,171.4 million has been utilized. The Group is arranging several new unsecured medium-term working capital loan facilities with certain banks. The directors are confident that the Group can draw down the remaining unutilized loan facilities of HK\$1,044.1 million as and when required and will be able to renew the existing revolving facilities as well as to obtain new facilities as planned.
- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes, as well as other debt and capital financing. In particular, the Group has obtained the official registration acceptance notification from the National Association of Financial Market Institutional Investors for issuance of super short-term debenture up to a principal amount of RMB3.0 billion in the PRC within two years from June 2021. In July and August 2021, the Group completed the issuance of RMB1.0 billion senior unsecured super short-term debentures and unsecured bond of RMB100 million in the PRC. The Group has obtained Ba1 corporate credit rating from Moody and BB+ corporate credit rating from Fitch, and updated US\$3.0 billion guaranteed Medium Term Note (“MTN”) programme in Hong Kong in July 2021. The Group will review the market conditions and consider to issue US\$ bond under the MTN programme if appropriate. Based on above updates and the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.
- The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continue to expand its portfolio trading business and it has scheduled certain aircraft to be disposed of in the next twelve months from 30 June 2021, of which the Group has signed letter of intent or sale and purchase agreements up to August 2021 for the disposal of seven aircraft. Based on the Group’s experience in aircraft portfolio trading in previous years, the directors are confident that the disposal will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 30 June 2021.
- The Group is closely monitoring the impact of COVID-19 on its airline customers and communicated with those airline customers to work out mutually agreeable deferral lease rent schedule if required. The Group will closely monitor the collection and urge these airline customers to settle the deferral lease rent according to the schedule upon market recovery. The directors are of the view that although the negative impact of COVID-19 to the aviation industry will prevail for a while before the full recovery of international passengers travel, given the operations of many of the Group’s customers are in the PRC with normal domestic operations, the Group expects there will not be any material deterioration in the operating cashflow in the next twelve months from 30 June 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, continued availability of existing banking facilities for working capital and PDP payments, the cash flows generated from its business operations, the successful rescheduling of delivery schedules for new aircraft, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments and the successful disposal of aircraft as planned, the Group has sufficient working capital for its present requirements in the next twelve months from 30 June 2021. Accordingly, the directors consider that the Group will be in a position to continue as a going concern and hence prepared the consolidated financial statements on a going concern basis.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's consolidated financial statements for the year ended 31 December 2020.

New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2021:

COVID-19-related Rent Concessions – Amendments to HKFRS 16
Interest Rate Benchmark Reform – Phase 2

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

Hong Kong Institute of Certified Public Accountants ("HKICPA") published Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 – Interest Rate Benchmark Reform Phase 2 to address the implications on consolidated financial reporting when an existing interest rate benchmark is replaced with an alternative to benchmark interest rate. These amendments have been adopted for the first time for the year ending 31 December 2021 and have no material impact to the Group.

The Group currently holds a number of US\$ LIBOR-referenced floating-rate debts and the associated swaps and have not yet transitioned replacement benchmark interest rates. Such reform has no impact on the Group's risk management strategy. The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to processes, risk management procedures and valuation models that may arise as a consequence of the reform.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 ESTIMATES

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

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's consolidated financial statements for the year ended 31 December 2020.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

There have been no significant changes in the risk management department or in any risk management policies since 31 December 2020.

5.1.1 Market risk

(a) Currency exchange risk

In the normal course of business, the Group is exposed to currency exchange risks as certain portion of cash and cash equivalents, financial assets including finance lease receivables, prepayments and other assets, financial liabilities including borrowings, medium-term notes, bonds and debentures and other liabilities and accruals held by the Group are denominated in currencies other than functional currency of the Group entities. The aircraft leasing income and the corresponding borrowings used to finance the leases are mainly denominated in US\$. Currency exchange risk may arise when the finance lease receivables, operating lease receivables and certain borrowings are denominated in different currencies. The management of the Group closely monitor currency exchange risks and hedge the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group used the currency swaps and currency forwards to hedge its exposure to currency exchange risk. The foreign currency swaps and foreign currency forwards do not satisfy the requirements for hedge accounting. The fair value changes of which were recognised in other gains or losses, please refer to Note 26.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(a) Currency exchange risk (continued)

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Cash and cash equivalents	391,539	595,809
Other financial assets	229,231	131,959
Total financial assets	620,770	727,768
Bank borrowings	(409,054)	(581,924)
Medium-term notes	(1,357,100)	(1,338,308)
Bonds and debentures	(1,201,713)	(2,728,930)
Other financial liabilities	(535,208)	(778,200)
Total financial liabilities	(3,503,075)	(5,427,362)
Notional amount of foreign currency forwards	2,406,200	475,040
Net exposure	(476,105)	(4,224,554)

Apart from the above, as at 30 June 2021, the Group had one outstanding currency swap contract with notional principal of US\$15,684,000 (equivalent to approximately HK\$121,786,000). For details, please refer to (Note 19).

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US\$ as at 30 June 2021 and 31 December 2020:

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Profit before tax		
– 5% appreciation of RMB against US\$	(29,372)	(216,681)
– 5% depreciation of RMB against US\$	29,372	216,681

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.1 Market risk *(continued)*

(b) Cash flow and fair value interest rate risk

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

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

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank borrowings do not match. As at 30 June 2021, the Group had 26 outstanding floating-to-fixed interest rate swaps (31 December 2020: 26 swaps) to manage its unmatched interest rate risk exposure. Such interest rate swaps have the economic effect of converting bank borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining unhedged exposure, the Group closely monitors the interest rate exposure trend and will consider hedging the exposure where necessary and appropriate.

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2021. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit before tax for the six months ended 30 June 2021 by approximately HK\$175,000 (six months ended 30 June 2020: decreased/increased by HK\$3,188,000); and would also have increased/decreased the Group's reserves by approximately HK\$74,633,000 (31 December 2020: increased/decreased by HK\$91,127,000) because of the impact of cash flow hedge interest derivatives.

The sensitivity analysis above indicates the impact on the Group's lease income and interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.2 Credit risk

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

Credit risk on aircraft lease service

The Group implements its industry risk management system according to its plan based on actual situation with focus on industry research, counterparty credit rating, and understanding of the lessee's operations, financial condition as well as their shareholders' support. The Group also obtained deposits from the lessees (Note 20). All these strengthen the control and management of credit risk.

(a) Probability of default

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

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

(b) Risk limit control and mitigation policies

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

(c) Impairment allowance policies

The Group applies the simplified approach on measuring expected credit losses prescribed by HKFRS 9, which uses the lifetime expected loss provision for lease receivables. To measure the expected credit losses, the relevant receivables are grouped based on shared credit risk characteristics such as financial performance and stability, future growth, default history and other relevant factors.

The loss allowances of credit risk are estimated according to net exposure analysis and assumptions about risk of default and expected loss rates. The net exposure is determined based on the finance lease receivable or operating lease receivable balance, net of the unguaranteed residual value in the case of a finance lease, and other cash collaterals such as security deposits over the contractual term. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.2 Credit risk (continued)

Credit risk on aircraft lease service (continued)

(c) Impairment allowance policies (continued)

The Group assesses the business performance and credit risks of the airline companies on a regular basis. Due to the COVID-19 pandemic, some of the airline customers have curtailed their commercial operations, which could result in lease defaults. The Group have agreed with some of the lessees to defer upcoming rent obligations. In view of the economic conditions, the operation of airlines, the collection history of the receivable due from them and the impact of COVID-19, management provided expected credit loss of HK\$6,659,000 (31 December 2020: HK\$7,069,000) for finance lease receivables (Note 8) and HK\$101,867,000 (31 December 2020: HK\$75,795,000) for operating lease receivables (Note 10) as at 30 June 2021.

Credit risk exposure on operating leases receivables:

	Unaudited As at 30 June 2021		Audited As at 31 December 2020	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	294,606	73,924	249,550	43,402
Europe	32,582	6,988	51,214	10,751
Americas	113,992	20,955	75,913	21,642
	441,180	101,867	376,677	75,795

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

	Unaudited As at 30 June 2021		Audited As at 31 December 2020	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	3,926,799	6,659	3,849,388	7,069

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.2 Credit risk *(continued)*

Credit risk on aircraft lease service (continued)

(d) Concentration of credit risk

During the six months ended 30 June 2021, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 8, Note 10 and Note 21 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables and operating lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased asset.

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

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

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

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

In addition, the Group is exposed to credit risk associated with cash in bank. Management consider that these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.3 Liquidity risk

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Current assets		
Loans to associates and joint ventures	12,847	6,311
Financial assets at fair value through profit or loss	188,942	136,393
Finance lease receivables – net	141,474	139,305
Aircraft components trading assets	25,625	19,486
Prepayments and other assets	480,948	476,055
Assets classified as held for sale	2,034,595	–
Restricted cash	569,917	142,413
Cash and cash equivalents	3,155,586	4,877,557
	6,609,934	5,797,520
Current liabilities		
Deferred income tax liabilities	147,092	146,794
Borrowings	9,255,954	8,216,812
Medium-term notes	397,023	391,941
Bonds and debentures	5,436,340	3,807,197
Derivative financial liabilities	128,695	137,197
Income tax payables	22,348	24,897
Interest payables	238,079	276,113
Other liabilities and accruals	1,795,949	1,735,259
	17,421,480	14,736,210
Net current liabilities	(10,811,546)	(8,938,690)

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

As at 30 June 2021, borrowings of HK\$9.3 billion (31 December 2020: HK\$8.2 billion) under current liabilities mainly comprised of bank and other borrowings of HK\$2.8 billion (31 December 2020: HK\$1.6 billion) from aircraft acquisition financing (“aircraft loans”) and HK\$4.5 billion (31 December 2020: HK\$3.9 billion) from PDP and other financing. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 11). The Group has operating lease receivables (which has not been included under current assets above) for those aircraft under operating lease, that is expected to be received from airlines in the next twelve months from 30 June 2021. Repayment of PDP loans and other financing is expected to be funded by existing loan facilities and/or new aircraft loans when aircraft is delivered based on industry practice and prior experience.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**5 FINANCIAL RISK MANAGEMENT** *(continued)***5.2 Capital risk management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, raise new debts, or adjust the amount of dividend paid to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six months ended 30 June 2021.

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Interest-bearing debts included in total liabilities	36,014,911	37,156,101
Total liabilities	39,775,789	40,976,750
Total assets	45,424,538	46,392,519
Total equity	5,648,749	5,415,769
Gearing ratio	79.3%	80.1%
Asset-liability ratio	87.6%	88.3%
Interest-bearing debt to equity ratio	6:1	7:1

5.3 Fair value estimation

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

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

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

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5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities measured at fair values

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

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2021 – unaudited				
Assets				
Currency swaps and forward contracts	–	31,803	–	31,803
Financial assets at fair value through profit or loss	–	–	816,439	816,439
	–	31,803	816,439	848,242
Liabilities				
Interest rate swaps	–	248,745	–	248,745
As at 31 December 2020 – audited				
Assets				
Currency swaps and forward contracts	–	17,720	–	17,720
Financial assets at fair value through profit or loss	–	–	797,888	797,888
	–	17,720	797,888	815,608
Liabilities				
Interest rate swaps	–	355,566	–	355,566

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

The fair value of the financial assets at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, risk-adjusted discount rate, and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy. The Group assessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease or increase HK\$12,000,000 (31 December 2020: HK\$17,000,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase or decrease the fair value by HK\$123,000,000 (31 December 2020: HK\$125,000,000) and HK\$134,000,000 (31 December 2020: HK\$159,000,000), respectively.

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5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

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

The following table presents the change in level 3 instrument for the six months ended 30 June 2021.

	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2021	797,888
Proceeds from financial assets at fair value through profit or loss and fair value gains	17,255
Currency translation difference	1,296
As at 30 June 2021	816,439

Financial assets and financial liabilities carried at amortised cost

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

The carrying amounts and fair values of finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures are as follows:

	Unaudited		Audited	
	As at 30 June 2021		As at 31 December 2020	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Finance lease receivables (excluding the unguaranteed residual values)	3,926,799	4,303,076	3,849,388	4,208,436
Borrowings	27,135,912	27,392,354	26,763,014	26,690,742
Medium-term notes	1,357,100	1,421,080	1,338,308	1,370,678
Bonds and debentures	7,521,899	7,015,119	9,054,779	8,511,404

The fair values of the above finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures 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.

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

	Unaudited						
	Aircraft and engine HK\$'000	Leasehold improvements HK\$'000	Office equipment HK\$'000	Office building HK\$'000	Right-of-use assets HK\$'000	Others HK\$'000	Total HK\$'000
Net book value as at							
1 January 2020	19,515,819	93	7,219	43,637	33,780	10,936	19,611,484
Additions	2,995,576	-	-	-	28,772	-	3,024,348
Transfer from finance lease receivables	572,426	-	-	-	-	-	572,426
Disposals	(1,176,660)	-	-	-	-	(23)	(1,176,683)
Depreciation	(416,522)	(72)	(3,109)	(452)	(9,384)	(853)	(430,392)
Currency translation difference	(97,583)	(1)	(27)	(207)	-	(2)	(97,820)
Net book value as at							
30 June 2020	21,393,056	20	4,083	42,978	53,168	10,058	21,503,363
Net book value as at							
1 January 2021	18,348,419	4,273	3,834	42,539	41,981	9,595	18,450,641
Additions	1,291,994	-	196	-	2,133	420	1,294,743
Assets classified as held for sale	(2,034,595)	-	-	-	-	-	(2,034,595)
Disposals	(1,110,846)	-	-	-	-	-	(1,110,846)
Depreciation	(366,232)	(801)	(953)	(452)	(6,681)	(828)	(375,947)
Currency translation difference	37,872	-	5	69	2	-	37,948
Net book value as at							
30 June 2021	16,166,612	3,472	3,082	42,156	37,435	9,187	16,261,944

Lease rentals amounting to HK\$890,707,000 relating to the lease of aircraft and engine for the six months ended 30 June 2021 are included in "operating lease income" in the consolidated statement of income (six months ended 30 June 2020: HK\$991,599,000).

As at 30 June 2021, the net book value of aircraft amounted to HK\$15,878,700,000 (31 December 2020: HK\$18,180,560,000).

As at 30 June 2021, the net book value of aircraft under operating leases amounting to HK\$12,385,889,000 (31 December 2020: HK\$12,858,739,000) were pledged as collateral for bank borrowings for aircraft acquisition financing and borrowings from trust plans (Note 16).

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7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Investments in and loans to associates and joint ventures – carrying amount after share of losses	1,437,665	1,251,441
Expected credit loss on loans to associates and joint ventures	(126,644)	(116,537)
	1,311,021	1,134,904

As at 30 June 2021, the Group had interests in the following principal associates and joint ventures:

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

- (a) ARI is an investment holding company and its subsidiaries (collectively as "ARI Group") have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 30 June 2021, the net liabilities of ARI was HK\$398,072,000 (31 December 2020: net liabilities of HK\$352,195,000), and as a result, the Group's investment in ARI was reduced to zero (31 December 2020: Zero). No further losses were recorded unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate. As at 30 June 2021, the Group's outstanding balance of advance to ARI amounted to HK\$910,000 (31 December 2020: Nil). As at 30 June 2021, the Group's carrying amount of outstanding loans to ARI amounted to HK\$1,228,094,000 (31 December 2020: HK\$1,069,771,000). For details, please refer to Note 30(b) (ii).

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

- (b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 30 June 2021, the Group's outstanding balance of advance to FLARI amounted to HK\$24,234,000 (31 December 2020: Nil). As at 30 June 2021, the Group's outstanding loan balance receivable from FLARI amounted to HK\$6,530,000 (31 December 2020: HK\$6,311,000). For details, please refer to Note 30(b)(iii).

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

- (c) HNCA One (Tianjin) and HNCA Two (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 30 June 2021, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK\$35,605,000 (31 December 2020: HK\$34,467,000) and HK\$35,651,000 (31 December 2020: HK\$34,423,000), respectively. For details, please refer to Note 30(e).

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

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

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

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

The loans to TAM was fully impaired according to assessment under HKFRS 9 Financial Instruments.

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

Besides the contingent liabilities disclosed in Note 31(a), there are no other contingent liabilities relating to the Group's investments in associates and joint ventures.

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8 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Lease payments receivables		
– Not later than 1 year	128,748	129,578
– Later than 1 year but not later than 2 years	127,348	128,181
– Later than 2 years but not later than 3 years	204,249	126,328
– Later than 3 years but not later than 4 years	243,629	203,191
– Later than 4 years but not later than 5 years	1,670,708	1,079,669
– Later than 5 years	3,254,175	4,019,729
Total	5,628,857	5,686,676
Less: Unearned finance lease income relating to lease payment receivables	(1,702,058)	(1,837,288)
Present value of lease payment receivables	3,926,799	3,849,388
Add: Present value of unguaranteed residual value	3,555,905	3,421,378
Net investment in leases	7,482,704	7,270,766
Less: Accumulated expected credit losses allowance	(6,659)	(7,069)
Finance lease receivables – net	7,476,045	7,263,697

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

	Unaudited As at 30 June 2021		Audited As at 31 December 2020	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	5,489,212	73%	5,332,181	73%
Others	1,986,833	27%	1,931,516	27%
Finance lease receivables – net	7,476,045	100%	7,263,697	100%

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9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Long-term investments – CAG Group (a)	720,372	701,959
Long-term investments – ARG Group (b)	96,067	95,929
	816,439	797,888

- (a) CAG uses the fund injected through a performance-linked shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 20% to 80%, together with a shareholding between the Group and other investors at the same ratio. Pursuant to shareholders' agreement and shareholders' loan agreement, all investors of CAG committed to invest in CAG through shareholders' loan according to the mezzanine financing proportion.
- (b) ARG Cayman 1 Limited ("ARG") is a subsidiary of ARI. ARG uses the fund injected through a performance-linked shareholder's loan from the Group and the mezzanine financing from other investors at a ratio of 25% to 75%, with a shareholding between the Group and other investors at a ratio of 8% to 92%. Pursuant to shareholders' agreement and shareholders' loan agreement, all investors of ARG committed to invest in ARG through shareholders' loan according to the mezzanine financing proportion.

10 PREPAYMENTS AND OTHER ASSETS

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	12,020,082	11,857,594
Operating lease receivables (b)	441,180	376,677
Interest capitalised	803,573	804,675
Deposits paid	35,502	49,399
Prepayments and amounts due from related parties (Note 30(f))	267,985	311,860
Others (c)	95,147	94,430
	13,663,469	13,494,635
Less: Accumulated expected credit losses allowance (b)	(101,867)	(75,795)
	13,561,602	13,418,840

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10 PREPAYMENTS AND OTHER ASSETS (continued)

- (a) In December 2014, the Group entered into aircraft purchase agreements with Airbus S.A.S (“Airbus”) for the purchase of 100 aircraft. In December 2017 and January 2018, the Group entered into supplementary agreement with Airbus for the purchase of additional 65 aircraft. In January 2020, the Group entered into supplemental agreement to the aircraft purchase agreements in December 2014 to purchase additional 40 aircraft from Airbus.

In June 2017, the Group entered into aircraft purchase agreement (the “2017 Aircraft Purchase Agreement”) with The Boeing Company (“Boeing”) for the purchase of 50 aircraft. In December 2018, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement (the “2018 Aircraft Purchase Agreement”) to purchase additional 50 aircraft from Boeing. In November 2019, the Group entered into supplemental agreements to the 2017 Aircraft Purchase Agreement and 2018 Aircraft Purchase Agreement with Boeing to adjust its order from 100 aircraft to 92 aircraft. In March 2021, the Group entered into the agreement with Boeing to adjust its order from 92 aircraft to 66 aircraft and to reschedule the delivery of certain aircraft.

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

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

As at 30 June 2021, the aging of the operating lease receivables based on due date was as follows:

	Current/ Deferral HK\$'000	Less than 30 days past due HK\$'000	30 to 90 days past due HK\$'000	More than 90 days HK\$'000	Total HK\$'000
Gross carrying amount	167,601	21,173	55,920	196,486	441,180

As at 31 December 2020, the aging of the operating lease receivables based on due date was as follows:

	Current/ Deferral HK\$'000	Less than 30 days past due HK\$'000	30 to 90 days past due HK\$'000	More than 90 days HK\$'000	Total HK\$'000
Gross carrying amount	163,370	15,128	70,529	127,650	376,677

As at 30 June 2021, the accumulated expected credit losses allowance amounted to HK\$101,867,000 (31 December 2020: HK\$75,795,000) and the net operating lease receivables amounted to HK\$339,313,000 (31 December 2020: HK\$300,882,000).

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

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

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale.

During the six months ended 30 June 2021, the Group has signed letter of intent or sale and purchase agreements for the disposal of several lease-attached aircraft. These aircraft intended to be disposed were consequently classified as held for sale. As at 30 June 2021, the carrying amount of assets classified as held for sale was HK\$2,034,595,000 (31 December 2020: Nil) and the carrying amount of borrowings related to the assets held for sale was HK\$1,577.7 million (31 December 2020: Nil). The borrowings related to the assets held for sale will be repaid before the disposal of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

12 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Par value of each share	Number of issued shares	Share capital in HK\$
Issued:			
As at 1 January 2020	HK\$0.1	677,269,380	67,726,938
Buy-back of shares (a)	HK\$0.1	(3,000,000)	(300,000)
Dividend paid (Note 28)	HK\$0.1	31,701,267	3,170,127
As at 30 June 2020	HK\$0.1	705,970,647	70,597,065
As at 1 January 2020, 31 December 2020 and 1 January 2021			
	HK\$0.1	720,004,837	72,000,484
Buy-back of shares (a)	HK\$0.1	(2,519,500)	(251,950)
As at 30 June 2021	HK\$0.1	717,485,337	71,748,534

- (a) The Company acquired 2,519,500 (Six months ended 30 June 2020: 3,000,000) of its own shares through purchases on the Stock Exchange and those purchased shares were subsequently cancelled during the period ended 30 June 2021. The total amount paid to acquire the shares was HK\$16,086,000 (Six months ended 30 June 2020: HK\$19,172,000), including transaction costs.

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12 SHARE CAPITAL (continued)

- (b) On 22 July 2016 and 2 January 2020, the Company adopted a share option scheme (2016 Post-IPO Share Option Scheme) and (2020 Post-IPO Share Option Scheme), respectively for the purpose of recognizing the contribution participants including certain directors of the Company and selected employees of the Group in relation to the growth of the Group.

Movement of outstanding share options granted by the Group on 22 July 2016 (2016 Post-IPO Share Option Scheme) and 2 January 2020 (2020 Post-IPO Share Option Scheme) is as follows:

	Number of share options
As at 1 January 2020	14,974,000
Granted (i)	10,000,000
Lapsed	(120,000)
As at 30 June 2020	24,854,000
As at 1 January 2021 and 30 June 2021 (ii)	10,000,000

- (i) The value of options granted in the total amount of HK\$330,000.
- (ii) For share options outstanding as at 30 June 2021, the adjusted exercise price per share of 2020 Post-IPO Share Option Scheme was HK\$8.46.

The amounts of share-based compensation recognised as expenses with a corresponding credit to reserves of the Group during the six months ended 30 June 2021 and 2020 are as follows:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Directors and employees	–	330

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13 RESERVES AND OTHERS

	Unaudited						Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Share- based payments HK\$'000	Hedging reserves HK\$'000	Currency translation difference HK\$'000	
Balance as at							
1 January 2020	1,092,091	623,720	(39)	23,746	(120,641)	(59,405)	1,559,472
Share option scheme:							
– Value of services	–	–	–	330	–	–	330
– Share options lapsed	–	–	–	(182)	–	–	(182)
Buy-back of shares	(18,803)	–	–	–	–	–	(18,803)
Cash flow hedges (Note 19)	–	–	–	–	(279,733)	–	(279,733)
Dividends (Note 28)	214,871	–	–	–	–	–	214,871
Currency translation differences	–	–	–	–	–	(44,925)	(44,925)
Balance as at							
30 June 2020	1,288,159	623,720	(39)	23,894	(400,374)	(104,330)	1,431,030
Balance as at							
1 January 2021	1,382,441	623,720	(108)	330	(323,652)	(97,253)	1,585,478
Buy-back of shares	(15,777)	–	(58)	–	–	–	(15,835)
Cash flow hedges (Note 19)	–	–	–	–	100,709	–	100,709
Currency translation differences	–	–	–	–	–	23,378	23,378
Balance as at							
30 June 2021	1,366,664	623,720	(166)	330	(222,943)	(73,875)	1,693,730

14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Perpetual capital securities (a)	1,514,604	1,548,332
Other non-controlling interests of ordinary shares	(25,504)	(25,601)
	1,489,100	1,522,731

(a) Perpetual capital securities

On 16 December 2020, a subsidiary of the Group (the "Issuer") issued US\$200 million floating rate guaranteed perpetual capital securities with the aggregate net proceeds (after transaction cost of HK\$5.0 million) of HK\$1,545.5 million. The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of the Issuer. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the Company elects to declare dividends to ordinary shareholders, the Issuer shall make distribution to the holders of perpetual capital securities at the distribution rate as defined in the subscription agreements.

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15 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Deferred income tax liabilities:		
– To be settled within 12 months	147,092	146,794
– To be settled after 12 months	716,541	641,922
	863,633	788,716

The movement of the deferred income tax liabilities during the six months ended 30 June 2021 is as follows:

	Accelerated depreciation of leased assets HK\$'000
Deferred income tax liabilities:	
As at 1 January 2020	746,374
Charged to profit or loss (Note 27)	37,461
Currency translation difference	233
As at 30 June 2020	784,068
As at 1 January 2021	788,716
Charged to profit or loss (Note 27)	73,692
Currency translation difference	1,225
As at 30 June 2021	863,633

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16 BORROWINGS

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	10,577,106	10,541,963
PDP and other financing (b)	8,663,113	8,456,588
Other unsecured bank borrowings (c)	2,758,885	2,595,060
	21,999,104	21,593,611
Long-term borrowings		
Borrowings from trust plans (d)	4,776,862	4,818,500
Other borrowings (e)	359,946	350,903
	5,136,808	5,169,403
	27,135,912	26,763,014

Bank and other borrowings

- (a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating US\$ LIBOR rates. As at 30 June 2021, certain bank borrowings were secured by, in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases, pledge of the shares in the subsidiaries owning the related aircraft, guarantees from certain companies of the Group, and pledge of deposits amounting to HK\$45,829,000 (31 December 2020: HK\$45,380,000).
- (b) As at 30 June 2021, PDP and other financing of HK\$7,193,633,000 (31 December 2020: HK\$8,085,286,000) was unsecured and guaranteed by the Company. Remaining PDP and other financing was secured by certain rights and benefits in respect of the acquisition of the aircraft, and guarantees from certain companies of the Group, and pledge of deposits amounting to HK\$450,370,000 (31 December 2020: Nil)
- (c) As at 30 June 2021, the Group had other unsecured bank borrowings of HK\$2,758,885,000 (31 December 2020: HK\$2,595,060,000) which were guaranteed by certain companies of the Group.

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

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Floating rates:		
– Expiring within one year	1,090,283	821,326
– Expiring beyond one year	2,106,280	1,901,206
	3,196,563	2,722,532

Long-term borrowings

- (d) As at 30 June 2021, 46 borrowings (31 December 2020: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposal of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (31 December 2020: 3.5% to 7.8%) per annum for remaining terms of three to nine years (31 December 2020: three to nine years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK\$43,949,000 (31 December 2020: HK\$43,879,000).
- (e) As at 30 June 2021, four borrowings (31 December 2020: four borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2020: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2020: 3.9% to 5.7%) per annum for their remaining terms of four to five years (31 December 2020: four to five years) and are guaranteed by the Company.

17 MEDIUM-TERM NOTES

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

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

As at 30 June 2021, after deducting the issuing cost, the total carrying amount of these notes was HK\$1,357,100,000 (31 December 2020: HK\$1,338,308,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 BONDS AND DEBENTURES

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

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

In June 2019, one of the wholly owned subsidiaries in the PRC issued three-year RMB1.0 billion unsecured bonds due in 2022, bearing coupon rate of 5.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

In March 2020, one of the wholly owned subsidiaries in the PRC issued one-year RMB1.0 billion unsecured debentures at the coupon rate of 3.65% and were listed on the Inter-Bank Bond Market of China. This unsecured debentures were fully repaid upon maturity.

In June 2020, one of the wholly owned subsidiaries in the PRC issued one-year RMB300 million unsecured debentures at the coupon rate of 4% and were listed on the Inter-Bank Bond Market of China. This unsecured debentures were fully repaid upon maturity.

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

During the period ended 30 June 2021, the Group repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US\$37,050,000. The principal amount of bonds was US\$37,500,000. A net gain of US\$408,000 (equivalent to approximately HK\$3,166,000) was recognised after deducting the transaction cost.

As at 30 June 2021, the total carrying amount of bonds and debentures was HK\$7,521,899,000 (31 December 2020: HK\$9,054,779,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

19 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Derivative financial assets		
– Currency swaps (a)	13,825	16,927
– Currency forward contracts (b)	17,978	793
	31,803	17,720
Derivative financial liabilities		
– Interest rate swaps (c)	248,745	355,566

- (a) CALC Baoli Limited (“CALC Baoli”), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US\$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US\$15,684,000. As at 30 June 2021, the fair value of this currency swap contract amounted to HK\$13,825,000 (31 December 2020: HK\$16,927,000) and the fair value losses of HK\$3,127,000 was recognised in “Other losses (Note 26)” for the six months ended 30 June 2021 (six months ended 30 June 2020: gain of HK\$4,034,000). As at 30 June 2021, this arrangement was secured by a pledge deposit of HK\$3,664,000 (31 December 2020: HK\$3,622,000).
- (b) As at 30 June 2021, the Group had 17 outstanding currency forward contracts with total notional amount of RMB2,000,000,000 (equivalent to approximately HK\$2,406,200,000) (31 December 2020: four outstanding currency forward contracts with notional amount of RMB400,000,000 (equivalent to approximately HK\$475,040,000)) which will expire at various dates from 20 December 2022 to 8 February 2023 (31 December 2020: expire at various dates from 20 December 2022 to 30 December 2022), to mitigate RMB exchange rate risks. These forward contracts did not satisfy the requirements for hedge accounting, the fair value changes of which were recognised in other gains or losses.
- (c) As at 30 June 2021, the Group had 30 outstanding interest rate swap contracts (31 December 2020: 31 contracts) which will expire at various dates from 21 March 2022 to 3 April 2025 (31 December 2020: 25 April 2021 to 3 April 2025), to exchange floating interest rates from LIBOR into fixed interest rates in a range of 0.9% to 2.6% (31 December 2020: 0.9% to 2.6%). As at 30 June 2021, this arrangement was secured by margin deposits of HK\$206,067,000 (31 December 2020: HK\$312,790,000).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****19 DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)*

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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Recognised in other comprehensive (income)/loss		
– Change in fair values of interest rate swaps	(99,230)	279,733
– Reclassified from other comprehensive income to profit or loss	(1,479)	–
	(100,709)	279,733
Recognised in profit or loss		
– Fair value (gains)/losses on interest rate swaps	(6,496)	21,086
– Fair value gains on currency forward contracts	(17,174)	–
– Unrealised losses/(gains) on a currency swap	3,127	(4,034)
	(20,543)	17,052

20 OTHER LIABILITIES AND ACCRUALS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	HK\$'000	HK\$'000
Deposits and fund received for lease and aircraft projects	1,399,563	1,571,029
Consultant and insurance premium payable	91,261	104,232
Value-added tax and withholding tax payables	284,957	295,154
Operating lease rentals received in advance	82,661	75,272
Amounts due to related parties (Note 30(g))	3,937	16
Amount due to non-controlling interest of a subsidiary (Note 30(h))	76,287	76,164
Dividend payables to ordinary shareholders and perpetual capital securities holder	231,090	–
Lease liabilities	40,601	45,252
Others (including salary and bonus payable)	177,716	208,238
	2,388,073	2,375,357

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

During the six months ended 30 June 2021, the Group was engaged for the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

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

	Unaudited			
	Six months ended 30 June			
	2021		2020	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Airline company – A	170,827	15%	168,852	13%
Airline company – B	133,253	12%	235,421	19%
Airline company – C	115,819	10%	77,233	6%
Airline company – D	81,400	7%	81,396	7%
Airline company – E	62,781	5%	27,915	2%
Others	591,880	51%	674,383	53%
Total finance and operating lease income	1,155,960	100%	1,265,200	100%

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Aircraft transactions (a)	175,415	170,571
Aircraft components trading (b)	2,506	–
	177,921	170,571

- (a) The net gain from aircraft transactions for the six months ended 30 June 2020 included disposal of four aircraft to third parties.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS TRADING** (continued)

(b) Aircraft components trading

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Sales from aircraft components trading assets	26,118	–
Less: Cost of aircraft components trading assets	(23,612)	–
Profit from aircraft components trading assets	2,506	–

23 OTHER OPERATING INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Government grants (a)	88,561	127,101
Bank interest income	3,434	6,686
Interest income from loans to associates and joint ventures (Note 7)	48,836	45,273
Asset management service fees income from CAG Group (Note 30(c))	8,402	5,738
Operating lease income on other assets from a related party (Note 30(a))	–	1,320
Incidental income and others (b)	102,129	14,015
	251,362	200,133

- (a) Government grants represent the grants and subsidies received from the Mainland China government to support the development of aircraft leasing industry.
- (b) Incidental income and others was mainly related to amounts received from a manufacturer and suppliers incidental to aircraft purchases, net gains from bonds repurchase and government wage subsidies under a job support scheme.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

24 INTEREST EXPENSES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interest expenses on borrowings	449,675	588,129
Fair value loss on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	69,310	16,053
Interest expenses on medium-term notes	33,354	43,778
Interest expenses on bonds and debentures	210,682	200,028
Less: interest capitalised on qualifying assets (a)	(185,924)	(160,894)
	577,097	687,094

- (a) Interest expenses capitalised on qualifying assets represents the amount of interest on interest-bearing debts which is directly attributable to the acquisition of aircraft and was capitalised as the cost of aircraft upon delivery of aircraft.

25 OTHER OPERATING EXPENSES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Employee benefit expenses	55,745	55,402
Professional service expenses	29,287	23,354
Value-added tax and other taxes	10,540	14,904
Rental and utilities expenses	3,107	1,724
Office and meeting expenses	5,177	4,237
Travelling and training expenses	1,805	2,805
Auditor's remuneration		
– Audit service	927	927
– Non-audit service	–	102
Others	10,771	14,661
	117,359	118,116

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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26 OTHER LOSSES/(GAINS)

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Fair value (gains)/losses on interest rate swaps and loss on disposal of future contracts	(6,496)	66,605
Unrealised losses/(gains) on a currency swap (Note 19)	3,127	(4,034)
Fair value gains on currency forward contracts	(17,174)	–
Currency exchange losses/(gains)	55,568	(76,066)
Fair value gains on financial assets at fair value through profit or loss (Note 30(c) and Note 30(d))	(20,153)	(19,032)
	14,872	(32,527)

27 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	27,127	42,511
Deferred income tax	73,692	37,461
	100,819	79,972

Mainland China

The subsidiaries incorporated in Mainland China are subject to the PRC corporate income tax ("CIT") at a rate of 25% (six months ended 30 June 2020: 25%). The leasing income of the subsidiaries in Mainland China is subject to VAT at 13%.

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% on the estimated assessable profits.

Profit tax concessions have been announced to the corporations carrying on certain businesses in connection with aircraft. The taxable amount of rentals derived from leasing of an aircraft to Non-Hong Kong aircraft operator by a qualifying aircraft lessor is equal to 20% of the tax base. The qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers are subject to the half of the normal rate at 8.25%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**27 INCOME TAX EXPENSES** (continued)**Others**

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

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

The subsidiaries incorporated in Ireland, being section 110 companies under the Irish tax regime are subject to corporate tax at 25%. Other Irish companies are subject to corporate tax at 12.5%.

The subsidiary incorporated in the Netherlands is subject to income tax at 20% over the first EUR200,000 of its taxable income and a rate of 25% over its taxable income in excess of EUR200,000.

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

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

The subsidiary incorporated in Malta is subject to income tax at 35%.

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

28 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interim dividend declared of HK\$0.15 (2020: HK\$0.20) per ordinary share	110,032	141,194

A final dividend of HK\$0.48 per ordinary share totalling HK\$323.6 million for the year ended 31 December 2019, which was paid by cash of HK\$105.6 million and by share issuance of HK\$218.0 million in June 2020.

On 14 August 2020, the Board declared an interim dividend of HK\$0.20 per ordinary share totalling HK\$141.2 million which was paid by cash of HK\$45.5 million and by share issuance of HK\$95.7 million in October 2020.

A final dividend of HK\$0.20 per ordinary share totalling HK\$144.0 million (including cash dividend and scrip dividend) for the year ended 31 December 2020, which was reflected as dividend payable as at 30 June 2021.

On 24 August 2021, the Board declared an interim dividend of HK\$0.15 per ordinary share totalling HK\$110.0 million with a scrip dividend option to be offered to shareholders, which is calculated based on 733,545,229 issued shares as at 24 August 2021. The declared dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2021, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2021.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****29 EARNINGS PER SHARE****(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2021 and 30 June 2020.

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit attributable to shareholders of the Company (HK\$'000)	302,611	331,641
Weighted average number of ordinary shares in issue (number of shares in thousands)	719,354	675,759
Basic earnings per share (HK\$ per share)	0.421	0.491

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. Share options are dilutive where they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the financial period. For share options outstanding as at 30 June 2021 and as at 30 June 2020, as the exercise price per share is higher than average market price of ordinary shares, it is not assumed that the outstanding share options have been exercised in the calculation of the diluted losses per share for the six months ended 30 June 2021 and 30 June 2020.

30 RELATED PARTY TRANSACTIONS

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

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

CE Group is the sole shareholder of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong is the indirect controlling shareholder of China Everbright Limited ("CEL") and CEL indirectly holds approximately 37.25% equity interest in the Company as at 30 June 2021. Accordingly, CE Group is deemed as a controlling shareholder of the Company, and thus CE Group and its subsidiaries are related parties of the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

30 RELATED PARTY TRANSACTIONS (continued)

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

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

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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interest income from CE Group	1,889	2,705
Interest expenses to CE Group	102,863	116,836
Loans upfront and arrangement fee to CE Group	670	969
Transactions handling charges to CE Group	2,167	4,527
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	HK\$'million	HK\$'million
Bank deposits placed in CE Group	1,527.3	2,472.5
Borrowings due to CE Group	4,305.5	4,964.5
Undrawn facilities provided by CE Group	744.1	737.6

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

(a) Transactions with China Everbright Group Ltd. ("CE Group") and its subsidiaries
(continued)**(ii) Lease of other assets to CEL Management Services Limited ("CEL Management")**

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Operating lease income on other assets earned from: CEL Management	–	1,320

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

During the period ended 30 June 2021, the Group disposed two aircraft to the wholly-owned special purpose vehicles of Everbright Financial Leasing Co., Ltd. (six months ended 30 June 2020: Nil). The total consideration from the disposals of aircraft is HK\$782.4 million (six months ended 30 June 2020: Nil) and recorded net income from aircraft transactions in the consolidated statement of income.

(b) Transactions with ARI Group and FLARI**(i) Service provided by ARI Group**

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Service fee charged by: ARI Group (Note)	7,251	15,065

Note: Balance included aircraft inspection, consultancy, aircraft technical related services charged by ARI Group amounted to RMB7,000,000 (equivalent to approximately HK\$7,726,000), which were related to the two lease-encumbered aircraft sold to a third party by the Group during the six months ended 30 June 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

30 RELATED PARTY TRANSACTIONS *(continued)*

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

(ii) Transactions with ARI Group

Pursuant to the shareholders' loan agreement dated 6 April 2016, the Group granted loans to ARI which are secured by pledge of shares in a subsidiary of ARI, bearing interest at 4% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited which is accrued daily and payable in arrears of six monthly intervals from the date of issue of the loan note. On 15 October 2018, a supplemental agreement was entered into to revise the interest rate to 3% per annum above the prime lending rate quoted by the Bank of China (Hong Kong) Limited with effect from 28 November 2018. As at 30 June 2021, the outstanding shareholders' loan balances receivable from ARI was amounted to HK\$1,228,094,000 (31 December 2020: HK\$1,069,771,000) (Note 7) and the interest income for the six months ended 30 June 2021 was HK\$47,305,000 (six months ended 30 June 2020: HK\$45,174,000).

Pursuant to the sale and leaseback agreement dated 16 November 2020, the Group purchased the assets and leased back to ARI Group with proceeds of RMB1.0 million (approximately equivalent to HK\$1.2 million), the proceeds is charged at 8% per annum and payable in arrears of three monthly intervals. As at 30 June 2021, the outstanding advance receivables from ARI Group was amounted to HK\$910,000 (31 December 2020: Nil).

During the period ended 30 June 2020, the Group acquired three aircraft (with lease arrangements) from ARI Group with total consideration of US\$97,800,000 (equivalent to approximately HK\$758,996,000).

During the year ended 31 December 2020, the Group entered a letter of intent with ARI Group relating to the purchase of five engines with total consideration of US\$55,000,000 (equivalent to approximately HK\$426,388,000).

During the period ended 30 June 2021, the Group entered a letter of intent with ARI Group relating to the purchase of entire equity interest of Skylink 1-Aircraft Leasing Limited, a wholly-owned subsidiary in ARI Group, with total consideration of US\$8,800,000 (equivalent to approximately HK\$68,332,000).

As at 30 June 2021, the Group had placed deposits amounted to HK\$267,979,000 (31 December 2020: HK\$232,575,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION30 RELATED PARTY TRANSACTIONS *(continued)***(b) Transactions with ARI Group and FLARI** *(continued)***(iii) Transaction with FLARI**

Pursuant to the shareholders' credit line agreement dated 30 October 2019, 25 August 2020 and 25 November 2020, the Group granted loans to FLARI, interest bearing at 6.6% per annum, 6.7% per annum and 6.7% per annum, respectively, which is calculated on quarterly basis on the actual amount of the shareholders' loan drawn down. As at 30 June 2021, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK\$6,530,000 (31 December 2020: HK\$6,311,000) (Note 7) and the interest income for the six months ended 30 June 2021 was HK\$209,000 (six months ended 30 June 2020: HK\$99,000).

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased the assets and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK\$24,062,000) (31 December 2020: Nil), the proceeds is charged at 8% per annum and payable in arrears of three monthly intervals. As at 30 June 2021, the outstanding advance receivables from FLARI Group was amounted to HK\$24,234,000 (31 December 2020: Nil).

(c) Transactions with CAG Group

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Fair value gains of long-term investments in CAG Group	17,271	16,093
Asset management service fees income from CAG Group	8,402	5,738

(d) Transaction with ARG Group

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Fair value gains of long-term investments in ARG Group	2,882	2,939

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**30 RELATED PARTY TRANSACTIONS** (continued)**(e) Transaction with HNCA One (Tianjin) and HNCA Two (Tianjin)**

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

As at 30 June 2021, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK\$35,605,000 (31 December 2020: HK\$34,467,000) (Note 7) and HK\$35,651,000 (31 December 2020: HK\$34,423,000) (Note 7), respectively.

(f) Prepayments and amounts due from related parties

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Prepayments to ARI Group (Note 30(b)(ii))	267,979	232,575
Amount due from ARI Group (i)	–	79,279
FPAM Group	6	6
	267,985	311,860

- (i) Balance as at 31 December 2020 included dividend receivables from two wholly-owned subsidiaries of the Company amounted to HK\$78,846,000. The entire equity interest of these wholly-owned subsidiaries of the Company were disposed to ARI Group during the year ended 31 December 2020. The Group received the settlement of this balance from ARI Group during the period ended 30 June 2021.

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

(g) Amounts due to related parties

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
ARI Group	3,937	16

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

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

As at 30 June 2021, Linkasia Airlines, a non-wholly owned subsidiary of the Group has the outstanding balance due to its shareholder, Equal Honour Holdings Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) was HK\$76,287,000 (31 December 2020: HK\$76,164,000). The amount was unsecured, interest-free and repayable on demand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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31 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 30 June 2021, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$706,770,000 (31 December 2020: HK\$729,000,000).

(b) Capital commitments

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Contracted but not provided for: Purchase of aircraft (i)	92,550,777	98,048,611

(i) The capital commitments were mainly related to acquisition of 254 aircraft in its order book, comprising 158 Airbus aircraft, 66 Boeing aircraft and 30 ARJ21 series aircraft, which will be delivered in stages by the end of 2027.

(c) Loan commitments

Loan commitments contracted but not provided for at the end of the reporting period are as follows:

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Contracted but not provided for: Shareholder's loan commitment to ARG	129,411	129,203

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

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Not later than one year	360	87

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31 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Not later than 1 year	1,875,058	1,808,356
Later than 1 year but not later than 2 years	1,869,168	1,820,478
Later than 2 year but not later than 3 years	1,843,172	1,830,698
Later than 3 year but not later than 4 years	1,760,139	1,702,756
Later than 4 year but not later than 5 years	1,399,477	1,471,792
Later than 5 years	5,079,743	4,846,172
	13,826,757	13,480,252

The above commitment included amount of HK\$1,525,222,000 (31 December 2020: Nil) related to assets classified as held for sale (Note 11).

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

	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Not later than 1 year	138	190
Later than 1 year but not later than 2 years	–	48
	138	238

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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1. Pursuant to the share purchase agreements and assignment agreements dated 13 July 2021, entered between the Group and Everbright Absolute Return Fund (“EAR Fund”) and China Chengtong Investment Company Limited (“CCIC”), the Group agreed to sell and EAR Fund and CCIC agreed to purchase 13 ordinary shares and 65 ordinary shares of ARG, respectively and the Group agreed to assign and EAR Fund and CCIC agreed to take the assigned shareholder loan amounted to US\$2,052,000 (equivalent to approximately HK\$15,934,000) and US\$10,259,000 (equivalent to approximately HK\$79,661,000), respectively in accordance with the assignment agreements. The above transactions were completed on 19 July 2021. Shareholder loan commitment for investment in ARG no longer exist in the Group upon the completion of these transactions. The management does not expect to obtain significant gains or losses on the transactions.
2. Pursuant to the announcement dated 28 July 2021, the Group has completed the issuance of the RMB1.0 billion (equivalent to approximately HK\$1.2 billion) super short-term debentures with a term of 270 days at the coupon rate of 3.98%.
3. Pursuant to the announcement dated 17 August 2021, the Group has completed the issuance of the RMB100 million (equivalent to approximately HK\$120.3 million) bond with a term of three years at the coupon rate of 4.2% (with coupon rate adjustment option for the issuer and sell-back option for investors exercisable at the end of the second year).