

CALC

China Aircraft Leasing Group Holdings Limited

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

Stock code: 01848



On the Path to Sustainability and Green Development

2023 INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Mingao (*Chairman of the Board*)
Mr. POON Ho Man (*Chief Executive Officer*)
Ms. LIU Wanting (*Deputy Chief Executive Officer
and Chief Commercial Officer*)

Non-executive Director

Ms. WANG Yun

Independent Non-executive Directors

Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon
Mr. FAN Chun Wah, Andrew, J.P.

COMPOSITION OF COMMITTEES

Audit Committee

Mr. FAN Chun Wah, Andrew, J.P. (*Chairman*)
Mr. CHEOK Albert Saychuan
Dr. TSE Hiu Tung, Sheldon

Remuneration Committee

Dr. TSE Hiu Tung, Sheldon (*Chairman*)
Ms. WANG Yun
Mr. POON Ho Man
Mr. CHEOK Albert Saychuan
Mr. FAN Chun Wah, Andrew, J.P.

Nomination Committee

Mr. CHEOK Albert Saychuan (*Chairman*)
Dr. TSE Hiu Tung, Sheldon
Mr. FAN Chun Wah, Andrew, J.P.

COMPANY SECRETARY

Mr. LI Guohui

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

COMPANY'S WEBSITE

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INVESTOR RELATIONS CONTACT

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SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office

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Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

01848

CORPORATE INFORMATION

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 of Ningbo
Bank of Shanghai Co., Ltd.
Bank of Tianjin Co., Ltd.
BNP Paribas
China CITIC Bank International Limited
China Construction Bank Corporation
China Development Bank
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
China Zheshang Bank Co., Ltd
Chiyu Banking Corporation Limited
Chong Hing Bank Limited
Credit Agricole Corporate and Investment Bank
CTBC Bank Co., Ltd
Deutsche Bank AG
The Export-Import Bank of China
Far Eastern International Bank, Ltd.
Fubon Bank (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Industrial Bank Co., Ltd.
KB Kookmin Bank
Korea Development Bank
MUFG Bank, Ltd.
Nanyang Commercial Bank, Limited
Ping An Bank Co., Ltd.
Postal Savings Bank of China Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
Société Générale
Tai Fung Bank Limited
Xiamen International Bank

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW

The global air passenger demand continued its strong recovery during the first half of 2023. According to the latest Air Passenger Market Analysis published by the International Air Transport Association (“IATA”), total traffic (measured in revenue passenger kilometers or RPKs) in the first half of 2023 rose by 47.2% year-on-year, reaching 90.3% of 2019 level. In China, changes in policies have unleashed travel demand, ushering a turning point in the recovery of China’s civil aviation market. The volume of domestic flights has exceeded the level of the same period in 2019 while that for international and regional flights has continued to rise. Meanwhile, increasing attention has been drawn to the sustainable development of the aviation industry, accelerating the pace of low-carbon transition.

In response to industry trend and dynamics, the Group had proactively grasped the opportunities brought by the robust rebound in aviation demand, and worked together with all stakeholders to deliver solid operational and financial performance in the first half of the year. For the six months ended 30 June 2023 (the “Review Period”), the Group’s total revenue was HK\$2,326.3 million, up 23.0% from the same period last year (1H2022: HK\$1,890.8 million). Profit attributable to shareholders of the Company for the Review Period reached HK\$201.2 million (loss attributable to shareholders of the Company for 1H2022: HK\$130.2 million). Earnings per share amounted to HK\$0.270 (losses per share for 1H2022: HK\$0.175).

The Board has resolved to declare payment of an interim dividend of HK\$0.15 per ordinary share (1H2022: HK\$0.15), totalling HK\$112 million.

ON-GOING OPTIMIZATION OF FLEET ASSETS

During the Review Period, the Group had delivered a total of 13 new aircraft to airline customers, and injected 1 aircraft into its aircraft asset management joint venture platform. The above new deliveries further optimized its fleet portfolio with majority new-generation fuel-efficient aircraft from its order book, including the Group’s first B737 MAX taken from Boeing. As at 30 June 2023, the Group’s total fleet has increased to 189 aircraft, including 162 owned aircraft and 27 managed aircraft.

In selecting aircraft asset, the Group has always maintained a modern fleet portfolio consisting of the most popular aircraft models. As at 30 June 2023, 90% of the Group’s owned fleet, by number of aircraft, were narrow-body models, a highly liquid asset class that has led recent industry recovery and surpassed its 2019 level. With its quality fleet assets, the utilization rate of the Group’s owned fleet (except for the two aircraft related to Russian airlines) reached 100% as at 30 June 2023. As at 30 June 2023, the average age of the Group’s owned fleet was 8.3 years, while the average remaining lease term was 5.8 years.

In terms of aircraft procurement, the Group has actively participated in facilitating the commercial operation of China-made aircraft on top of its orders of new-generation fuel-efficient aircraft placed long ago. Following the successful delivery of a COMAC ARJ21 aircraft to Indonesia carrier TransNusa in December 2022, the first time for China-made regional passenger jet entering the overseas market, it was officially put into commercial operation in April 2023 and successfully completed its debut flight, and later flew its first international flight this July. The Group’s second ARJ21 was delivered to TransNusa during the Review Period, steadily pacing up its effort to promote commercial operation of China-made aircraft in overseas market. As at 30 June 2023, the Group had a total of 213 aircraft in backlog, including 120 Airbus, 65 Boeing (the commitment to purchase 64 of them shall be novated to a third party, please refer to the announcement of the Company dated 14 August 2023 for details) and 28 COMAC aircraft.

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL EXPANSION WITH TOP-TIER CLIENTELE

During the first half of 2023, the Group continued to strengthen its leading position in the home market while actively expand its global footprint with top-tier clients to enhance geographical diversity of its customer base. Among all the new deliveries during the Review Period, seven aircraft were leased to overseas airlines and six were leased to Chinese airlines, including cooperation with three first-tier airlines in new aircraft leasing for the first time. As at 30 June 2023, by number of aircraft, 73.5% of the Group's owned fleet were leased to Chinese airline customers (including Hong Kong, Macau and Taiwan), most of which are state-owned airlines with financial strength. The Group's overall customer base (including both owned and managed aircraft) has been enlarged to 42 airlines widely spread over 20 countries and regions.

During the Review Period, the Group also signed letters of intent for leasing 26 aircraft, all of which were with overseas airline customers.

ACTIVE GREEN FINANCING AND IMPROVING CREDIT RATING

The Group has established and continued to expand and optimize its onshore and offshore financing channels, including actively exploring green financing opportunities. Diversified funding sources and financing instruments provide sufficient liquidity.

During the Review Period, total new facilities obtained and renewed facilities exceeded HK\$14.5 billion, including aircraft project loans, Pre-Delivery Payments ("PDP") financing, working capital facilities, RMB bonds, etc., providing strong support for the Group's business development. As at 30 June 2023, the Group had cash and bank balances of HK\$6,202.7 million and undrawn borrowing facilities of HK\$3,990.3 million. The total balance of cash and bank balances with undrawn borrowing facilities was HK\$10,193.0 million.

In terms of bond issuance, in view of the relatively stable interest rate environment and abundant liquidity supply in the PRC bond market, the Group successfully issued the first tranche of low-carbon transition corporate bonds in the PRC market during the Review Period, with a term of 3 years and the amount of RMB1.5 billion. It was oversubscribed by 1.83 times, fully demonstrating the wide recognition of the Group's operating strength by bond investors from the PRC and their strong support for the Group's investment in low-carbon transition fields in pursuit of sustainable development. In terms of repayment, the Group repaid the RMB1 billion super short-term debentures this July as they came due. It is worth mentioning that such super short-term debentures were the first low-carbon transition bonds in China's aviation industry and aircraft leasing industry, and had been awarded the 2023 "Sustainability Debt Deal of the Year" by Airline Economics, an internationally renowned industry media during the Review Period.

During the Review Period, the Group was again recognized by both the PRC and international rating agencies. For international ratings, Moody's Investors Service Co., Ltd. ("Moody's") and Fitch Ratings ("Fitch") conducted their annual reviews for the Company, respectively. Fitch affirmed the Company's Long-Term Issuer Default Rating at BB+ with a stable outlook in June 2023, while Moody's affirmed the Company's Corporate Family Rating at Ba1 with a stable outlook this July. Moreover, China Asset Leasing Company Limited ("CALC TJ"), a wholly-owned subsidiary of the Group mainly operated in China market, received in May an AAA issuer rating from Dagong Global Credit Rating Co., Ltd and an upgrade to AAA rating from China Cheng Xin International Credit Rating Co., Ltd, both with a stable outlook. In the future, the Group will strive to improve its international credit rating by various measures, so as to further enhance its financing capabilities with reduced costs.

MANAGEMENT DISCUSSION AND ANALYSIS

FULL VALUE-CHAIN MODEL PURSUING SUSTAINABLE DEVELOPMENT

Adhering to its strategy of sustainable development, the Group actively invests in the field of low-carbon and circular economy and continues to enhance its full value-chain operations with improving professional assets management capabilities in mid- to end-of-life aircraft. During the Review Period, the Group made breakthroughs in areas such as maintenance, repair and overhaul (“MRO”), aircraft disassembly and recycling.

The Group’s MRO joint venture FL ARI Aircraft Maintenance & Engineering Company Ltd (“FL ARI”) obtained the base maintenance license from Civil Aviation Administration of China for 3C-check (36000FH/24000FC/108MO) of A320 series aircraft in June, improving its maintenance and overhaul capabilities further.

During the Review Period, China Aviation Aftermarket Holdings Limited (“CAAM”), the Group’s associate company, completed the comprehensive solutions to the 5 old aircraft acquired from Air China Limited to assist the airline’s fleet retirement plan. CAAM successfully maximized the residual value of the assets through a series of complex sustainability solutions including parts swap, “passenger-to-freighter” (“P2F”) conversions, portfolio trading, aircraft disassembly, component repair and sales.

PROSPECTS

In general, the recovery momentum of the global aviation industry remains strong. With diminishing impact of past adverse external factors, the medium and long-term industry prospects are promising. IATA had recently announced an expected strengthening of airline industry profitability in an upgrade of its outlook for 2023, by which the industry’s net profits were expected to reach US\$9.8 billion in 2023, more than double its previous forecast. In respect to the leasing market, the rapid growth of air travel amid ongoing supply chain issues, coupled with high inflation and interest rates, had been and is expected to continue pushing up lease rates. It is generally expected that the narrow-body shortage would likely persist for a couple of years, contributing to high market value and lease rates.

Meanwhile, the low-carbon transition of the aviation industry is accelerating. IATA released strategic roadmaps this June, aiming at providing step-by-step detailing of critical actions for aviation to achieve net zero carbon emissions by 2050. The concept of “green aviation” has become a consensus in the industry. Riding on its strengths of aircraft full-value-chain operation, in the second half of the year, the Group will grasp the business opportunities brought by the rapid recovery of China and overseas aviation markets as well as the opportunities emerging from airlines’ accelerated fleet replacement and optimization in response to the trend of green aviation. It would sharpen its edges in new aircraft leasing as well as mid- to end-of-life aircraft solutions to further enhance its one-stop fleet upgrade service capabilities, so as to promote aviation sustainability. In addition, the Group will also closely monitor the market to speed up portfolio trade when appropriate by strengthening cooperation with institutional investors and financiers to continuously enrich its aircraft asset portfolio and enhance asset management capabilities. The Group would thus further optimize its financial structure to enhance its operating strength and credit profile, creating better value for all stakeholders of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS

Total revenue of the Group for the period ended 30 June 2023 was HK\$2,326.3 million, representing an increase of HK\$435.5 million or 23.0% from the corresponding period last year. Profit for the period ended 30 June 2023 amounted to HK\$306.9 million (For the six months ended 30 June 2022: Loss of HK\$70.4 million). Profit attributable to shareholders of the Company for the six months ended 30 June 2023 amounted to HK\$201.2 million. It was HK\$130.2 million loss attributable to shareholders of the Company in the corresponding period last year. Earnings before interest, tax, depreciation and amortisation (“EBITDA”) for the period ended 30 June 2023 amounted to HK\$2,284.6 million (For the six months ended 30 June 2022: HK\$1,379.5 million).

Total assets amounted to HK\$63,185.6 million as at 30 June 2023, compared with HK\$55,332.1 million as at 31 December 2022, representing an increase of HK\$7,853.5 million or 14.2%. The increase in assets was mainly due to the increase in the total fleet size of the Group from 150 aircraft as at 31 December 2022 to 162 aircraft as at 30 June 2023.

Total liabilities amounted to HK\$56,921.6 million as at 30 June 2023, representing an increase of HK\$7,845.7 million or 16.0% compared with HK\$49,075.9 million as at 31 December 2022. The increase in liabilities was mainly due to the increase in total interest-bearing debts by HK\$7,349.0 million, which mainly due to the increase in total fleet size of the Group. As at 30 June 2023, the interest-bearing debts of the Group amounted to HK\$52,453.1 million (31 December 2022: HK\$45,104.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

2. INTERIM CONSOLIDATED STATEMENT OF INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Total revenue		
Lease income		
Finance lease income	296,555	284,403
Operating lease income	1,759,898	1,369,364
	2,056,453	1,653,767
Other operating income		
Net income from aircraft transactions and aircraft components trading	44,695	66,492
Other income	225,109	170,532
	2,326,257	1,890,791
Expenses		
Interest expenses	(1,075,871)	(757,857)
Depreciation	(748,034)	(590,692)
Expected credit losses	(51,782)	(51,834)
Other operating expenses	(147,825)	(140,600)
	(2,023,512)	(1,540,983)
Operating profit	302,745	349,808
Net write-off of two aircraft remained in Russia	–	(439,029)
Share of results from associates and joint ventures	(1,267)	1,800
Other gains, net	159,257	118,363
Profit before income tax	460,735	30,942
Income tax expenses	(153,833)	(101,381)
Profit/(Loss) for the period	306,902	(70,439)
Profit/(Loss) attributable to		
Shareholders of the Company	201,171	(130,160)
Holders of perpetual capital securities and other non-controlling interests	105,731	59,721
	306,902	(70,439)
Earnings/(Losses) per share for profit/(loss) attributable to shareholders of the Company (expressed in HK\$ per share)		
– Basic earnings/(losses) per share	0.270	(0.175)
– Diluted earnings/(losses) per share	0.270	(0.175)

MANAGEMENT DISCUSSION AND ANALYSIS

2.1 Total Revenue

For the six months ended 30 June 2023, the total revenue amounted to HK\$2,326.3 million, compared with HK\$1,890.8 million for the corresponding period last year, representing an increase of HK\$435.5 million or 23.0%.

Total lease income from finance leases and operating leases for the six months ended 30 June 2023 amounted to HK\$2,056.5 million, compared with HK\$1,653.8 million for the six months ended 30 June 2022, representing an increase of HK\$402.7 million or 24.3%. The increase in total lease income was mainly due to the increase in the fleet size of the Group from 150 aircraft as at 31 December 2022 to 162 aircraft as at 30 June 2023.

For the six months ended 30 June 2023, the Group's average lease rental yield of the finance leases and operating leases was 14.1% (For the six months ended 30 June 2022: 13.2%) and 11.1% (For the six months ended 30 June 2022: 12.6%), respectively. Average lease rental yield for finance leases and operating leases is calculated by expected annualised gross lease receipt divided by net book value of aircraft. Weighted average lease rental yield of the Group was 11.3% (For the six months ended 30 June 2022: 12.7%).

2.2 Other Operating Income

For the six months ended 30 June 2023, the Group recognised net gain from disposal of one aircraft and aircraft components trading amounted to HK\$44.7 million (For the six months ended 30 June 2022: net gain from disposal of two aircraft and aircraft components trading amounted to HK\$66.5 million) with aggregate net book value of aircraft of HK\$438.2 million (For the six months ended 30 June 2022: aggregate net book value of aircraft of HK\$907.8 million).

During the six months ended 30 June 2023, the Group had the following other income:

	Unaudited		Change
	Six months ended 30 June		
	2023	2022	
	HK\$'Million	HK\$'Million	
Government grants	100.1	94.9	5.5%
Interest income from loans to associates and joint ventures	56.8	52.7	7.8%
Bank interest income	32.4	4.4	636.4%
Asset management service fees income from CAG Bermuda 1 Limited ("CAG") and its subsidiaries (collectively, "CAG Group")	9.3	8.4	10.7%
Others	26.5	10.1	162.4%
Total	225.1	170.5	32.0%

Government grants for the six months ended 30 June 2023 amounted to HK\$100.1 million, compared with HK\$94.9 million for the six months ended 30 June 2022, representing an increase of HK\$5.2 million or 5.5%.

Others mainly related to interest received on deferred operating lease receivables, compensation and amounts received from suppliers. The increase in the current period was mainly due to an one-off compensation received from a lessee upon the expiry of the lease agreement, while no such income in the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2.3 Expenses

2.3.1 Interest Expenses

For the six months ended 30 June 2023, interest expenses incurred by the Group amounted to HK\$1,075.9 million, compared with HK\$757.9 million for the corresponding period last year, representing an increase of HK\$318.0 million or 42.0%. The increase in interest expenses was mainly due to the increase in 3 month US\$ LIBOR rate from 2.29% as at 30 June 2022 to 5.55% as at 30 June 2023 and the increase in total interest-bearing debts from HK\$44,194.5 million as at 30 June 2022 to HK\$52,453.1 million as at 30 June 2023. The average effective interest rate of total interest-bearing debts for the period was 5.72% (For the six months ended 30 June 2022: 4.28%).

Most of the interest expenses from the floating interest rate borrowings had either been hedged or capitalised. The following table summarises the sensitivity test on change in US\$ interest rate on the unhedged portion of the floating interest rate borrowings for the six months ended 30 June 2023:

US\$ Interest rate	Sensitivity test on	
	Cash outflow HK\$'Million	Profit attributable to shareholders of the Company HK\$'Million
Increased by 1%	240	(103)
Decreased by 1%	(240)	103

MANAGEMENT DISCUSSION AND ANALYSIS

2.3.2 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 2023 was HK\$748.0 million compared with HK\$590.7 million for the corresponding period last year, representing an increase of HK\$157.3 million or 26.6%. This was mainly attributable to an increase in the number of aircraft under operating leases from 97 aircraft as at 31 December 2022 to 108 aircraft as at 30 June 2023.

2.3.3 Other Operating Expenses

Other operating expenses mainly represented salaries and bonuses, professional fees related to the aircraft leasing business, value-added tax surcharge and other taxes, rentals and office administration expenses. The other operating expenses remain stable compared with the corresponding last period.

2.4 Net Write-off of Two Aircraft Remained in Russia

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

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 30 June 2023 and 31 December 2022, the Group has not recognised any claim receivables.

The Group has determined prudently that the net book value of the aircraft amounting to HK\$565.6 million (excluding the net book value of the Engine) should be fully written down, which is offset by the security deposit and maintenance reserves received amounting to HK\$126.6 million, resulting in a net write-off of HK\$439.0 million for the six months ended 30 June 2022, which was a non-cash transaction. No such write-off was made for the six months ended 30 June 2023.

The Group is actively seeking different ways to recover the losses, including applying approval from the US government in repossession of the aircraft and active negotiation with the Russian government with the assistance from the China government. The Group also maintains fruitful relationship with the Russian lessees in order to repossess the aircraft or dispose the aircraft to the lessees. One of the lessees had provided its intention in acquiring the aircraft leased to it. However, a lengthy disposal process is expected due to the restriction imposed by the Sanctions. The Group would also closely monitor the insurance claims process.

MANAGEMENT DISCUSSION AND ANALYSIS

2.5 Other Gains, Net

	Unaudited Six months ended 30 June		Change
	2023 HK\$'Million	2022 HK\$'Million	
Currency exchange gains in RMB	242.2	192.8	25.6%
Fair value losses on currency forward contracts in RMB	(123.3)	(83.1)	48.4%
Net exchange gains in RMB	118.9	109.7	8.4%
Currency exchange losses in US\$	(15.6)	(12.6)	23.8%
Fair value gains on financial assets at fair value through profit or loss	21.4	18.4	16.3%
Changes in fair value attributable to interest rate	28.1	3.9	620.5%
Unrealised gains/(losses) on a currency swap	6.5	(1.0)	N/A
Total	159.3	118.4	34.5%

The net exchange gains arising from net financial liabilities denominated in RMB was mainly due to the appreciation of US\$ exchange rate against RMB from 6.90 as at 31 December 2022 to 7.25 as at 30 June 2023. The Group closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Group uses currency forward contracts to hedge its exposure to currency exchange risk. The following table illustrates the foreign currency exposure in RMB as at 30 June 2023 and the related gains/(losses) in RMB for the six months ended 30 June 2023.

Balance of RMB exposure	Related gains/(losses) arising from RMB exposure	
	Unaudited As at 30 June 2023 HK\$'Million	Unaudited Six months ended 30 June 2023 HK\$'Million
Net financial liabilities (excluding working capital) denominated in RMB exposed to currency exchange risk	(6,594.6)	Currency exchange gains in RMB 242.2
Less: Hedged by notional amount of RMB currency forward contracts	2,862.8	Fair value losses on currency forward contracts in RMB (123.3)
Unhedged RMB currency exchange risk exposure	(3,731.8)	Net exchange gains in RMB 118.9
Equivalent to RMB' Million	(3,454.4)	

MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarises the sensitivity test on change in RMB against US\$ exchange rate for the six months ended 30 June 2023:

RMB against US\$	Impact on profit before income tax HK\$'Million
RMB appreciates by 10%	(373.2)
RMB depreciates by 10%	373.2

2.6 Income Tax Expenses

Income tax for the six months ended 30 June 2023 was HK\$153.8 million, compared to HK\$101.4 million in the corresponding period last year. The Group would evaluate regularly to consider the recognition of the deferred tax credit in future.

3. INTERIM CONSOLIDATED BALANCE SHEET

3.1 Assets

As at 30 June 2023, the Group's total assets amounted to HK\$63,185.6 million, compared with HK\$55,332.1 million as at 31 December 2022, representing an increase of HK\$7,853.5 million or 14.2%.

	Unaudited As at 30 June 2023 HK\$'Million	Audited As at 31 December 2022 HK\$'Million	Change
Property, plant and equipment and right-of-use assets	31,341.7	27,354.4	14.6%
Finance lease receivables – net	8,474.9	8,172.1	3.7%
Assets classified as held for sale	1,691.9	1,425.2	18.7%
Prepayments and other assets	13,378.6	11,367.6	17.7%
Investments in and loans to associates and joint ventures	1,113.4	1,354.4	-17.8%
Financial assets at fair value through profit or loss	866.0	769.5	12.5%
Derivative financial assets	116.4	221.4	-47.4%
Cash and bank balances	6,202.7	4,667.5	32.9%
Total assets	63,185.6	55,332.1	14.2%

MANAGEMENT DISCUSSION AND ANALYSIS

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 increase in property, plant and equipment and right-of-use assets was mainly due to the increase in the fleet size of the Group under operating lease from 97 aircraft as at 31 December 2022 to 108 aircraft as at 30 June 2023, which is netted-off by the depreciation provided during the current period.

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

Assets classified as held for sale represented cost of assets expected to be disposed in the next 12 months. During the six months ended 30 June 2023, one aircraft was reclassified as held for sale. The number of aircraft classified as held for sale increased from four aircraft as at 31 December 2022 to five aircraft as at 30 June 2023.

The total fleet size of the Group under property, plant and equipment and right-of-use assets, finance lease receivables – net and assets classified as held for sale is summarised as follows:

	As at 30 June 2023 Owned Aircraft	As at 31 December 2022 Owned Aircraft
Property, plant and equipment and right-of-use assets (Operating leases)	108	97
Finance lease receivables – net (Finance leases)	49	49
Assets classified as held for sale (Operating leases)	5	4
Total ^(note)	162	150

Note: Including two aircraft remained in Russia as at 30 June 2023.

The total fleet size of the Group under property, plant and equipment and right-of-use assets, finance lease receivables – net and assets classified as held for sale increased from 150 aircraft as at 31 December 2022 to 162 aircraft as at 30 June 2023.

As at 30 June 2023, the aggregate net book value of the aircraft is HK\$40,976.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1.2 Aircraft Portfolio

Aircraft portfolio by number of aircraft is as follows:

	As at 30 June 2023 Owned Aircraft	As at 31 December 2022 Owned Aircraft	As at 30 June 2022 Owned Aircraft
Aircraft Type			
Airbus A320 CEO family	85	85	80
Airbus A320 NEO family	37	27	21
Airbus A330 CEO family	13	13	13
Boeing B737 NG family	23	23	23
Boeing B737 MAX family	1	–	–
Boeing B787	1	1	1
COMAC ARJ21 series	2	1	–
Total ^(note)	162	150	138

Note: Including two aircraft remained in Russia as at 30 June 2023.

3.1.3 Prepayments and other Assets

Prepayments and other assets mainly represented Pre-Delivery Payments (“PDP”) made to aircraft manufacturers for aircraft acquisition from order book and operating lease receivables. The balance in prepayments and other assets remains stable.

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

	Unaudited		Audited	
	As at 30 June 2023		As at 31 December 2022	
	HK\$'Million	%	HK\$'Million	%
Current/deferral	168.3	35%	253.2	52%
Less than 30 days past due	5.7	1%	5.4	1%
30 to 90 days past due	24.1	5%	16.7	3%
More than 90 days past due	278.8	59%	217.1	44%
	476.9	100%	492.4	100%
Less: Accumulated expected credit losses allowance	(224.6)		(187.5)	
Total	252.3		304.9	

MANAGEMENT DISCUSSION AND ANALYSIS

With the recovery of aviation industry, there is an improvement in the rent collection. The operating lease receivables as at 30 June 2023 amounted to HK\$476.9 million, representing a decrease of HK\$15.5 million or 3.1%, compared with HK\$492.4 million as at 31 December 2022. The rent collection ratio, represented by the cash received over the amount of invoice billing, for the six months ended 30 June 2023 was 100.6% (For the six months ended 30 June 2022: 93.6%). The decrease in operating lease receivables is mainly due to the improved rent collection ratio and the repayment from the lessees on the overdue rent. The Group would prudently and consistently assess the credit losses allowance on the operating lease receivables, leading to an increase in the expected credit losses allowance.

3.2 Liabilities

As at 30 June 2023, the Group's total liabilities amounted to HK\$56,921.6 million, compared with HK\$49,075.9 million as at 31 December 2022, representing an increase of HK\$7,845.7 million or 16.0%.

An analysis is given as follows:

	Unaudited As at 30 June 2023 HK\$'Million	Audited As at 31 December 2022 HK\$'Million	Change
Borrowings	43,916.3	38,001.1	15.6%
Bonds and debentures	6,917.8	5,406.5	28.0%
Medium-term notes	1,619.0	1,696.5	-4.6%
Total interest-bearing debts	52,453.1	45,104.1	16.3%
Deferred income tax liabilities	1,111.5	1,057.1	5.1%
Interest payables	282.8	297.7	-5.0%
Income tax payables	66.5	45.9	44.9%
Derivative financial liabilities	175.8	52.5	234.9%
Other liabilities and accruals	2,831.9	2,518.6	12.4%
Total liabilities	56,921.6	49,075.9	16.0%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.1 Borrowings

The analysis of borrowings is as follows:

	Unaudited As at 30 June 2023 HK\$'Million	Audited As at 31 December 2022 HK\$'Million	Change
Bank and other borrowings			
Bank and other borrowings for aircraft acquisition financing	22,937.2	19,083.2	20.2%
PDP financing	9,991.4	7,180.3	39.2%
Other bank borrowings	6,099.3	6,821.2	-10.6%
	39,027.9	33,084.7	18.0%
Long-term borrowings			
Borrowings from trust plans	4,488.6	4,527.5	-0.9%
Other borrowings	399.8	388.9	2.8%
	4,888.4	4,916.4	-0.6%
Total borrowings	43,916.3	38,001.1	15.6%

The increase in total borrowings from HK\$38,001.1 million as at 31 December 2022 to HK\$43,916.3 million as at 30 June 2023 was mainly due to (i) the increase in bank and other borrowings for aircraft acquisition financing by HK\$3,854.0 million as the fleet size increased from 150 aircraft as at 31 December 2022 to 162 aircraft as at 30 June 2023 and (ii) the increase in PDP financing by HK\$2,811.1 million for the payment of PDP made to aircraft manufacturers for aircraft acquisition from order book.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.2 Bonds and Debentures

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

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (Million)	Carrying amount (HK\$'Million)	Note
March 2017	Seven years	March 2024	5.50%	US\$200.0	1,562.9	(a)
November 2020	Five years	November 2025	5.90%	US\$35.0	273.1	(c)
January 2021	Five years	January 2026	5.90%	US\$35.0	273.5	(c)
December 2021	Three years	December 2024	4.85%	US\$100.0	712.1	(a)&(b)
				US\$370.0	2,821.6	
August 2021	Three years	August 2024	4.20%	RMB100.0	107.9	(d)
February 2022	Three years	February 2025	4.40%	RMB1,200.0	1,292.8	(c)
October 2022	270 days	July 2023	3.56%	RMB1,000.0	1,079.6	(c)
June 2023	Three years	June 2026	3.85%	RMB1,500.0	1,615.9	(d)
				RMB3,800.0	4,096.2	
Total bonds and debentures as at 30 June 2023					6,917.8	
Total bonds and debentures as at 31 December 2022					5,406.5	

Notes:

- (a) These bonds are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (b) During the year ended 31 December 2022, the Group completed bonds repurchase on the Stock Exchange for an aggregate and principal amount of US\$8.2 million.
- (c) The bonds and debentures are unlisted and subscribed by independent third parties.
- (d) These bonds are listed on the Shanghai Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.3 Medium-term Notes

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

Issue date	Terms	Maturity date	Coupon interest per annum	Principal amount (RMB'Million)	Carrying amount (HK\$'Million)
April 2022	Three years	April 2025	4.50%	1,500.0	1,619.0
Total medium-term notes as at 30 June 2023				1,500.0	1,619.0
Total medium-term notes as at 31 December 2022					1,696.5

The senior unsecured medium-term notes issued by the Group remain unchanged at RMB1,500.0 million in the current period.

4. CAPITAL MANAGEMENT

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

Operations and capital expenditure requirements are funded by a combination of cash generated from operating activities, bank and other borrowings, long-term borrowings, issuance of bonds, debentures and medium-term notes, and the asset-light strategy including disposal of aircraft. In order to meet the current rapid expansion, the Group will also consider both equity and debt financing opportunities, and establishing various aircraft investment platform like CAG and other joint ventures.

For the six months ended 30 June 2023, the objectives, policies and processes for managing capital remained largely unchanged. The Group made full use of capital leverage to keep pace with aircraft delivery.

The Group monitors capital through gearing ratio and debt to equity ratio:

	Unaudited As at 30 June 2023 HK\$'Million	Audited As at 31 December 2022 HK\$'Million	Change
Interest-bearing debts included in total liabilities	52,453.1	45,104.1	16.3%
Total liabilities	56,921.6	49,075.9	16.0%
Total assets	63,185.6	55,332.1	14.2%
Total equity	6,264.0	6,256.2	0.1%
Gearing ratio	83.0%	81.5%	1.5p.p.
Asset-liability ratio	90.1%	88.7%	1.4p.p.
Interest-bearing debts to equity ratio	8.4:1	7.2:1	16.7%

MANAGEMENT DISCUSSION AND ANALYSIS

5. HUMAN RESOURCES

As at 30 June 2023, the number of the Group's staff is 183 (30 June 2022: 165). Total remuneration of employees for the six months ended 30 June 2023 amounted to HK\$77.8 million (For the six months ended 30 June 2022: HK\$70.2 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. The Group provided training programmes to employees to equip them with the requisite working skills and knowledge.

6. CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

6.1 Contingent Liabilities

As at 30 June 2023, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$588.9 million (31 December 2022: HK\$604.0 million), of which HK\$227.7 million (31 December 2022: HK\$274.4 million) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter-guarantee as mentioned above, the Group guaranteed HK\$361.2 million (31 December 2022: HK\$329.6 million) of these bank borrowings.

6.2 Capital Commitments and Qualified Aircraft Leasing Activity

The Board confirms that the Company is a listed company 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 Stock Exchange (the "Listing Rules")). Acquisition or disposal of aircraft is a Qualified Aircraft Leasing Activity pursuant to the Listing Rules.

The majority of the Group's capital commitments is aircraft purchase commitment, amounted to HK\$78.8 billion as at 30 June 2023 (31 December 2022: HK\$85.4 billion), representing the estimated total purchase costs of the aircraft contracted to be purchased and delivered, net of PDP paid.

As at 30 June 2023, the Group had 213 aircraft in its order book, comprising 120 Airbus A320 aircraft family, 65 Boeing B737 aircraft family and 28 ARJ21 series aircraft.

During the Review Period, the Group completed the delivery of 13 aircraft.

During the Review Period, the Group completed the disposal of one aircraft to a joint venture.

MANAGEMENT DISCUSSION AND ANALYSIS

7. SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2023, the Group did not have any significant investments.

8. MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2023, the Company did not have other material acquisitions or disposals of subsidiaries, associates or joint ventures.

9. PLEDGE ON ASSETS

Details of pledge on assets of the Group are set out in Note 6, Note 16 and Note 19 to the interim condensed consolidated financial information.

10. FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2023, the Group did not have any plans for material investments or capital assets.

GENERAL INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2023, 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 were as follows:

Name of Directors	Capacity	Number of Shares held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares/underlying Shares held	Total interests	
POON Ho Man	Interest of controlled corporation	185,827,261 ⁽³⁾	185,827,261	24.96%
LIU Wanting	Interest of controlled corporation	12,278,069 ⁽⁴⁾	17,078,069	2.29%
	Beneficial owner	4,800,000 ⁽⁵⁾		
CHEOK Albert Saychuan	Beneficial owner	5,000	5,000	0.001%

GENERAL INFORMATION

DISCLOSURE OF INTERESTS *(continued)*

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

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 744,355,352 Shares in issue as at 30 June 2023.
- (3) Mr. POON Ho Man was deemed to be interested in 185,827,261 Shares by virtue of the SFO in the following manner:
 - (a) 176,496,672 Shares held by Friedmann Pacific Asset Management Limited, a substantial Shareholder wholly-owned by Capella Capital Limited which in turn was owned as to 50% by Ms. Christina NG and 50% by Mr. POON; and
 - (b) 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.
- (4) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. LIU Wanting.
- (5) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Ms. LIU Wanting pursuant to the Post-IPO Share Option Scheme (as defined below).

Save as disclosed above, as at 30 June 2023, 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 interim report, at no time during the six months ended 30 June 2023 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 was a party that would enable the Directors to acquire such rights in any other body corporate.

GENERAL INFORMATION

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

Based on the information available to the Directors as at 30 June 2023 (including such information as was available on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") or so far as they are aware of, as at 30 June 2023, 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 were as follows:

Name of shareholders	Capacity	Number of Shares held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares held	Total interests	
CEL Aviation Investment Holdings Limited ("CEL Aviation")	Beneficial owner	244,065,373 ⁽³⁾	244,065,373	32.79%
China Everbright Limited ("CEL")	Interest of controlled corporation	283,417,693 ⁽³⁾	283,417,693	38.08%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	283,417,693 ⁽⁴⁾	283,417,693	38.08%
China Everbright Group Ltd ("CE Group")	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.08%
Central Huijin Investment Limited ("Central Huijin")	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.08%
Friedmann Pacific Asset Management Limited ("FPAM")	Beneficial owner	176,496,672 ⁽⁶⁾	176,496,672	23.71%
Capella Capital Limited ("Capella")	Interest of controlled corporation	176,496,672 ⁽⁶⁾	176,496,672	23.71%
POON Ho Man	Interest of controlled corporation	185,827,261 ^{(7) & (8)}	185,827,261	24.96%
Christina NG	Interest of controlled corporation Beneficial owner	176,496,672 ⁽⁷⁾ 7,500,000	183,996,672	24.72%

GENERAL INFORMATION

DISCLOSURE OF INTERESTS *(continued)*

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

Notes:

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 744,355,352 Shares in issue as at 30 June 2023.
- (3) By virtue of the SFO, CEL was deemed to be interested in 244,065,373 and 39,352,320 Shares held by CEL Aviation and China Everbright Financial Investments Limited respectively, both of which were wholly-owned by CEL.
- (4) CEL was owned as to 49.39% by Honorich Holdings Limited and 0.35% by Everbright Investment & Management Limited, both of which were wholly-owned by CE Hong Kong. CE Hong Kong therefore 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 by virtue of the SFO.
- (5) Central Huijin held 63.16% interest in CE Group which in turn held 100% interest in CE Hong Kong. Accordingly, CE Group and Central Huijin were deemed to be interested in all Shares mentioned in notes (3) and (4) above by virtue of the SFO.
- (6) FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM by virtue of the SFO.
- (7) 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 by virtue of the SFO.
- (8) Mr. POON Ho Man was interested in 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON.

Save as disclosed above, as at 30 June 2023, 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, 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.

GENERAL INFORMATION

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Board is committed to attaining and maintaining high standards of corporate governance and it applies corporate governance practices appropriate to the conduct and growth of business of the Group that emphasise a quality board, accountability to all stakeholders, open communication and fair disclosure. It is the firm belief of the Company that a good and solid corporate governance framework is essential to the successful growth of the Company and the enhancement of shareholder value. 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 part 2 of the CG Code during the six months ended 30 June 2023.

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

Directors’ Securities Transactions

The Company has adopted the Model Code as the code of conduct regarding securities transactions by its Directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in the Model Code regarding their dealing in securities during the six months ended 30 June 2023.

GENERAL INFORMATION

BOARD COMMITTEES

Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.21 of the Listing Rules and the principle and code provisions under paragraph D.3 of part 2 of the CG Code, and have been posted on the websites of both HKEX and the Company. The primary duties of the Audit Committee include but not limited to reviewing and supervising the Group's financial reporting process, internal audit function, internal control and risk management systems, and providing advices and comments to the Board. As at the date of this interim report, the Audit Committee consisted of 3 members: Mr. FAN Chun Wah, Andrew, J.P. (chairman), Mr. CHEOK Albert Saychuan and Dr. TSE Hiu Tung, Sheldon, all of whom are independent non-executive Directors (the "INEDs"). The chairman of the Audit Committee holds appropriate professional qualifications or expertise in accounting or relevant financial management.

During the Review Period, the Audit Committee had reviewed the accounting principles and practices adopted by the Group and discussed matters regarding auditing, internal control, risk management and financial reporting with the management team and PricewaterhouseCoopers ("PwC"), the external auditor of the Company, including the following:

- the review of the audited consolidated financial statements of the Group for the year ended 31 December 2022 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2023, 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; and
- 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.

The Audit Committee was satisfied that the Group's unaudited consolidated financial statements for the six months ended 30 June 2023 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the Review Period.

GENERAL INFORMATION

BOARD COMMITTEES *(continued)*

Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference which aligned with Rule 3.25 of the Listing Rules and the principle and code provisions under paragraph E.1 of part 2 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 interim report, the Remuneration Committee consisted of 5 members: Dr. TSE Hiu Tung, Sheldon (chairman), Mr. CHEOK Albert Saychuan and Mr. FAN Chun Wah, Andrew, *J.P.*, all of whom are INEDs; Ms. WANG Yun, a non-executive Director and Mr. POON Ho Man, an executive Director.

During the Review Period, the Remuneration Committee had 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 the principle and code provisions under paragraph B.3 of part 2 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 interim report, the Nomination Committee consisted of 3 members: Mr. CHEOK Albert Saychuan (chairman), Dr. TSE Hiu Tung, Sheldon and Mr. FAN Chun Wah, Andrew, *J.P.*, all of whom are INEDs.

During the Review Period, the Nomination Committee had reviewed the Board diversity policy covering the structure, size and composition of the Board, assessed the independence of INEDs and made recommendation to the Board on the appointment of new Directors and 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 on 23 June 2014, which became effective on the listing date of 11 July 2014.

As at 1 January 2023 and 30 June 2023, the number of options available for grant under the scheme mandate was 27,142,900.

On 6 April 2022, options to subscribe for 20,900,000 Shares in aggregate were granted to Ms. LIU Wanting, an executive Director, and certain employees (including senior management) of the Group pursuant to the Post-IPO Share Option Scheme, details of which are set out in the Company's announcement dated 6 April 2022.

During the Review Period, no option was granted pursuant to the Post-IPO Share Option Scheme. Therefore, the number of shares that may be issued in respect of options granted under the Post-IPO Share Option Scheme during the six months ended 30 June 2023 divided by the weighted average number of the shares in issue for the six months ended 30 June 2023 is 0%.

GENERAL INFORMATION

POST-IPO SHARE OPTION SCHEME (continued)

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

Name of grantees	Date of grant	Number of Shares under options					At 30 June 2023	Weighted average closing price of the Shares immediately before the dates on which the options were exercised	Exercise price per Share HK\$	Closing price per Share Immediately before date of grant HK\$	Exercise period
		At 1 January 2023	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period					
Directors											
LIU Wanting	6 Apr 2022	4,800,000	-	-	-	-	4,800,000	-	6.36	5.37	6 Apr 2023 to 5 Apr 2025 ⁽¹⁾
Sub-total		4,800,000	-	-	-	-	4,800,000	-			
Senior management and other employees	6 Apr 2022	16,100,000	-	-	-	515,000	15,585,000	-	6.36	5.31	6 Apr 2023 to 5 Apr 2025 ⁽¹⁾
Sub-total		16,100,000	-	-	-	515,000	15,585,000	-			
Total		20,900,000	-	-	-	515,000	20,385,000	-			

Note:

- (1) Subject to the achievement of certain individual performance targets as determined by the chief executive officer of the Company at his sole and absolute discretion within relevant periods, 50% and 50% of the share options granted on 6 April 2022 has vested on 6 April 2023 and will vest on 6 April 2024 respectively and become exercisable within the exercise period.

Further details of the Post-IPO Share Option Scheme are set out in the prospectus of the Company dated 30 June 2014 and the 2022 annual report of the Company (the "2022 Annual Report") published on 17 April 2023.

GENERAL INFORMATION

POST-IPO SHARE OPTION SCHEME (continued)

The Board also wishes to provide certain supplemental information to the Post-IPO Share Option Scheme for the year ended 31 December 2022 as set out in the 2022 Annual Report as below:

Name of grantees	Date of grant	Number of Shares under options					At 31 December 2022 (unvested)	Exercise price per Share HK\$	Closing price per Share immediately before date of grant HK\$	Exercise period
		At 1 January 2022	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year	At 31 December 2022				
Directors										
ZHAO Wei ⁽¹⁾	2 January 2020	10,000,000	-	-	(10,000,000) ⁽²⁾	-	8.13 ⁽³⁾	8.29	18 April 2022 to 17 April 2024 ⁽⁴⁾	
LIU Wanting	6 April 2022 ⁽⁶⁾	-	4,800,000	-	-	4,800,000	6.36	5.37	6 April 2023 to 5 April 2025 ⁽⁵⁾	
Sub-total		10,000,000	4,800,000	-	(10,000,000)	4,800,000				
Employees										
Senior management and other employees	6 April 2022 ⁽⁶⁾	-	16,100,000	-	-	16,100,000	6.36	5.37	6 April 2023 to 5 April 2025 ⁽⁵⁾	
Sub-total		-	16,100,000	-	-	16,100,000				
Total		10,000,000	20,900,000	-	(10,000,000)	20,900,000				

Notes:

- (1) Dr. ZHAO Wei resigned as the Chairman of the Board and an executive Director with effect from 14 October 2022.
- (2) All share options granted to Dr. ZHAO Wei were lapsed on 21 July 2022.
- (3) The original exercise price of share options granted to Dr. ZHAO Wei was HK\$9.00. On 4 November 2021, the exercise price of all outstanding share options has been adjusted to HK\$8.13 per Share as a result of capitalisation issues.
- (4) The original exercise period of share options granted to Dr. ZHAO Wei expired on 17 April 2022. As approved by the Shareholders at an extraordinary general meeting of the Company held on 23 May 2022, the exercise period of all outstanding share options has been extended for 2 years from 18 April 2022 to 17 April 2024.
- (5) Subject to the achievement of certain individual performance targets as determined by the CEO at his sole and absolute discretion within relevant periods, 50% and 50% of the share options granted on 6 April 2022 has vested on 6 April 2023 and will vest on 6 April 2024 respectively and become exercisable within the exercise period.

GENERAL INFORMATION

POST-IPO SHARE OPTION SCHEME (continued)

Notes: (continued)

- (6) The fair value of the share options granted on 6 April 2022 to both (i) the Director and (ii) senior management and employees on the grant date determined by using Binomial valuation model was approximately HK\$0.3 per option.

Significant judgement on parameters, such as spot price at the grant date, risk free interest rate, dividend yield, expected volatility and suboptimal exercise factor are required to be made by the directors in applying the Binomial valuation model. The parameters used are as follows:

Spot share price at the grant date	HK\$5.31
Risk free rate (Note 1)	2.39%
Dividend yield (Note 2)	8.0%
Expected volatility (Note 3)	24.4%
Suboptimal exercise factor	2.5

Notes:

1. Risk free rates were based on Hong Kong Exchange Fund Notes with same duration.
2. Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.
3. Expected volatility was determined by using the daily volatility of the Company's shares in similar duration as at the valuation date.

Set below are the accounting standard and policy adopted in respect of all the options granted under the Post-IPO Share Option Scheme:

- (a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares over which the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

In addition, in some circumstances employees or consultants may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

GENERAL INFORMATION

POST-IPO SHARE OPTION SCHEME *(continued)*

Notes: *(continued)*

(6) *(continued)*

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the financial statements of the Company.

The consideration of HK\$1 for acceptance of the options offered shall be paid upon acceptance, which shall be made within 21 business days from the date of the offer.

For the share options granted to Ms. LIU Wanting (a Director), senior management and employees on 6 April 2022, the Company has specified certain performance targets which must be satisfied before vesting in the respective grant letter to each individual, which was based on the business plan for that year. Such performance targets varied among each grantee and may include operational, financial, and business targets, as well as individual key performance indicators, depending on the role and position of each individual.

As at 1 January 2022 and 31 December 2022, the number of options available for grant under the scheme mandate was 38,042,900 and 27,142,900, respectively.

Should all of the 20,900,000 options granted during the year ended 31 December 2022 be fully exercised, 20,900,000 shares would be issued. Therefore, the number of shares that may be issued in respect of options granted under the Post-IPO Share Option Scheme during the year ended 31 December 2022 divided by the weighted average number of the shares in issue for the year ended 31 December 2022 (i.e. 744,355,000) is 2.81%.

The Board also wishes to provide the following supplemental information to the corporate governance report of the Company for the year ended 31 December 2022 as set out in the 2022 Annual Report:

In respect of the options granted to certain Director, senior management and employee on 6 April 2022 under the Post-IPO Share Option Scheme, there was no clawback mechanism for all grantees. Under the Post-IPO Share Option Scheme, which was adopted before the effective date of the new Chapter 17 of the Listing Rules, there is no provision mandating a performance target or clawback mechanism, as the grant of options is determined based on the contributions of the selected Directors, senior management and employees during the preceding year rather than for the current year. Also, the primary reason for the grants were to recognise the commitment, support and satisfactory performance of the grantees and, in the case of the Director, the leadership, management and strategic business development provided by such Director. Therefore, there is no necessity for additional performance targets and clawback mechanism as the fulfilment of the purpose of the Post-IPO Share Option Scheme could be achieved without such requirements, although the Board may still impose such conditions (including performance targets) as it may think fit for each grant. The Remuneration Committee believed that the options granted aligned the interests of the selected Directors, senior management and employees with those of the Group through the ownership of Shares, dividends and other distributions paid on the Shares and/or the increase in value of the Shares, and to encourage and retain the selected Directors, senior management and employees to make contributions to the long-term growth and profits of the Group. To promote retention, the unvested options shall lapse if the selected respective Directors, senior management and employees cease to be employed by the Group prior to the vesting date in accordance with terms of the Post-IPO Share Option Scheme. The Remuneration Committee was of the view that such an arrangement aligns with the purpose of the scheme.

GENERAL INFORMATION

OTHER INFORMATION

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

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

Mr. FAN Yan Hok, Philip retired as an Independent Non-executive Director of the Company, and accordingly ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee, with effect from the conclusion of the annual general meeting of the Company held on 16 May 2023.

Dr. TSE Hiu Tung, Sheldon has been re-designated from a member of the Remuneration Committee to the chairman of the Remuneration Committee with effect from 16 May 2023. He is also a member of each of the Audit Committee and the Nomination Committee. Dr. Tse has been appointed as an independent non-executive director of Wise Living Technology Co., Ltd (stock code: 2481.HK) on 29 May 2023.

Mr. CHEOK Albert Saychuan has been re-designated from the chairman of the Audit Committee to a member of the Audit Committee with effect from 16 May 2023. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. FAN Chun Wah, Andrew, *J.P.* has been appointed as an INED on 14 March 2023 and the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee with effect from 16 May 2023. Accordingly, Mr. Andrew FAN has been entitled to a total fee of HK\$390,000 per annum under his letter of appointment (including a Director's fee of HK\$200,000, and fees of HK\$100,000 for being a the chairman of the Audit Committee, HK\$50,000 for being a member of the Remuneration Committee and HK\$40,000 for being a member of the Nomination Committee since 16 May 2023), which were determined with reference to his duties and responsibilities with the Company and the prevailing market condition. He has been appointed as an independent non-executive director of China Overseas Grand Oceans Group Limited (stock code: 0081.HK) on 27 March 2023.

Mr. WANG Hongyang resigned as a Non-executive Director, a member of each of Remuneration Committee and Sustainability Steering Committee on Environmental, Social and Governance Issues and chairman of Strategy Committee of the Company with effect from 11 July 2023.

Ms. WANG Yun has been appointed as a Non-executive Director, a member of each of Remuneration Committee and Sustainability Steering Committee on Environmental, Social and Governance Issues and chairman of Strategy Committee of the Company with effect from 11 July 2023. She has been appointed as a non-executive and non-independent director of Ying Li International Real Estate Limited (stock code: 5DM.SGX) on 14 July 2023.

Ms. LIU Wanting resigned as a director of Linkasia Airlines Group Limited on 31 May 2023. She also resigned as a director of Aircraft Recycling International Limited on 23 June 2023.

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

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

GENERAL INFORMATION

OTHER INFORMATION *(continued)*

Events after the Review Period

On 14 August 2023, the Company (through a wholly-owned subsidiary of the Company, i.e. the Novator) entered into the Novation Agreement with the Novatee pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "Novation Arrangement"). To facilitate and as part of the Novation Arrangement, another subsidiary of the Company (i.e. the Seller) entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. It was estimated that completion of the Novation Arrangement would take place on or about 30 August 2023. Please refer to the announcement of the Company dated 14 August 2023 for details.

Saved as the above disclosure, there were no material subsequent events since 30 June 2023, being the end of the Review Period up to the date of this interim report.

Public Float

Based on the information publicly available to the Company and as far as the Directors were aware as at the date of this interim report, the Company has maintained the prescribed public float under the Listing Rules.

Interim Dividend

The Board has declared the payment of an interim dividend of HK\$0.15 per Share for the six months ended 30 June 2023 (2022 interim dividend: HK\$0.15 per Share) to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company (the "Register of Members") on Wednesday, 13 September 2023. The 2023 interim dividend will be paid in cash on or about Friday, 6 October 2023.

Closure of Register of Members

For the purpose of determining the Shareholders' entitlement to the interim dividend, the Register of Members will be closed from Monday, 11 September 2023 to Wednesday, 13 September 2023, both days inclusive, during which, no transfer of shares will be registered. The record date on which the Shareholders are qualified to receive the interim dividend is Wednesday, 13 September 2023. In order to be eligible for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Friday, 8 September 2023 for registration.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

By order of the Board

China Aircraft Leasing Group Holdings Limited

POON HO MAN

Executive Director and Chief Executive Officer

Hong Kong, 22 August 2023

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 36 to 86, 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 2023 and the interim consolidated statement of income, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows for the six-month period then ended, and selected 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” issued by the Hong Kong Institute of Certified Public Accountants. 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, 22 August 2023

INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
ASSETS			
Property, plant and equipment and right-of-use assets	6	31,341,659	27,354,373
Investments in and loans to associates and joint ventures	7	1,113,427	1,354,410
Finance lease receivables – net	8	8,474,952	8,172,086
Financial assets at fair value through profit or loss	9	866,025	769,462
Derivative financial assets	19	116,411	221,399
Prepayments and other assets	10	13,376,592	11,362,415
Assets classified as held for sale	11	1,691,878	1,425,199
Aircraft components trading assets		1,965	5,245
Restricted cash		784,709	1,114,958
Cash and cash equivalents		5,417,966	3,552,533
Total assets		63,185,584	55,332,080
EQUITY			
Share capital	12	74,436	74,436
Reserves	13	2,293,296	2,314,613
Retained earnings		2,365,765	2,276,247
Equity attributable to shareholders of the Company		4,733,497	4,665,296
Perpetual capital securities and other non-controlling interests	14	1,530,503	1,590,921
Total equity		6,264,000	6,256,217
LIABILITIES			
Deferred income tax liabilities	15	1,111,540	1,057,059
Borrowings	16	43,916,287	38,001,150
Medium-term notes	17	1,618,998	1,696,509
Bonds and debentures	18	6,917,832	5,406,490
Derivative financial liabilities	19	175,791	52,543
Income tax payables		66,468	45,850
Interest payables		282,763	297,689
Other liabilities and accruals	20	2,831,905	2,518,573
Total liabilities		56,921,584	49,075,863
Total equity and liabilities		63,185,584	55,332,080

The notes on pages 42 to 86 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 22 August 2023 and was signed on its behalf.

ZHANG Mingao
Director

POON Ho Man
Director

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	Unaudited	
		Six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
Total revenue			
Lease income			
Finance lease income		296,555	284,403
Operating lease income		1,759,898	1,369,364
	21	2,056,453	1,653,767
Other operating income			
Net income from aircraft transactions and aircraft components trading	22	44,695	66,492
Other income	23	225,109	170,532
		2,326,257	1,890,791
Expenses			
Interest expenses	24	(1,075,871)	(757,857)
Depreciation	6	(748,034)	(590,692)
Expected credit losses		(51,782)	(51,834)
Other operating expenses	25	(147,825)	(140,600)
		(2,023,512)	(1,540,983)
Net write-off of two aircraft remained in Russia	26	–	(439,029)
Share of results from associates and joint ventures		(1,267)	1,800
Other gains, net	27	159,257	118,363
Profit before income tax		460,735	30,942
Income tax expenses	28	(153,833)	(101,381)
Profit/(Loss) for the period		306,902	(70,439)
Profit/(Loss) attributable to			
Shareholders of the Company		201,171	(130,160)
Holders of perpetual capital securities and other non-controlling interests		105,731	59,721
		306,902	(70,439)
Earnings/(Losses) per share for profit/(loss) attributable to shareholders of the Company (expressed in HK\$ per share)			
– Basic earnings/(losses) per share	30(a)	0.270	(0.175)
– Diluted earnings/(losses) per share	30(b)	0.270	(0.175)

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited	
		2023	2022
		HK\$'000	HK\$'000
Profit/(Loss) for the period		306,902	(70,439)
Other comprehensive (loss)/income for the period:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges	19	(78,659)	249,339
Currency translation differences		56,672	53,042
		(21,987)	302,381
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences attributable to non-controlling interests		729	(279)
Total other comprehensive (loss)/income for the period, net of tax		(21,258)	302,102
Total comprehensive income for the period		285,644	231,663
Total comprehensive income for the period attributable to			
Shareholders of the Company		179,184	172,221
Holders of perpetual capital securities and other non-controlling interests		106,460	59,442
		285,644	231,663

The notes on pages 42 to 86 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 HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Balance as at 1 January 2023	74,436	2,314,613	2,276,247	4,665,296	1,590,921	6,256,217
Comprehensive income						
Profit for the period	-	-	201,171	201,171	105,731	306,902
Other comprehensive (loss)/income						
Cash flow hedges (Note 19)	-	(78,659)	-	(78,659)	-	(78,659)
Currency translation differences	-	56,672	-	56,672	729	57,401
Total comprehensive (loss)/income	-	(21,987)	201,171	179,184	106,460	285,644
Transaction with shareholders and non-controlling interests						
Dividends (Note 29)	-	-	(111,653)	(111,653)	-	(111,653)
Dividends distributed to perpetual capital securities (Note 14(a))	-	-	-	-	(166,878)	(166,878)
Share option scheme:						
– Value of services (Note 13)	-	1,126	-	1,126	-	1,126
– Share options lapsed (Note 13)	-	(456)	-	(456)	-	(456)
Total transactions with shareholders and non-controlling interests	-	670	(111,653)	(110,983)	(166,878)	(277,861)
Balance as at 30 June 2023	74,436	2,293,296	2,365,765	4,733,497	1,530,503	6,264,000
Balance as at 1 January 2022	74,762	1,987,850	2,507,621	4,570,233	1,447,022	6,017,255
Comprehensive income						
(Loss)/Profit for the period	-	-	(130,160)	(130,160)	59,721	(70,439)
Other comprehensive income/(loss)						
Cash flow hedges (Note 19)	-	249,339	-	249,339	-	249,339
Currency translation differences	-	53,042	-	53,042	(279)	52,763
Total comprehensive income/(loss)	-	302,381	(130,160)	172,221	59,442	231,663
Transaction with shareholders and non-controlling interests						
Dividends	-	-	(193,319)	(193,319)	-	(193,319)
Dividends distributed to perpetual capital securities (Note 14(a))	-	-	-	-	(15,727)	(15,727)
Cancellation of shares (Note 12)	(408)	495	-	87	-	87
Share option scheme:						
– Value of services (Note 13)	-	1,500	-	1,500	-	1,500
Total transactions with shareholders and non-controlling interests	(408)	1,995	(193,319)	(191,732)	(15,727)	(207,459)
Balance as at 30 June 2022	74,354	2,292,226	2,184,142	4,550,722	1,490,737	6,041,459

The notes on pages 42 to 86 form an integral part of this interim condensed consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited	
		2023	2022
		HK\$'000	HK\$'000
Cash flows from operating activities			
Profit before income tax		460,735	30,942
Adjustments for:			
– Depreciation	6	748,034	590,692
– Net income from aircraft transactions	22	(38,615)	(64,756)
– Expected credit losses		51,782	51,834
– Net write-off of two aircraft remained in Russia	26	–	439,029
– Interest expenses	24	1,075,871	757,857
– Share-based payments		670	1,500
– Unrealised currency exchange gains		(184,295)	(193,958)
– Fair value changes attributable to interest rate and fair value changes on currency swap and currency forward contracts	19	88,768	80,189
– Share of results from associates and joint ventures		1,267	(1,800)
– Interest income	23	(89,159)	(57,121)
– Fair value gains on financial assets at fair value through profit or loss	27	(21,393)	(18,364)
		2,093,665	1,616,044
Changes in working capital:			
– Finance lease receivables – net		(273,901)	(221,569)
– Prepayments and other assets		(50,775)	(100,899)
– Aircraft components trading assets		3,280	4,049
– Other liabilities and accruals		(1,586)	224,623
Cash generated from operations		1,770,683	1,522,248
Income taxes paid		(77,937)	(62,689)
Net cash flows generated from operating activities		1,692,746	1,459,559
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,493,510)	(1,468,604)
Proceeds from disposal of aircraft		486,485	1,111,281
Pre-Delivery Payments (“PDP”) and prepayments paid for acquisition of aircraft		(4,556,868)	(5,128,287)
PDP refunded for acquisition of aircraft		902,152	947,304
Interest received		97,305	61,192
Investment in financial assets at fair value through profit or loss		(55,144)	(3,136)
Proceeds from distribution of financial assets at fair value through profit or loss		–	28,698
Investment in associates and joint ventures		–	(5,057)
Payments relating to loans to associates and joint ventures		(63,213)	(141,044)
Repayments of loans to associates and joint ventures		259,790	22,473
Net cash flows used in investing activities		(6,423,003)	(4,575,180)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Cash flows from financing activities		
Proceeds from borrowings	12,917,456	10,847,022
Issue of notes, bonds and debentures, net of transaction costs	1,693,328	3,308,567
Repayments of borrowings	(6,875,404)	(6,238,678)
Repurchase and repayment of bonds and debentures, including transaction costs	–	(4,041,501)
Repayment of lease liabilities	(7,643)	(7,499)
Proceeds from disposal of derivative financial instruments	60,481	–
Interest received/(paid) in respect of derivative financial instruments	47,715	(54,458)
Interest paid in respect of borrowings, notes and bonds and debentures	(1,410,193)	(777,307)
Pledge of deposits placed in respect of borrowings	(598,414)	(263,977)
Pledge of deposits withdrawn in respect of borrowings	1,022,116	18,748
Pledge of deposits placed in respect of derivative financial instruments	(131,417)	(11,307)
Pledge of deposits withdrawn in respect of derivative financial instruments	17,003	149,787
Net cash flows generated from financing activities	6,735,028	2,929,397
Net increase/(decrease) in cash and cash equivalents	2,004,771	(186,224)
Cash and cash equivalents at beginning of the period	3,552,533	4,776,389
Currency exchange difference on cash and cash equivalents	(139,338)	(54,256)
Cash and cash equivalents at end of the period	5,417,966	4,535,909

The notes on pages 42 to 86 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 2023 ("Interim Financial Information") is presented in Hong Kong Dollar ("HK\$"), unless otherwise stated.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". The Interim Financial Information should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and included in the 2022 annual report of the Company.

Going concern

As at 30 June 2023, the Group's current liabilities exceeded its current assets by HK\$16,188.8 million. The Group had total capital commitments of HK\$78,826.1 million as at 30 June 2023, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years until the end of 2027. Out of the total capital commitments, HK\$15,884.1 million is forecasted to be incurred and payable within one year based on the current delivery schedules and forecasted delivery schedules with the Original Equipment Manufacturers ("OEMs"). The Group will satisfy these capital commitments through the Group's internal resources, available and additional banking facilities and aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 30 June 2023, the Group had cash and bank balances of HK\$6,202.7 million and undrawn borrowing facilities of HK\$3,990.3 million. The total balance of cash and bank balances with undrawn borrowing facilities was HK\$10,193.0 million.

The Group will need to secure a substantial amount of funds in the foreseeable future to finance the 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 2023. The directors have taken into account the following plans and measures for the purposes of their assessment:

- According to the relevant aircraft purchase agreements, the scheduled payment of Pre-Delivery Payments ("PDP") for the next twelve months from 30 June 2023 amounts to HK\$7,591.2 million.

The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approvals from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on their experience, latest delivery schedule and industry knowledge.

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

On 14 August 2023, the Company (through a wholly-owned subsidiary of the Company, i.e. the Novator) entered into the Novation Agreement with the Novatee pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "Novation Arrangement"). To facilitate and as part of the Novation Arrangement, another subsidiary of the Company (i.e. the Seller) entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. It is estimated that completion of the Novation Arrangement will take place on or about 30 August 2023. Please refer to the announcement of the Company dated 14 August 2023 for details. With the completion of the Novation Arrangement, the scheduled payment of PDP and aircraft delivery will be significantly reduced. The proceeds from the Novation Arrangement will be used to repay various financing maturing in the next twelve months from 30 June 2023.

In addition, three PDP facilities are set to expire and the utilised facility drawdowns of HK\$6,222.8 million will need to be repaid in the next twelve months from 30 June 2023.

For the scheduled payment of PDP and repayment of utilised facility drawdowns under the facilities expiring in the next twelve months from 30 June 2023, significant portion will be repaid by the proceeds from the Novation Arrangement and the PDP facilities to be released when PDP financing is repaid. The Group has initiated the process to obtain new PDP loan facilities with various onshore and offshore banks and financial institutions. In particular, up to August 2023, approval is already obtained from a mandated lead arranging bank for a new syndicated facility. With the recovery of aviation industry, the directors believe that certain lenders of our existing PDP syndication are interested in participating in a new PDP syndication and given the Group's past experience in renewing PDP facilities, the directors are confident that the Group will be able to obtain new PDP facilities in the next twelve months from 30 June 2023. With such new facilities, internal resources and/or facilities obtained from other financing channels of the Group, the Group will be able to satisfy payments of the committed PDP and repayment of PDP facilities at maturity in the next twelve months from 30 June 2023.

- The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful in adjusting the delivery schedules in the past. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs may accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances. Based on its experience, the directors are confident that it would be able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances, and obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next twelve months from 30 June 2023 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 which is usually due upon delivery of aircraft. New aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes finances the new aircraft with internal resources or short-term bridging financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the six months ended 30 June 2023, the Group has obtained 30 aircraft project loan facilities of HK\$7,578.1 million from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time subsequent to 30 June 2023. Based on these aircraft project loan arrangements, the directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next twelve months from 30 June 2023. With the completion of the Novation Arrangement, the aircraft delivery and the relevant aircraft project loans will be significantly reduced.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

Going concern *(continued)*

- As at 30 June 2023, the Group had working capital loan and revolving loan facilities of HK\$7,502.6 million out of which HK\$6,229.3 million has been utilised. Based on the previous experience, the directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK\$1,273.3 million as and when required and will be able to renew substantially all the existing revolving facilities.
- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes and so on. In particular, the Group has obtained approval from the China Securities Regulatory Commission for issuance of unsecured bonds with a principal amount of RMB2.0 billion or less in the PRC within a two-year period from October 2022. In June 2023, the Group completed the issuance of three-year corporate bonds of RMB1.5 billion in the PRC. The Group will continue to review the market conditions and may issue RMB super short-term debentures, RMB medium-term notes and RMB bonds when needed. Based on the credit profile of the Group, the successful history of issuance of similar debt instruments, the directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.
- The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled to dispose certain aircraft in the next twelve months from 30 June 2023. As of 22 August 2023, the Group has signed sale and purchase agreements or letters of intent for the disposals of 12 aircraft. Based on the Group's past experience in aircraft portfolio trading, the directors are confident that the scheduled disposals of aircraft will be completed, and the proceeds will be collected according to the expected schedule in the next twelve months from 30 June 2023.

The directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, the cash flows generated from its business operations, continued availability of existing and new banking facilities, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments, the successful disposals of aircraft as planned and the completion of the Novation Arrangement, the Group has sufficient working capital for its present requirements in the next twelve months from 30 June 2023. 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 2022.

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 2023:

Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2
Definition of Accounting Estimates – Amendments to HKAS 8
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12

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

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 2022.

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 2022.

There have been no significant changes in the risk management department or in any risk management policies since 31 December 2022.

5.1.1 Market risk

(a) Currency exchange risk

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

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5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(a) Currency exchange risk (continued)

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

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Cash and cash equivalents	1,900,890	649,087
Other financial assets	822,448	205,287
Total financial assets	2,723,338	854,374
Bank borrowings	(2,331,374)	(784,207)
Medium-term notes	(1,618,998)	(1,696,509)
Bonds and debentures	(4,096,207)	(2,598,653)
Other financial liabilities	(721,486)	(478,734)
Total financial liabilities	(8,768,065)	(5,558,103)
Notional amount of currency forward contracts	2,862,795	2,604,290
Net exposure	(3,181,932)	(2,099,439)

As at 30 June 2023, the Group had one outstanding currency swap contract with notional principal of US\$15,684,000 (equivalent to approximately HK\$122,898,000) (31 December 2022: US\$15,684,000 (equivalent to approximately HK\$122,458,000)). For details, please refer to Note 19.

The following table indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB against US\$ for six months ended 30 June in 2023 and 2022:

	Unaudited Six months ended 30 June 2023 HK\$'000	2022 HK\$'000
Profit before tax		
– 5% appreciation of RMB against US\$	(164,286)	(76,147)
– 5% depreciation of RMB against US\$	164,286	76,147

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

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

(b) Cash flow and fair value interest rate risk

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

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

The Group manages the cash flow interest rate risk by matching the rental rates of aircraft leases with interest rates of bank and other borrowings. Interest rate exposure arises when rental rates of the leases and the interest rates of corresponding bank and other borrowings do not match. The following table indicates the amount of bank and other borrowings exposed to interest rate risk as at 30 June 2023 and 31 December 2022.

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Borrowings exposed to US\$ London Interbank Offered Rate ("LIBOR")	8,321,559	16,319,859
Borrowings exposed to US\$ Secured Overnight Financing Rate ("SOFR")	18,036,700	5,962,198
Borrowings exposed to RMB Loan Prime Rate ("LPR")	4,646,193	3,668,483
	31,004,452	25,950,540

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

As at 30 June 2023, the Group had 19 outstanding floating-to-fixed interest rate swaps (31 December 2022: 27 swaps) to manage its unmatched interest rate risk exposure. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference in the amount of interest between the fixed rate and the floating rate calculated by reference to the agreed notional amounts. For the remaining unhedged exposure, the Group closely monitors the interest rate exposure trend and will consider hedging the exposure where necessary and appropriate.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.1 Market risk (continued)

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

	Unaudited		Audited	
	As at 30 June 2023		As at 31 December 2022	
	Notional amount HK\$'000	Carrying Value HK\$'000	Notional amount HK\$'000	Carrying Value HK\$'000
Interest rate swaps				
Exposed to US\$ LIBOR	–	–	5,277,723	202,272
Exposed to US\$ SOFR	3,208,767	100,392	169,198	9,283
	3,208,767	100,392	5,446,921	211,555

The Group performs sensitivity analysis by measuring the impact of a change in interest rates as at 30 June 2023. It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax for the six months ended 30 June 2023 by approximately HK\$33,418,000 (six months ended 30 June 2022: decreased/increased by HK\$14,417,000); and would also have increased/decreased the Group's reserves by approximately HK\$4,999,000 (31 December 2022: increased/decreased by HK\$37,481,000) 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.

Financial instruments impacted by LIBOR reform

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY LIBOR settings and the one-week and two-month US\$ LIBOR settings had discontinued after 31 December 2021 and the remaining US\$ LIBOR settings had discontinued after 30 June 2023.

During the six-month period ended 30 June 2023, the transition of all legacy contracts of interest rate swaps and the majority of legacy contracts of bank borrowings linked to US\$ LIBORs was undertaken successfully. The transition of remaining bank borrowing contracts linked to US\$ LIBORs are expected to complete before the end of third quarter in 2023.

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

5.1 Financial risk factors *(continued)*

5.1.1 Market risk *(continued)*

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

Financial instruments impacted by LIBOR reform (continued)

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

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 leasing service

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

(a) Probability of default

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

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

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

(b) Risk limit control and mitigation policies

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

(c) Impairment allowance policies

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

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

The Group assesses the business performance and credit risks of the airline companies on a regular basis. In view of the economic conditions, the operation of airlines and the collection history of the receivable due from them, management provided expected credit loss of HK\$12,285,000 (31 December 2022: HK\$11,841,000) for finance lease receivables (Note 8) and HK\$224,560,000 (31 December 2022: HK\$187,516,000) for operating lease receivables (Note 10) as at 30 June 2023.

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5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Financial risk factors (continued)

5.1.2 Credit risk (continued)

Credit risk on aircraft leasing service (continued)

(c) Impairment allowance policies (continued)

Credit risk exposure on operating leases receivables:

	Unaudited As at 30 June 2023		Audited As at 31 December 2022	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	278,484	118,302	280,316	133,293
Europe	29,390	29,390	29,808	22,778
America	169,010	76,868	182,301	31,445
	476,884	224,560	492,425	187,516

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

	Unaudited As at 30 June 2023		Audited As at 31 December 2022	
	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000	Gross carrying amount HK\$'000	Expected credit losses allowance HK\$'000
Asia	4,357,202	12,285	4,204,864	11,841

(d) Concentration of credit risk

During six months ended 30 June 2023, the lessees of the Group are airline companies located in the Mainland China and other countries or regions globally. Please see Note 8, Note 10 and Note 21 for an analysis of lease receivables and lease income by airline companies. If any of them experiences financial difficulties, the recovery of the Group's finance lease receivables and operating lease receivables through regular lease payments might be adversely affected and the Group may have to resort to recovery through repossession of the leased assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.1 Financial risk factors *(continued)*

5.1.2 Credit risk *(continued)*

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

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

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

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

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

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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 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Current assets		
Loans to associates and joint ventures	39,350	16,552
Financial assets at fair value through profit or loss	86,575	126,022
Finance lease receivables – net	444,693	241,394
Derivative financial assets	93,117	145,658
Aircraft components trading assets	1,965	5,245
Prepayments and other assets	539,077	532,810
Assets classified as held for sale	1,691,878	1,425,199
Restricted cash	546,277	770,161
Cash and cash equivalents	5,417,966	3,552,533
	8,860,898	6,815,574
Current liabilities		
Deferred income tax liabilities	197,668	199,545
Borrowings	19,380,904	15,698,907
Bonds and debentures	2,642,534	1,131,071
Derivative financial liabilities	61,930	37,289
Income tax payables	66,468	45,850
Interest payables	282,763	297,689
Other liabilities and accruals	2,417,475	2,081,901
	25,049,742	19,492,252
Net current liabilities	(16,188,844)	(12,676,678)

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 2023, borrowings of HK\$19.4 billion (31 December 2022: HK\$15.7 billion) under current liabilities mainly comprised of borrowings of HK\$6.3 billion (31 December 2022: HK\$5.2 billion) from aircraft acquisition financing (“aircraft loans”), HK\$8.9 billion (31 December 2022: HK\$6.9 billion) from PDP financing, and HK\$4.2 billion (31 December 2022: HK\$3.6 billion) from other bank borrowings. The borrowings related to the assets classified as held for sale were disclosed as current liabilities (Note 11). The repayment of above aircraft loans will be partially funded by the collection of operating lease receivables of HK\$3.6 billion (31 December 2022: HK\$3.4 billion) (Note 32(d)) (which has not been included under current assets above) that is expected to be received from airlines in the next twelve months from 30 June 2023. 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, as well as proceeds from the Novation Arrangement.

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 2023.

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

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Interest-bearing debts included in total liabilities	52,453,117	45,104,149
Total liabilities	56,921,584	49,075,863
Total assets	63,185,584	55,332,080
Total equity	6,264,000	6,256,217
Gearing ratio	83.0%	81.5%
Asset-liability ratio	90.1%	88.7%
Interest-bearing debts to equity ratio	8.4:1	7.2:1

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, which already incorporate the market's assumptions with respect to changes in economic climate such as rising interest rates and inflation, as well as changes due to Environmental, Social and Governance ("ESG") risk (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), which is the case for unlisted equity securities and instruments where ESG risk gives rise to a significant unobservable adjustment (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 2023 – unaudited				
Assets				
Interest rate swaps	–	100,392	–	100,392
Currency swap	–	16,019	–	16,019
Financial assets at fair value through profit or loss	1,093	–	864,932	866,025
	1,093	116,411	864,932	982,436
Liabilities				
Currency forward contracts	–	175,791	–	175,791
As at 31 December 2022 – audited				
Assets				
Interest rate swaps	–	211,555	–	211,555
Currency swap and forward contracts	–	9,844	–	9,844
Financial assets at fair value through profit or loss	3,425	–	766,037	769,462
	3,425	221,399	766,037	990,861
Liabilities				
Currency forward contracts	–	52,543	–	52,543

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

The fair value of the financial assets at fair value through profit or loss is also determined by making reference to discounted cash flow analysis. The significant unobservable inputs to the valuation model include projected future non-contractual lease cash flows, estimated aircraft disposal value, risk-adjusted discount rate, and other relevant factors. Thus the fair value is considered to be of level 3 within the fair value hierarchy. The Group accessed the sensitivity to changes in unobservable inputs on considering the effect of a change in a particular assumption independently of changes in any other assumptions. An increase or decrease in the discount rate of 1% would decrease HK\$4,800,000 (31 December 2022: HK\$5,184,000) or increase HK\$4,874,000 (31 December 2022: HK\$5,282,000) of fair value, while an increase or decrease in the estimated aircraft disposal of 5% would increase the fair value by HK\$168,078,000 (31 December 2022: HK\$180,977,000) or decrease the fair value by HK\$399,239,000 (31 December 2022: HK\$289,674,000), respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

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 2023.

	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2023	766,037
Increase in financial assets at fair value through profit or loss	72,423
Fair value gains on the financial assets at fair value through profit or loss	23,744
Currency translation difference	2,728
As at 30 June 2023	864,932
	Financial assets at fair value through profit or loss HK\$'000
As at 1 January 2022	750,841
Investment in financial assets at fair value through profit or loss	3,136
Proceeds from financial assets at fair value through profit or loss	(28,698)
Fair value gains on the financial assets at fair value through profit or loss	18,364
Currency translation difference	4,728
As at 30 June 2022	748,371

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5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

Financial assets and financial liabilities carried at amortised cost

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

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

	Unaudited As at 30 June 2023		Audited As at 31 December 2022	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Finance lease receivables (excluding the unguaranteed residual values)	4,357,202	5,192,257	4,204,864	4,532,366
Borrowings	43,916,287	44,116,202	38,001,150	39,109,293
Medium-term notes	1,618,998	1,676,202	1,696,509	1,782,517
Bonds and debentures	6,917,832	7,206,341	5,406,490	5,647,484

The fair values of the above finance lease receivables (excluding the unguaranteed residual value), borrowings, medium-term notes and bonds and debentures (which are not traded in the active market) are estimated by discounting the future cash flows at the current market rates available to the Group for similar financial instruments. Their fair values are considered to be of level 2 within the fair value hierarchy.

The fair values of other bonds and debentures (which are traded in the active market) are determined based on the quoted prices in the respective markets. Their fair values are considered to be of level 1 within the fair value hierarchy.

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

	Unaudited						Total HK\$'000
	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	
Net book value as at							
1 January 2023	27,268,078	1,068	9,889	41,023	26,566	7,749	27,354,373
Additions	5,558,116	1,296	268	-	-	-	5,559,680
Assets classified as held for sale	(261,630)	-	-	-	-	-	(261,630)
Disposals	(438,215)	-	-	-	-	-	(438,215)
Depreciation	(736,594)	(992)	(1,864)	(457)	(7,204)	(923)	(748,034)
Currency translation difference	(125,191)	(14)	398	148	147	(3)	(124,515)
Net book value as at							
30 June 2023	31,264,564	1,358	8,691	40,714	19,509	6,823	31,341,659
Net book value as at							
1 January 2022	23,151,163	2,671	8,056	41,875	31,685	8,310	23,243,760
Additions	2,849,292	-	4,255	-	3,314	-	2,856,861
Assets classified as held for sale	(1,752,350)	-	-	-	-	-	(1,752,350)
Disposals	(910,192)	-	-	-	-	-	(910,192)
Write-off (Note 26)	(565,631)	-	-	-	-	-	(565,631)
Depreciation	(580,402)	(802)	(1,633)	(473)	(6,562)	(820)	(590,692)
Currency translation difference	(40,810)	-	29	281	(742)	4	(41,238)
Net book value as at							
30 June 2022	22,151,070	1,869	10,707	41,683	27,695	7,494	22,240,518

Lease rentals amounting to HK\$1,759,898,000 relating to the lease of aircraft and engine for the six months ended 30 June 2023 are included in "operating lease income" in the consolidated statement of income (six months ended 30 June 2022: HK\$1,369,364,000).

As at 30 June 2023, the net book value of aircraft amounted to HK\$30,809,949,000 (31 December 2022: HK\$26,797,986,000).

As at 30 June 2023, the net book value of aircraft under operating leases amounting to HK\$23,406,063,000 (31 December 2022: HK\$22,213,195,000) were pledged as collateral for bank and other borrowings for aircraft acquisition financing and borrowings from trust plans (Note 16).

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7 INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Investments in and loans to associates and joint ventures – carrying amount after share of results	1,328,070	1,552,837
Expected credit loss on loans to associates and joint ventures	(214,643)	(198,427)
	1,113,427	1,354,410

As at 30 June 2023, the Group had interests in the following principal associates and joint ventures:

Name of entity	Place of incorporation	Principal activities	% of equity interest	Nature of relationship	Measurement method
Aircraft Recycling International Limited (“ARI”) (a)	Cayman Islands	Investment holding	48%	Associate	Equity
CAG Bermuda 1 Limited (“CAG”) (Note 9)	Bermuda	Aircraft leasing	20%	Associate	Equity
FLARI Aircraft Maintenance & Engineering Company Co., Ltd (“FLARI”) (b)	The PRC	Line maintenance, base maintenance, technical training	34.52%	Associate	Equity
HNCA&CALC One (Tianjin) Leasing Company Limited (“HNCA One (Tianjin)”) (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
HNCA&CALC Two (Tianjin) Leasing Company Limited (“HNCA Two (Tianjin)”) (c)	The PRC	Aircraft leasing	49%	Joint venture	Equity
Feitian No.2 Leasing (Tianjin) Company Limited (“Feitian No.2 (Tianjin)”) (c)	The PRC	Aircraft leasing	20%	Joint venture	Equity
PT Transnusa Aviation Mandiri (“TAM”) (d)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity
PT Linkaviasi Asia Indonesia (“LAI”) (e)	Indonesia	Commercial air transportation services	49%	Joint venture	Equity

- (a) ARI is an investment holding company and its subsidiaries (collectively as “ARI Group”) have operations mainly in the Mainland China, United States and other countries and are principally engaged in providing asset management services and comprehensive solutions for dealing with second lease and mid-life to mature aircraft. As at 30 June 2023, the net liabilities of ARI were HK\$562,423,000 (31 December 2022: net liabilities of HK\$513,823,000), and as a result, the Group’s equity interests in ARI was reduced to zero (31 December 2022: 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 2023, the Group’s carrying amount of outstanding loans to ARI amounted to HK\$907,773,000 (31 December 2022: HK\$1,181,449,000). For details, please refer to Note 31(b)(ii).

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

- (b) FLARI has operations mainly in the Mainland China and is principally engaged in line maintenance, base maintenance, technical training, cargo conversion, engineering service and component maintenance. As at 31 December 2022, the Group's outstanding balance of advance to FLARI amounted to HK\$12,551,000. As at 30 June 2023, the Group's outstanding loan balance receivable from FLARI amounted to HK\$122,674,000 (31 December 2022: HK\$56,445,000). For details, please refer to Note 31(b)(iii).

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

- (c) HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) have operations in the Mainland China and are principally engaged in aircraft leasing businesses. As at 30 June 2023, the Group's outstanding loans balance receivable from HNCA One (Tianjin) and HNCA Two (Tianjin) amounted to HK\$34,687,000 (31 December 2022: HK\$35,558,000) and HK\$34,642,000 (31 December 2022: HK\$35,511,000), respectively. For details, please refer to Note 31(d).

As the result of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are not material to the Group, no summarised financial information of HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (Tianjin) are disclosed.

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

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

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

As at 30 June 2023, the Group held rental deposit of US\$2,611,000 (equivalent to approximately HK\$20,458,000) from TAM (31 December 2022: US\$1,932,000 (equivalent to approximately HK\$15,085,000)) in relation to four leased aircraft (31 December 2022: three leased aircraft), please refer to Note 31(i).

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

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

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

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

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

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

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

8 FINANCE LEASE RECEIVABLES – NET

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Lease payments receivables		
– Not later than one year	190,176	108,711
– Later than one year but not later than two years	229,918	188,519
– Later than two years but not later than three years	1,673,788	1,072,186
– Later than three years but not later than four years	1,692,625	1,836,468
– Later than four years but not later than five years	1,135,156	1,511,864
– Later than five years	571,172	806,670
Total	5,492,835	5,524,418
Less: Unearned finance lease income relating to lease payment receivables	(1,135,633)	(1,319,554)
Present value of lease payment receivables	4,357,202	4,204,864
Add: Present value of unguaranteed residual value	4,130,035	3,979,063
Net investment in leases	8,487,237	8,183,927
Less: Accumulated expected credit losses allowance	(12,285)	(11,841)
Finance lease receivables – net	8,474,952	8,172,086

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8 FINANCE LEASE RECEIVABLES – NET (continued)

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

	Unaudited		Audited	
	As at 30 June 2023		As at 31 December 2022	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease receivables:				
Five largest airline companies	6,009,174	71%	5,811,896	71%
Others	2,465,778	29%	2,360,190	29%
Finance lease receivables – net	8,474,952	100%	8,172,086	100%

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Long-term investments – CAG (Note (a))	738,076	735,429
Long-term investments – Feitian No.2 (Tianjin) (Note (b))	37,141	–
Investment - Aircraft modification (Note (c))	86,575	27,479
Others	4,233	6,554
	866,025	769,462

Notes:

- 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.
- The Group entered into shareholder's loan agreements and subordinated fee agreements with Feitian No.2 (Tianjin). Pursuant to the shareholder's loan agreements and subordinated fee agreements, the Group injected RMB34,065,000 (equivalent to approximately HK\$36,800,000) into Feitian No.2 (Tianjin) as at June 2023.
- The Group entered into several cooperation agreements with ARI Group for investment projects to modify airliner into cargo. As stipulated in the cooperation agreements, the Group's committed investment is approximately US\$10.0 million (equivalent to approximately HK\$78.4 million). As the owner of the aircraft, ARI Group is responsible for the sale of the aircraft following the modification into cargo. After the Group and ARI Group have recovered their investment in the project, the remaining sale proceeds will be distributed between the Group and ARI Group, with the Group's sharing ranging from 10%-60%.

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10 PREPAYMENTS AND OTHER ASSETS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
PDP and prepayments and receivables relating to aircraft acquisition (a)	11,521,239	9,559,283
Operating lease receivables (b)	476,884	492,425
Interest capitalised	999,577	886,147
Deposits paid	36,677	28,380
Prepayments and amounts due from related parties (Note 31(f))	320,524	319,386
Deductible in-put value-added taxes	60,068	68,745
Others (c)	186,183	195,565
	13,601,152	11,549,931
Less: Accumulated expected credit losses allowance (b)	(224,560)	(187,516)
	13,376,592	11,362,415

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

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

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

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10 PREPAYMENTS AND OTHER ASSETS (continued)

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

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

	Unaudited		Audited	
	As at 30 June 2023		As at 31 December 2022	
	HK\$'000	%	HK\$'000	%
Current/deferral	168,241	35%	253,239	52%
Less than 30 days past due	5,682	1%	5,403	1%
30 to 90 days past due	24,140	5%	16,672	3%
More than 90 days past due	278,821	59%	217,111	44%
Total	476,884	100%	492,425	100%

As at 30 June 2023, the expected credit losses allowance amounted to HK\$224,560,000 (31 December 2022: HK\$187,516,000) and the net operating lease receivables (after expected credit losses allowance) amounted to HK\$252,324,000 (31 December 2022: HK\$304,909,000).

- (c) The "Others" above were mainly deferred expenses and prepayment to third parties.

11 ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended 30 June 2023, the Group had signed letters of intent or sale and purchase agreement for the disposals of several lease-attached aircraft. These aircraft intended to be disposed of were consequently classified as held for sale. As at 30 June 2023, net book value of assets classified as held for sale was HK\$1,691,878,000 (31 December 2022: HK\$1,425,199,000). The fair value of the assets classified as held for sale was determined by reference to independent aircraft valuation reports provided by external appraisers, which are estimated mainly based on the lease term, aircraft type, age, and the airframe and engine configuration of the aircraft. This is a level 3 measurement as per the fair value hierarchy.

The carrying amount of borrowings related to the assets held for sale was HK\$1,054,949,000 (31 December 2022: HK\$1,080,827,000). The borrowings related to the assets held for sale will be repaid before the disposals of aircraft, although the borrowings are not due to be settled within twelve months after the reporting period pursuant to the contractual terms.

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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 2023 and 30 June 2023	HK\$0.1	744,355,352	74,435,536
As at 1 January 2022	HK\$0.1	747,619,737	74,761,974
Cancellation of shares (a)	HK\$0.1	(4,084,500)	(408,450)
As at 30 June 2022	HK\$0.1	743,535,237	74,353,524

- (a) During the year ended 31 December 2021, the Company acquired 4,084,500 of its own shares through purchases on the Stock Exchange and these purchased shares were subsequently cancelled during the six months ended 30 June 2022.

13 RESERVES

	Unaudited							Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Treasury shares HK\$'000	Share-based payments HK\$'000	Hedging reserves HK\$'000	Currency translation differences HK\$'000	
Balance as at 1 January 2023	1,522,393	623,720	(166)	-	3,330	197,342	(32,006)	2,314,613
Cash flow hedges (Note 19)	-	-	-	-	-	(78,659)	-	(78,659)
Currency translation differences	-	-	-	-	-	-	56,672	56,672
Share option scheme:								
- Value of services (a)	-	-	-	-	1,126	-	-	1,126
- Share options lapsed (a)	-	-	-	-	(456)	-	-	(456)
Balance as at 30 June 2023	1,522,393	623,720	(166)	-	4,000	118,683	24,666	2,293,296
Balance as at 1 January 2022	1,540,209	623,720	(166)	(22,385)	330	(127,842)	(26,016)	1,987,850
Cancellation of shares	(21,890)	-	-	22,385	-	-	-	495
Cash flow hedges (Note 19)	-	-	-	-	-	249,339	-	249,339
Currency translation differences	-	-	-	-	-	-	53,042	53,042
Share option scheme:								
- Value of services (a)	-	-	-	-	1,500	-	-	1,500
Balance as at 30 June 2022	1,518,319	623,720	(166)	-	1,830	121,497	27,026	2,292,226

- (a) On 2 January 2020 and 6 April 2022, the Company granted 10,000,000 share options ("2020 Share Options") and 20,900,000 share options ("2022 Share Options"), respectively, under the share option scheme adopted by the Company for the purpose of recognising the contribution participants including certain directors of the Company and selected employees of the Group in relation to the growth of the Group. None of the options have been exercised as at 30 June 2023.

During the year ended 31 December 2022, the exercise period of all 2020 Share Options granted to Dr. Zhao Wei ("Dr. Zhao"), an executive director of the Company, was extended by two years up to 17 April 2024 (the "Extension"), which has been approved by the shareholders at an extraordinary general meeting of the Company held on 23 May 2022 and was subject to acceptance by Dr. Zhao. As at 31 December 2022, all 2020 Share Options granted to Dr. Zhao were lapsed due to non-acceptance of the Extension by Dr. Zhao.

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13 RESERVES (continued)

(a) (continued)

Movement of outstanding share options during the six months ended 30 June 2023 and 2022 is as follows:

	Number of share options
As at 1 January 2023	20,900,000
Lapsed	(515,000)
As at 30 June 2023	20,385,000
As at 1 January 2022	10,000,000
Granted (i)	20,900,000
As at 30 June 2022	30,900,000

(i) The values of the 2022 Share Options granted were in the total amount of HK\$5,108,000 on 6 April 2022.

The fair value of the 2022 Share Options on the grant date determined by using Binomial valuation model was approximately HK\$0.3 per option.

Significant judgement on parameters, such as spot price at the grant date, risk free interest rate, dividend yield, expected volatility and suboptimal exercise factor are required to be made by the directors in applying the Binomial valuation model. The parameters used are as follows:

Spot share price at the grant date	HK\$5.31
Risk free rate (Note 1)	2.39%
Dividend yield (Note 2)	8.0%
Expected volatility (Note 3)	24.4%
Suboptimal exercise factor	2.5

Notes:

1. Risk free rates were based on Hong Kong Exchange Fund Notes with same duration.
2. Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.
3. Expected volatility was determined by using the daily volatility of the Company's shares in similar duration as at the valuation date.

For share options outstanding as at 30 June 2023, the adjusted exercise price per share of 2022 Share Options was HK\$6.36 (31 December 2022: HK\$6.36).

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 2023 and 2022 are as follows:

	Unaudited Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Directors and employees	1,126	1,500

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14 PERPETUAL CAPITAL SECURITIES AND OTHER NON-CONTROLLING INTERESTS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Perpetual capital securities (a)	1,556,685	1,617,351
Other non-controlling interests of ordinary shares	(26,182)	(26,430)
	1,530,503	1,590,921

(a) Perpetual capital securities

On 16 December 2020, a subsidiary of the Group (the "Issuer") issued US\$200 million floating rate guaranteed perpetual capital securities with the aggregate net proceeds (after transaction cost of HK\$5.0 million) of HK\$1,545.5 million. The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of the Issuer. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the Company elects to declare dividends to ordinary shareholders, the Issuer shall make distribution to the holders of perpetual capital securities at the distribution rate as defined in the subscription agreements. As at 30 June 2023, the dividend of HK\$166,878,000 (31 December 2022: Nil) scheduled to be paid in December 2023 could not be elected for deferral by the Group and has been recognised as dividend payable.

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

	HK\$'000
As at 1 January 2023	1,617,351
Profit for the period	106,212
Dividends distributed to perpetual capital securities	(166,878)
As at 30 June 2023	1,556,685
As at 1 January 2022	1,474,620
Profit for the period	60,459
Dividends distributed to perpetual capital securities	(15,727)
As at 30 June 2022	1,519,352

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15 DEFERRED INCOME TAX LIABILITIES

The analysis of deferred income tax liabilities is as follows:

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Deferred income tax liabilities:		
– To be settled within 12 months	197,668	199,545
– To be settled after 12 months	913,872	857,514
	1,111,540	1,057,059

The movement of the deferred income tax liabilities during the six months ended 30 June 2023 is as follows:

	Accelerated depreciation of leased assets HK\$'000
Deferred income tax liabilities:	
As at 1 January 2023	1,057,059
Charged to profit or loss (Note 28)	55,278
Currency translation difference	(797)
As at 30 June 2023	1,111,540
As at 1 January 2022	898,240
Charged to profit or loss (Note 28)	41,959
Currency translation difference	4,684
As at 30 June 2022	944,883

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16 BORROWINGS

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Bank and other borrowings		
Bank and other borrowings for aircraft acquisition financing (a)	22,937,255	19,083,257
PDP financing (b)	9,991,360	7,180,254
Other bank borrowings (c)	6,099,322	6,821,180
	39,027,937	33,084,691
Long-term borrowings		
Borrowings from trust plans (d)	4,488,578	4,527,538
Other borrowings (e)	399,772	388,921
	4,888,350	4,916,459
	43,916,287	38,001,150

Bank and other borrowings

- (a) Bank and other borrowings for aircraft acquisition financing are principally based on fixed or floating rates (including US\$ LIBOR, US\$ SOFR and RMB LPR). As at 30 June 2023, 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\$600,416,000 (31 December 2022: HK\$288,439,000). As at 30 June 2023, bank and other borrowings of HK\$733,439,000 (31 December 2022: HK\$1,938,212,000) were unsecured.
- (b) As at 30 June 2023, PDP financing of HK\$9,991,360,000 (31 December 2022: HK\$7,180,254,000) was unsecured, of which HK\$9,341,205,000 (31 December 2022: HK\$6,532,430,000) was guaranteed by the Company.
- (c) As at 30 June 2023, unsecured other bank borrowings amounted to HK\$6,099,322,000 (31 December 2022: HK\$6,067,502,000), of which HK\$3,427,257,000 (31 December 2022: HK\$4,073,926,000) were guaranteed by the Company and certain companies of the Group.

As at 31 December 2022, other bank borrowings of HK\$753,678,000 were secured by pledged of deposits amounting to HK\$757,357,000.

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16 BORROWINGS (continued)

Bank and other borrowings (continued)

The Group has the following undrawn borrowing facilities:

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
– Expiring within one year	3,252,482	3,472,957
– Expiring beyond one year	737,780	3,227,830
	3,990,262	6,700,787

Long-term borrowings

- (d) As at 30 June 2023, 46 borrowings (31 December 2022: 46 borrowings) were provided to the Group by investors under trust plans or an asset-backed securities programme (both are in relation to the disposals of finance lease receivable transactions). The effective average interest rates of the long-term borrowings range from 3.5% to 7.8% (31 December 2022: 3.5% to 7.8%) per annum for remaining terms of one to seven years (31 December 2022: one to seven years). These long-term borrowings are secured by the shares of, and the aircraft held by the relevant subsidiaries, guaranteed by certain companies of the Group, and pledge of deposits amounting to HK\$44,339,000 (31 December 2022: HK\$44,199,000).
- (e) As at 30 June 2023, four borrowings (31 December 2022: four borrowings) were obtained through a structured financing arrangement for four aircraft (31 December 2022: four aircraft) delivered to airlines. These borrowings bear an effective interest rate ranging from 3.9% to 5.7% (31 December 2022: 3.9% to 5.7%) per annum for their remaining terms of two to three years (31 December 2022: two to three years) and are guaranteed by the Company.

17 MEDIUM-TERM NOTES

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

As at 30 June 2023, after deducting the issuing cost, the total carrying amount of these notes was HK\$1,618,998,000 (31 December 2022: HK\$1,696,509,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 BONDS AND DEBENTURES

In March 2017, the Group issued seven-year senior unsecured bonds of US\$200.0 million due in 2024. The bonds bear coupon interest at 5.5% per annum and are payable semi-annually. These bonds were listed on the Stock Exchange and were guaranteed by the Company.

In November 2020, the Group entered into a subscription agreement with an independent third party in relation to the issuance of five-year US\$70.0 million senior unsecured bonds, of which US\$35.0 million were issued in November 2020 and due in 2025 and US\$35.0 million were issued in January 2021 and due in 2026. The bonds bear coupon interest at 5.9% per annum, payable semi-annually.

In August 2021, the Group issued three-year unsecured bonds, with coupon rate adjustment option for the Group and sell-back option for investors exercisable at the end of the second year, in a principal amount of RMB100.0 million due in 2024, bearing coupon rate of 4.2% per annum. These bonds were listed on the Shanghai Stock Exchange.

In December 2021, the Group issued three-year US\$100.0 million unsecured guaranteed notes due in 2024, bearing coupon interest at 4.85% per annum. These notes were guaranteed by the Company and were listed on the Stock Exchange.

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

In October 2022, the Group issued RMB1.0 billion super short-term debentures with a term of 270 days at the coupon rate of 3.56%.

In June 2023, the Group issued three-year RMB1.5 billion corporate bonds due in 2026, bearing coupon rate of 3.85% per annum. These bonds were listed on the Shanghai Stock Exchange.

During the six months ended 30 June 2023, the Group did not repurchase any bond on the Stock Exchange (six months ended 30 June 2022: repurchased certain amount of bonds on the Stock Exchange for an aggregate amount of US\$8,200,000).

As at 30 June 2023, after deducting the issuing cost, the total carrying amount of bonds and debentures was HK\$6,917,832,000 (31 December 2022: HK\$5,406,490,000).

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19 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Derivative financial assets		
– Currency swap (a)	16,019	9,468
– Currency forward contracts (b)	–	376
– Interest rate swaps (c)	100,392	211,555
	116,411	221,399
Derivative financial liabilities		
– Currency forward contracts (b)	175,791	52,543

- (a) CALC Baoli Limited (“CALC Baoli”), a wholly-owned subsidiary of the Group, signed a contract with an independent third party on 30 December 2013, pursuant to which CALC Baoli transferred its future aircraft finance lease receivables under an aircraft leasing agreement with an airline to a trust plan. CALC Baoli will convert the US\$ lease rentals received on behalf of the third party during the period from 27 February 2024 to 27 May 2025 to RMB at a pre-determined exchange rate at its own risk. This arrangement constituted a derivative – a currency swap contract. The notional principal of this currency swap contract amounted to US\$15,684,000 (equivalent to approximately HK\$122,898,000). As at 30 June 2023, the fair value of this currency swap contract amounted to HK\$16,019,000 (31 December 2022: HK\$9,468,000) and the fair value gains of HK\$6,519,000 was recognised in “Other gains, net (Note 27)” for the six months ended 30 June 2023 (six months ended 30 June 2022: losses of HK\$1,040,000). As at 30 June 2023, this arrangement was secured by a pledge deposit of HK\$3,306,000 (31 December 2022: HK\$3,417,000).
- (b) As at 30 June 2023, the Group had 19 outstanding currency forward contracts with notional amount of RMB2,650,000,000 (equivalent to approximately HK\$2,862,795,000) (31 December 2022: 22 outstanding currency forward contracts with notional amount of RMB2,300,000,000 (equivalent to approximately HK\$2,604,290,000)) which will expire at various dates from 14 August 2023 to 5 June 2025 (31 December 2022: expire at various dates from 30 January 2023 to 15 March 2024), 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, net (Note 27)”. As at 30 June 2023, this arrangement was secured by margin deposits of HK\$131,016,000 (31 December 2022: Nil).
- (c) As at 30 June 2023, the Group had 19 outstanding interest rate swap contracts (31 December 2022: 27 contracts) which will expire at various dates from 28 August 2023 to 24 December 2025 (31 December 2022: 28 August 2023 to 24 December 2025), to exchange floating interest rates from SOFR (31 December 2022: from LIBOR or SOFR) into fixed interest rates in a range of 0.4% to 3.0% (31 December 2022: 0.4% to 3.0%). As at 30 June 2023, this arrangement was secured by initial deposits of HK\$4,987,000 (31 December 2022: HK\$21,546,000).

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19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Recognised in other comprehensive income		
Change in fair value of interest rate swaps	(2,901)	199,222
Reclassified from other comprehensive income to profit or loss in respect of:		
– Hedged items that affected profit or loss (a)	(75,341)	49,087
– Hedge ineffectiveness	(417)	1,030
	(78,659)	249,339
Recognised in other gains/(losses), net of profit or loss		
Changes in fair value attributable to interest rate	28,043	3,933
Fair value losses on currency forward contracts in RMB	(123,330)	(83,082)
Unrealised gains/(losses) on a currency swap	6,519	(1,040)
	(88,768)	(80,189)

(a) Hedged items that have affected profit or loss are primarily recorded within interest expenses.

20 OTHER LIABILITIES AND ACCRUALS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Deposits and fund received for lease and aircraft projects	1,785,475	1,680,254
Consultant and insurance premium payable	101,500	106,978
Value-added tax and other taxes	260,665	295,692
Operating lease rentals received in advance	247,866	230,142
Amounts due to related parties (Note 31(g))	7,422	12,256
Amount due to non-controlling interest of a subsidiary (Note 31(h))	7,722	17,149
Dividend payables to ordinary shareholders and perpetual capital securities holder	279,902	–
Lease liabilities	20,654	28,907
Others (including salary and bonus payable)	120,699	147,195
	2,831,905	2,518,573

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21 LEASE INCOME AND SEGMENT INFORMATION

During the six months ended 30 June 2023, 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			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Categorised by customer in terms of lease income:				
Airline company – A	520,450	25%	379,186	23%
Airline company – B	340,344	17%	166,038	10%
Airline company – C	126,224	6%	88,210	5%
Airline company – D	114,863	6%	114,916	7%
Airline company – E	90,949	4%	90,799	6%
Others	863,623	42%	814,618	49%
Total finance and operating lease income	2,056,453	100%	1,653,767	100%

22 NET INCOME FROM AIRCRAFT TRANSACTIONS AND AIRCRAFT COMPONENTS
TRADING

	Unaudited Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Aircraft transactions (a)	38,615	64,756
Aircraft components trading (b)	6,080	1,736
	44,695	66,492

(a) Aircraft transactions

The net gain from aircraft transactions amounted to HK\$38,615,000 for the six months ended 30 June 2023 included disposal of aircraft to a related party (six months ended 30 June 2022: HK\$64,756,000 included disposals of 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	
	2023	2022
	HK\$'000	HK\$'000
Sales from aircraft components trading assets	9,663	6,651
Less: Cost of aircraft components trading assets	(3,583)	(4,915)
Profit from aircraft components trading assets	6,080	1,736

23 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Government grants (a)	100,144	94,880
Interest income from loans to associates and joint ventures (Note 7)	56,752	52,730
Bank interest income	32,407	4,391
Asset management service fees income from CAG and its subsidiaries (collectively "CAG Group") (Note 31(c))	9,302	8,393
Others (b)	26,504	10,138
	225,109	170,532

- (a) Government grants represent the grants and subsidies received from the Mainland China government to support the development of aircraft leasing industry.
- (b) Others were mainly related to interest received on deferred operating lease receivables, compensation and amounts received from suppliers.

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24 INTEREST EXPENSES

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Interest expense on borrowings	1,267,545	648,583
Settlements on interest rate swaps designated as cash flow hedges – transfer from other comprehensive income	(47,715)	49,087
Interest expense on medium-term notes	37,848	42,261
Interest expense on bonds and debentures	137,376	166,458
Less: interest capitalised on qualifying assets (a)	(319,183)	(148,532)
	1,075,871	757,857

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

25 OTHER OPERATING EXPENSES

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Employee benefit expenses	77,789	70,178
Professional service expenses	25,541	26,353
Value-added tax and other taxes	14,929	16,527
Rental and utilities expenses	3,939	2,246
Office and meeting expenses	8,206	5,356
Travelling and training expenses	6,410	4,046
Auditor's remuneration		
– Audit service	980	927
Others	10,031	14,967
	147,825	140,600

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

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

The Group believes that there is uncertainty to repossess the aircraft from Russia in the foreseeable future. Although the Group has filed insurance claims related to the aircraft and is vigorously pursuing all available means to recover its losses, given the unprecedented circumstances, the relevant process time may be longer and uncertain. As at 30 June 2023 and 31 December 2022, the Group has not recognised any claim receivables.

The Group has determined prudently that the net book value of the aircraft amounting to HK\$565.6 million (excluding the net book value of the Engine) should be fully written down, which is offset by the security deposit and maintenance reserves received amounting to HK\$126.6 million, resulting in a net write-off of HK\$439.0 million for the six months ended 30 June 2022, which was a non-cash transaction. No such write-off was made for the six months ended 30 June 2023.

27 OTHER GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Currency exchange gains in RMB	242,210	192,757
Fair value losses on currency forward contracts in RMB	(123,330)	(83,082)
Currency exchange losses in US\$	(15,578)	(12,569)
Fair value gains on financial assets at fair value through profit or loss	21,393	18,364
Changes in fair value attributable to interest rate	28,043	3,933
Unrealised gains/(losses) on a currency swap (Note 19)	6,519	(1,040)
	159,257	118,363

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28 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Current income tax:		
Mainland China, Hong Kong and others	98,555	59,422
Deferred income tax	55,278	41,959
	153,833	101,381

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 2022: 25%), except for certain subsidiaries which are subject to the preferential tax treatments. The leasing income of the subsidiaries in the Mainland China is subject to VAT at 13%.

Hong Kong

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

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

Others

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

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

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

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

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

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

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

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

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29 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Interim dividend declared of HK\$0.15 (2022: HK\$0.15) per ordinary share	111,653	111,653

On 24 August 2022, the Group declared an interim dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million which was paid by cash in November 2022.

A final dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million for the year ended 31 December 2022 was declared and was reflected as dividend payable as at 30 June 2023.

On 22 August 2023, the Board declared an interim dividend of HK\$0.15 per ordinary share totalling HK\$111.7 million, which is calculated based on 744,355,352 issued shares as at 22 August 2023. The declared dividend is not reflected as a dividend payable in the consolidated financial statements as at 30 June 2023, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2023.

30 EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2023 and 30 June 2022.

	Unaudited	
	Six months ended 30 June	
	2023	2022
Profit/(Loss) attributable to shareholders of the Company (HK\$'000)	201,171	(130,160)
Weighted average number of ordinary shares in issue (number of shares in thousands)	744,355	743,535
Basic earnings/(losses) per share (HK\$ per share)	0.270	(0.175)

(b) Diluted

Diluted earnings/(losses) 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 2023 and as at 30 June 2022, 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 earnings/(losses) per share for the six months ended 30 June 2023 and 30 June 2022.

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31 RELATED PARTY TRANSACTIONS

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

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

CE Group is the sole shareholder of China Everbright Holdings Company Limited (“CE Hong Kong”). CE Hong Kong is the indirect controlling shareholder of China Everbright Limited (“CEL”) and CEL indirectly holds approximately 38.08% equity interest in the Company as at 30 June 2023. Accordingly, CE Group is deemed as a controlling shareholder of the Company, and thus CE Group and its subsidiaries are related parties of the Company.

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

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Interest income from CE Group	2,209	1,500
Interest expenses to CE Group	155,659	104,665
Loans upfront and arrangement fee to CE Group	1,621	1,299
Transactions handling charges to CE Group	1,743	2,138
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK\$'million	HK\$'million
Bank deposits placed in CE Group	390.6	676.2
Borrowings due to CE Group	4,427.1	4,238.2
Undrawn facilities provided by CE Group	858.2	1,380.6

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31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with ARI Group and FLARI

(i) Service provided by ARI Group

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Service fee charged by: ARI Group	8,743	5,000

(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 2023, the outstanding shareholders' loan balances receivable from ARI was amounted to HK\$907,773,000 (31 December 2022: HK\$1,181,449,000) (Note 7) and the interest income for the six months ended 30 June 2023 was HK\$52,122,000 (six months ended 30 June 2022: HK\$50,356,000).

Pursuant to the factoring arrangement with ARI Group dated 16 November 2020, which is secured by the receivables from a subsidiary of ARI, the Group provided the advance of RMB1.0 million (equivalent to approximately HK\$1.2 million), which is charged at 5% per annum and payable in arrears of three monthly intervals. The balance was settled in 2022.

During the year ended 31 December 2020, the Group entered into a letter of intent with ARI Group relating to the purchase of five engines, which would be delivered in 2021, with total consideration of US\$55,000,000 (equivalent to approximately HK\$426,388,000). During the year ended 31 December 2021, the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the above engines to be no later than 2022. During the year ended 31 December 2022, ARI Group delivered one engine to the Group and the Group entered into supplemental agreements with ARI Group to reschedule the delivery of the remaining four engines to be no later than 2023. As at 30 June 2023, the Group had placed interest-free deposit amounted to HK\$190,491,000 (31 December 2022: HK\$189,808,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION31 RELATED PARTY TRANSACTIONS *(continued)***(b) Transactions with ARI Group and FLARI *(continued)*****(ii) Transactions with ARI Group *(continued)***

During the year ended 31 December 2022, the Group entered into a letter of intent with ARI Group relating to the purchase of two aircraft, which would be delivered in 2023, with total consideration of US\$46,558,000 (equivalent to approximately HK\$363,516,000). As at 30 June 2023, the Group had placed deposit amounting to US\$16,440,000 (equivalent to approximately HK\$128,824,000) (31 December 2022: US\$16,440,000 (equivalent to approximately HK\$128,360,000)).

The Group entered into several cooperation agreements with ARI Group for investment projects to modify airliner into cargo. As stipulated in the cooperation agreements, the Group's committed investment is approximately US\$10.0 million (equivalent to approximately HK\$78.4 million). As the owner of the aircraft, ARI Group is responsible for the sale of the aircraft following the modification into cargo. After the Group and ARI Group have recovered their investment in the project, the remaining sale proceeds will be distributed between the Group and ARI Group, with the Group's sharing ranging from 10%-60%.

(iii) Transactions with FLARI

Pursuant to the shareholders' credit line agreement, the Group granted loans to FLARI, which are interest bearing from 6.6% to 8.5% per annum (six months ended 30 June 2022: 6.6% to 6.7% per annum) and are calculated on quarterly basis on the actual amount of the shareholders' loan drawn down. As at 30 June 2023, the outstanding shareholders' loan balances receivable from FLARI was amounted to HK\$122,674,000 (31 December 2022: HK\$56,445,000) (Note 7) and the interest income for the six months ended 30 June 2023 was HK\$2,803,000 (six months ended 30 June 2022: HK\$275,000).

Pursuant to the sale and leaseback agreement dated 26 May 2021, the Group purchased items of plant and machinery and office equipment and leased back to FLARI with proceeds of RMB20,000,000 (equivalent to approximately HK\$24,524,000), the proceeds is bearing interest at 8% per annum and payable in arrears of three monthly intervals. As at 30 June 2023, FLARI has repaid all outstanding advance balance (31 December 2022: HK\$12,551,000) and the interest income for the six months ended 30 June 2023 was HK\$301,000 (six months ended 30 June 2022: HK\$778,000).

(c) Transactions with CAG Group

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Asset management service fees income from CAG Group	9,302	8,393

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31 RELATED PARTY TRANSACTIONS (continued)

(d) Transactions with HNCA One (Tianjin), HNCA Two (Tianjin) and Feitian No.2 (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 2023, the outstanding balance receivables from HNCA One (Tianjin) and HNCA Two (Tianjin) were amounted to HK\$34,687,000 (31 December 2022: HK\$35,558,000) and HK\$34,642,000 (31 December 2022: HK\$35,511,000) (Note 7) respectively, and the interest income for the six months ended 30 June 2023 was HK\$615,000 (six months ended 30 June 2022: HK\$661,000) and HK\$614,000 (six months ended 30 June 2022: HK\$660,000) respectively.

Pursuant to the shareholder's loan agreement signed in June 2023, the Group granted loan to Feitian No.2 (Tianjin), which was unsecured and interest bearing at 2.1% per annum.

Pursuant to the subordinated fee agreement entered with Feitian No.2 (Tianjin) as mentioned in Note 9, a subordinated fee would be charged by the Group on an annual basis.

As at 30 June 2023, the outstanding balance receivables from Feitian No.2 (Tianjin) were amounted to HK\$37,141,000 (Note 9).

(e) Disposal of aircraft to Feitian No.2 (Tianjin)

During the six month ended 30 June 2023, the Group disposed of one aircraft to Feitian No.2 (Tianjin) (six month ended 30 June 2022: Nil) at consideration of HK\$486.6 million (six month ended 30 June 2022: Nil) and recognised net income from aircraft transactions in the consolidated statement of income.

(f) Prepayments and amounts due from related parties

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Prepayments to ARI Group (Note 31(b)(ii))	319,315	318,170
Amount due from ARI Group and others	1,209	1,216
	320,524	319,386

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION31 RELATED PARTY TRANSACTIONS *(continued)***(g) Amounts due to related parties**

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
ARI Group (i)	1,761	12,256
LAI (ii)	5,661	–
	7,422	12,256

- (i) The amounts due to related parties were unsecured, interest-free and repayable on demand.
- (ii) The amounts due to related parties were unsecured, interest bearing at 4% per annum and repayable in three months.

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

As at 30 June 2023, Linkasia Airlines, a non-wholly owned subsidiary of the Group has the outstanding balance due to its shareholder, Equal Honour Equity Limited (wholly-owned by Mr. Poon, a substantial shareholder, an executive director and chief executive officer of the Company) amounting to HK\$7,722,000 (31 December 2022: HK\$17,149,000). The amount was unsecured, interest-free and repayable on demand.

(i) Transaction with TAM

During the six month ended 30 June 2023, the Group entered into operating lease arrangement of one aircraft with TAM (six month ended 30 June 2022: Nil).

As at 30 June 2023, the Group entered into one finance lease and three operating lease arrangements for four aircraft with TAM (31 December 2022: one finance lease and two operating lease arrangements for three aircraft).

The total finance lease and operating lease income earned during the six months ended 30 June 2023 was HK\$16,571,000 (six months ended 30 June 2022: HK\$6,582,000). As at 30 June 2023, the Group held rental deposits of US\$2,611,000 (equivalent to approximately HK\$20,458,000) from TAM (31 December 2022: US\$1,932,000 (equivalent to approximately HK\$15,085,000)) in relation to aircraft under finance leases and operating leases.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

32 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingencies

As at 30 June 2023, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$588,895,000 (31 December 2022: HK\$604,011,000), of which HK\$227,715,000 (31 December 2022: HK\$274,358,000) was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter guarantee as mentioned above, the Group guaranteed HK\$361,180,000 (31 December 2022: HK\$329,653,000) of these bank borrowings.

(b) Capital commitments

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

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Contracted but not provided for:		
Purchase of aircraft (i)	78,810,747	85,359,348
Investment – aircraft modification (Note 9(c))	15,325	34,984
	78,826,072	85,394,332

- (i) The capital commitments were mainly related to acquisition of 213 aircraft in its order book, comprising 120 Airbus aircraft, 65 Boeing aircraft and 28 ARJ21 series aircraft, which will be delivered in stages by the end of 2027.

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

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

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Not later than one year	112	103

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION****32 CONTINGENT LIABILITIES AND COMMITMENTS** *(continued)***(d) Operating lease arrangement – where the Group is the lessor**

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

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Not later than one year	3,550,987	3,408,488
Later than one year but not later than two years	3,098,639	3,102,561
Later than two years but not later than three years	2,565,022	2,690,833
Later than three years but not later than four years	2,283,277	2,128,425
Later than four years but not later than five years	1,942,853	1,819,982
Later than five years	8,974,688	7,698,693
	22,415,466	20,848,982

The above commitment included amount of HK\$1,107,284,000 (31 December 2022: HK\$1,021,163,000) related to assets classified as held for sale (Note 11).

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

	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Not later than one year	147	48

33 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 August 2023, the Company (through a wholly-owned subsidiary of the Company, i.e. the Novator) entered into the Novation Agreement with the Novatee pursuant to which the Novator's commitment to purchase the remaining 64 aircraft from Boeing shall be novated to the Novatee (the "Novation Arrangement"). To facilitate and as part of the Novation Arrangement, another subsidiary of the Company (i.e. the Seller) entered into a sale and purchase agreement with the Novatee to transfer the interest in 12 special purpose vehicles with no assets at nominal value. It is estimated that completion of the Novation Arrangement will take place on or about 30 August 2023. Please refer to the announcement of the Company dated 14 August 2023 for details.