BOC AVIATION

BOC AVIATION LIMITED
中銀航空租賃有限公司*

(Incorporated in the Republic of Singapore with limited liability)

STOCK CODE: 2588

*For identification purpose only

RESILIENCE AND GROWTH

INTERIM REPORT 2020

BOC Aviation reported net profit after tax ("NPAT") of US$323 million in the first half of 2020, an increase in both NPAT and earnings per share compared with the same period last year.

Total revenues and other income rose at around the same pace as our total assets in the first half of 2020, up 11% to US$1,035 million from US$930 million in the first half of last year. The Board of Directors approved a distribution of US$0.1398 per share by way of interim dividend, which represents 30% of our NPAT in the first half of 2020, which is the same proportion of NPAT that we distributed as an interim dividend in prior years.

During the six months ended June 2020, we generated positive operating cash flow net of finance expenses of US$555 million compared with US$629 million in the first half of 2019, and ended the half year with US$4 billion in available liquidity.

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FINANCIAL HIGHLIGHTS

Our financial highlights for the six months ended 30 June 2020 are:

- **Total revenues and other income rose 11% to US$1,035 million**
- **Net profit after tax rose to US$323 million, compared with US$321 million in the first half of 2019**
- **Earnings per share of US$0.47**
- **Interim dividend of US$0.1398 per share, up from the 2019 interim dividend of US$0.1388 per share**
- **Total assets increased 14% to US$22.6 billion as at 30 June 2020 from 31 December 2019**
- **Maintained strong liquidity of US$4 billion, comprising US$398 million in cash and cash equivalents, and US$3.6 billion in undrawn committed revolving credit facilities as at 30 June 2020**
- **Utilised US$3.8 billion in bonds and term loans**

Capitalised terms used but not defined in this interim report are found in pages 34 to 35.

Due to rounding, numbers presented throughout this interim report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

FINANCIAL HIGHLIGHTS

	Unaudited	
	6 months ended 30 June	
	2020	2019
	US$m	US$m
Statement of Profit or Loss		
Revenues and other income	**1,035**	930
Costs and expenses	**(681)**	(579)
Profit before income tax	**354**	352
Net profit after income tax	**323**	321
Earnings per share (US$)[1]	**0.47**	0.46

	Unaudited	Audited
	30 June 2020	31 December 2019
	US$m	US$m
Statement of Financial Position		
Cash and short-term deposits[2]	**436**	287
Total current assets	**793**	739
Total non-current assets	**21,826**	19,025
Total assets	**22,619**	19,764
Total current liabilities	**2,091**	2,141
Total non-current liabilities	**15,887**	13,043
Total liabilities	**17,977**	15,184
Net assets	**4,642**	4,581
Financial Ratios		
Net assets per share (US$)[3]	**6.69**	6.60
Gross debt to equity (times)[4]	**3.5**	2.9

1. *Earnings per share is calculated by dividing net profit after tax by total number of shares outstanding at 30 June 2020, and 30 June 2019, in the respective columns. Number of shares outstanding at 30 June 2020 and 30 June 2019 was 694,010,334.*
2. *Includes encumbered cash and bank balances of US$38 million and US$35 million at 30 June 2020 and at 31 December 2019, respectively.*
3. *Net assets per share is calculated by dividing net assets by total number of shares outstanding at 30 June 2020, and 31 December 2019, in the respective columns. Number of shares outstanding at 31 December 2019 was 694,010,334.*
4. *Gross debt to equity is calculated by dividing gross debt by total equity at 30 June 2020, and 31 December 2019, in the respective columns.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

Our operational transactions as at 30 June 2020 included:

- **A portfolio of 571[1] owned, managed and committed aircraft**
- **Owned fleet of 334 aircraft, with an average age of 3.5 years and an average remaining lease term of 8.5 years, each weighted by net book value**
- **Reshaped the orderbook, committing to purchase 86 incremental aircraft and restructuring our Boeing 737 MAX order, ending the period with an orderbook of 197[1] aircraft scheduled for delivery through to 31 December 2024**
- **Total deliveries of 23 aircraft, including one acquired by an airline customer on delivery, in the first half of 2020**
- **Signed 76 lease commitments in the first half of 2020, with all aircraft scheduled for delivery from our orderbook before 2023 now placed with airline customers**
- **Customer base of 91 airlines in 40 countries and regions in the owned and managed fleet**
- **Sold five aircraft, all from the owned fleet**
- **Owned aircraft utilisation at 99.8%, with two owned single aisle aircraft off lease at 30 June 2020, and cash collection from airline customers of 88.8% for the first half of 2020**
- **Managed fleet comprised 40 aircraft, with one managed single aisle aircraft off lease at 30 June 2020**

[1] *Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 1: AIRCRAFT PORTFOLIO AT 30 JUNE 2020, BY NUMBER OF AIRCRAFT

Aircraft Type	Owned Aircraft	Managed Aircraft	Aircraft on Order[1]	Total
Airbus A320CEO family	114	15	0	129
Airbus A320NEO family	52	0	88	140
Airbus A330CEO family	12	3	0	15
Airbus A330NEO family	2	0	6	8
Airbus A350 family	9	0	0	9
Boeing 737NG family	85	15	0	100
Boeing 737 MAX family	16	0	73	89
Boeing 777-300ER	24	4	3	31
Boeing 777-300	0	1	0	1
Boeing 787 family	15	1	27	43
Freighters	5	1	0	6
Total	**334**	**40**	**197**	**571**

Certain airline customers notified us of their intention to acquire on delivery a total of 15 of our aircraft on order, one of which is expected to be delivered in the second half of 2020.

Since 30 June 2020, we announced that we entered into a purchase and leaseback with an airline for five Boeing 737 MAX aircraft and reduced our A320NEO orders by 18 aircraft. Please refer to the Company's announcements dated 2 August 2020 and 30 August 2020 respectively on the websites of the Stock Exchange and the Company for more information.

[1] *Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 2: REVENUES AND OTHER INCOME BREAKDOWN, US$'m

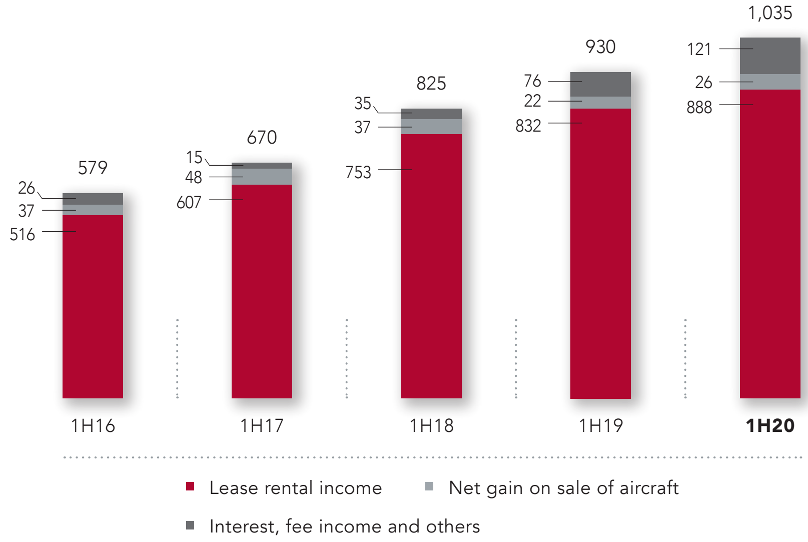


EXHIBIT 3: NET LEASE YIELD[1]

1 *Net lease yield is defined as operating lease rental income less finance expenses apportioned to operating lease rental income, divided by average of aircraft net book value (including aircraft held for sale). Net lease yield for 1H20 is calculated on an annualised basis.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 4: NET PROFIT AFTER TAX, US$'m

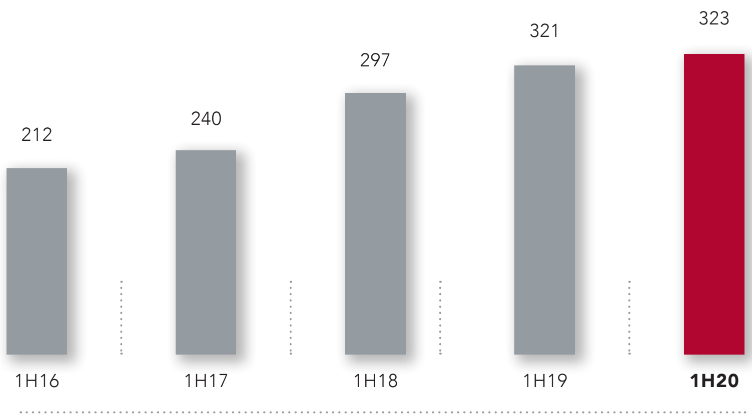
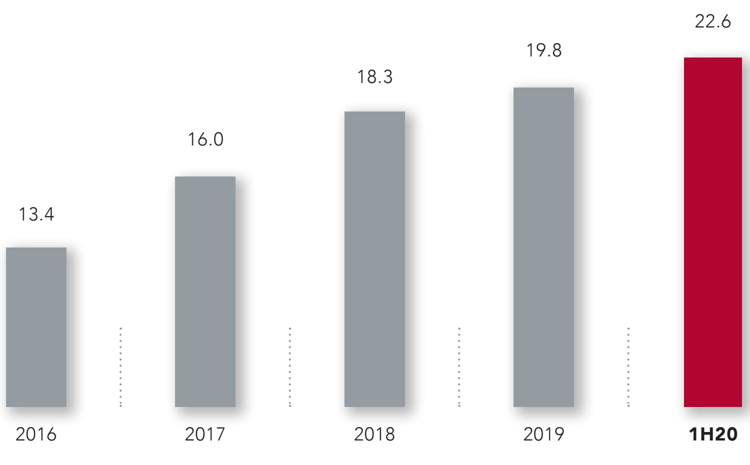


EXHIBIT 5: TOTAL ASSETS[1], US$'b



[1] *All data as at the end of the relevant period.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 6: TOTAL EQUITY[1], US$'b

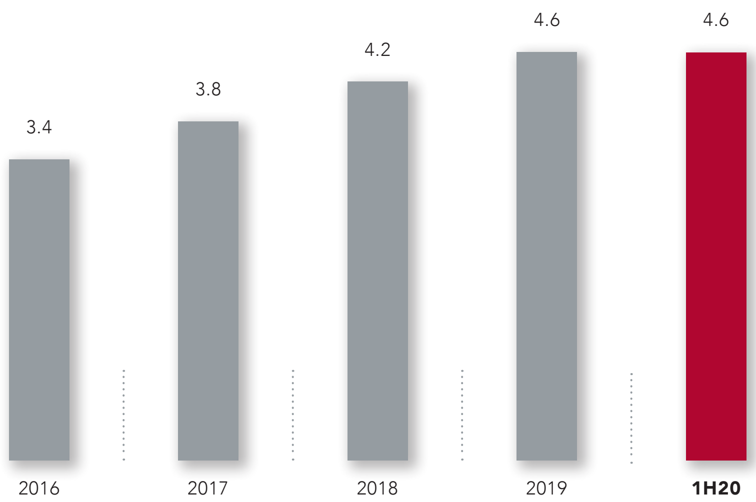
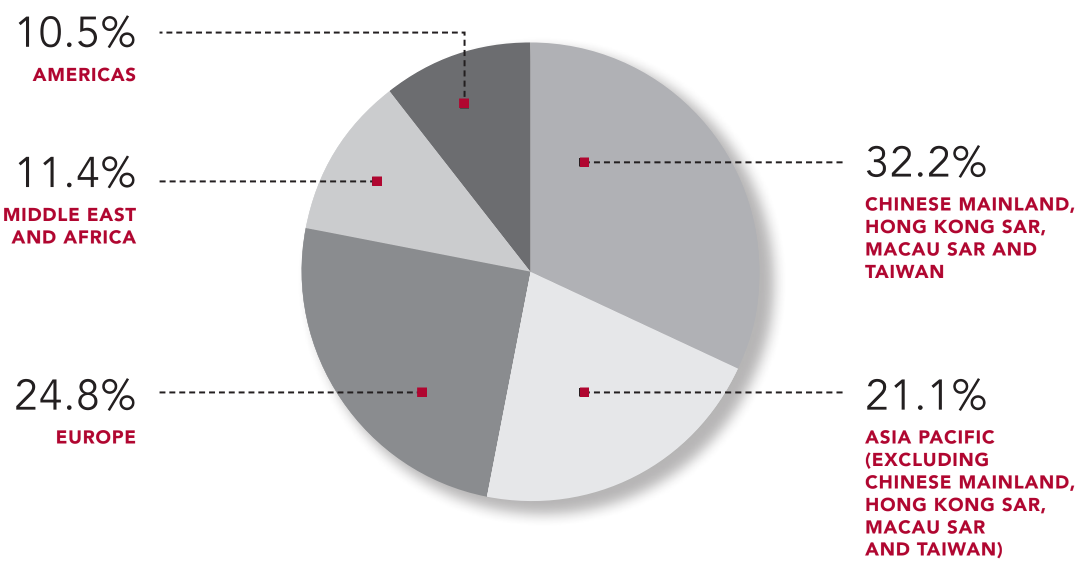


EXHIBIT 7: NET BOOK VALUE[2] OF AIRCRAFT BY REGION[3]



1 *All data as at the end of the relevant period.*

2 *Including net book value of aircraft on leases classified as finance leases in accordance with IFRS 16 (Leases) and excluding two aircraft off lease.*

3 *Based on the jurisdiction of the primary obligor under the relevant leases.*

PORTFOLIO AND OPERATIONAL HIGHLIGHTS

EXHIBIT 8: LEASE EXPIRIES AS % OF PORTFOLIO[1]

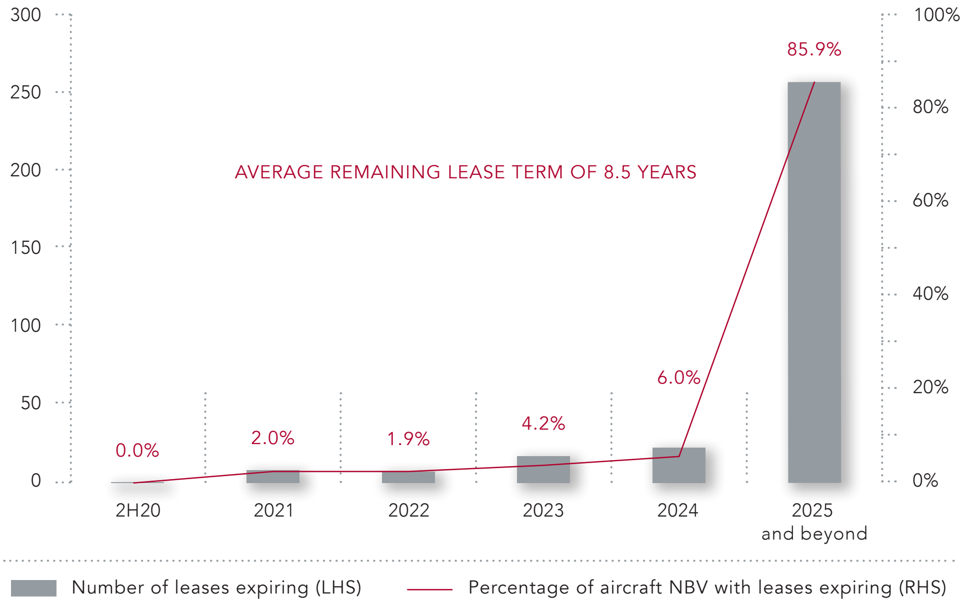
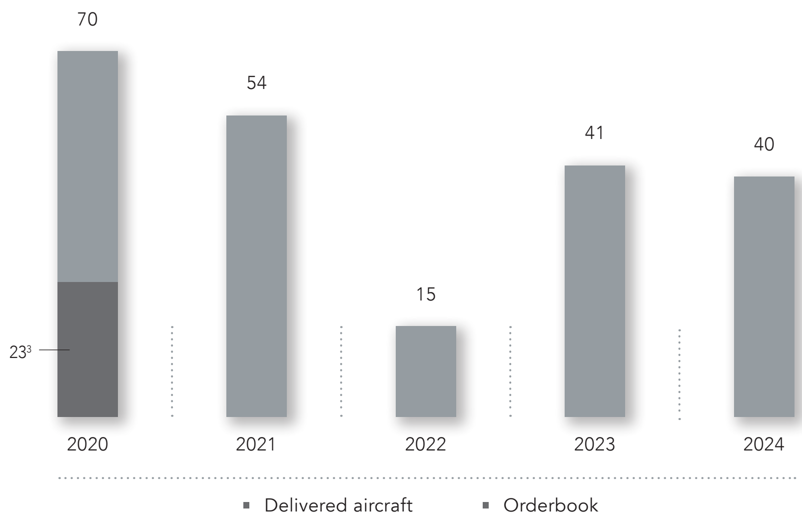


EXHIBIT 9: AIRCRAFT DELIVERIES BY NUMBER OF AIRCRAFT[2]



[1] *Owned aircraft with lease expiring in each calendar year, weighted by net book value, excluding two aircraft off lease.*
[2] *Includes aircraft acquired or to be acquired by an airline customer on delivery.*
[3] *Aircraft delivered in 1H20, including one aircraft acquired by an airline customer on delivery.*

KEY MILESTONES

Sun Yu
Chairman
Non-executive Director

Zhang Xiaolu
Deputy Managing Director
Vice Chairman & Executive Director

Robert Martin
Managing Director & Chief Executive Officer
Executive Director

Li Mang
Non-executive Director

Liu Chenggang
Non-executive Director

Wang Zhiheng
Non-executive Director

Zhu Lin
Non-executive Director

Dai Deming
Independent
Non-executive Director

Fu Shula
Independent
Non-executive Director

Antony Tyler
Independent
Non-executive Director

Bernard Yeung
Independent
Non-executive Director

- **Maintained an average return on equity of 15% since 2007**
- **Conducted the Company's 100th Board meeting**

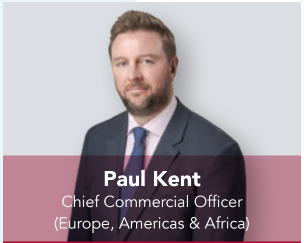
KEY MILESTONES

Signed more than 1,000 lease commitments

- US$4.7B in cumulative net profits since inception
- Maintained credit ratings of A- from S&P Global Ratings and Fitch Ratings

Signed leases for 76 latest technology aircraft in 1H 2020

Delivered two Airbus A320NEO aircraft to Air China in January



Joined as Chief Commercial Officer (Europe, Americas and Africa) in June

900 aircraft purchase commitments

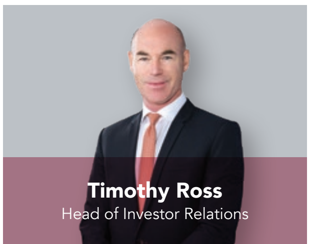
Raised more than US$2.1B in notes and US$900M in loans in 1H 2020

Committed to acquire aircraft on lease to North American carriers, including 28 Boeing 787 family and 26 Boeing 737 MAX family aircraft

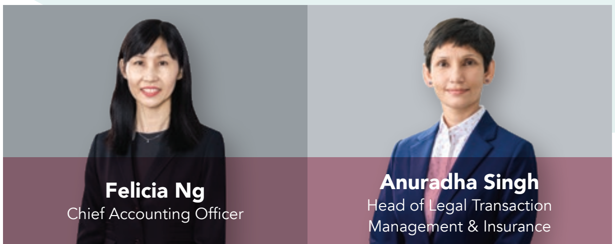
Purchase and leaseback agreement with Wizz Air for six Airbus A321NEO aircraft

Purchase and leaseback agreement with Cathay Pacific for six Boeing 777-300ER aircraft

4th year as a listed company



Awarded "A Most Honoured Company" in Institutional Investor's 2020 All-Asia survey



Maintained global operations with all employees working from home during the challenging operating environment

HALF YEAR BUSINESS REVIEW

We reported net profit after tax of US$323 million in the first half of 2020, an increase in both net profit after tax ("NPAT") and earnings per share compared with the same period last year. In view of our first half performance, the Board of Directors approved a distribution of US$0.1398 per share by way of interim dividend, which represents 30% of our NPAT in the first half of 2020, which is the same proportion of NPAT that we distributed as an interim dividend in prior years. The Company's dividend policy continues to be to distribute up to 35% of full-year net profit after tax, although dividends remain subject to the discretion of the Board of Directors.

Our owned fleet grew to 334 aircraft as at 30 June 2020, up from 317 at the end of 2019 in spite of the continued production and delivery delays across all new aircraft programmes. We recognised a number of major milestones during the first half, when we leased our 1,000th aircraft, conducted our 100th board meeting and celebrated our fourth year as a listed company.

For more than 25 years, we have focused on collections and on building our cash flow, which proved to be a key element of our strategy in the first half of 2020. During the six months ended June 2020, we generated positive operating cash flow net of finance expenses of US$555 million compared with US$629 million in the first half of 2019, and ended the half year with US$4 billion in available liquidity.

The pandemic associated with the COVID-19 virus has presented the world, the aviation sector, our business partners and stakeholders and our company with unprecedented challenges.

During this period, our primary concern has been the health and safety of our 179 employees in the five countries where we are based. Our employees are our most important asset and we continue to work with our colleagues to ensure they are protected while we support the real economy through our ongoing business activities.

We are a long-term partner to our airline customers and we assist them through difficult environments such as the one they are facing now. The most important support we can offer to well-established airlines is to help with their liquidity by providing purchase and leaseback ("PLB") solutions. In the first half of this year, we committed to purchase 66 aircraft in PLB transactions, providing liquidity and committed capital from a reliable partner.

At the same time, we reshaped our orderbook to address market conditions. In the first half, we mutually agreed with Boeing to cancel 30 737 MAX orders and to reschedule the remaining 57 orders to 2021-24. All aircraft scheduled for delivery from our orderbook before 2023 are placed with airline customers. This aligned our orderbook with anticipated production capabilities and the realities of lower near-term airline demand for new aircraft. We replaced those orderbook commitments with investments in aircraft in the PLB market on committed long-term leases with well-established airlines. The new transactions that we added to our balance sheet in the first half of 2020 delivered 100% on-time payment and US$20 million of income in the first half of the year. The contribution from these transactions will grow in the second half as more of the aircraft deliver.

HALF YEAR BUSINESS REVIEW

Total revenues and other income rose at around the same pace as our total assets in the first half of 2020, up 11% to US$1,035 million from US$930 million in the first half of last year. Our core lease rental contribution[1] increased 7% to US$366 million from US$341 million in the first half of 2019, reflecting our portfolio stability.

Our interest and fee income continued to rise in the first half of 2020, up almost a third to US$75 million, as we generated more revenue from finance leases and pre-delivery payment transactions.

During the first half of 2020 we purchased 22 aircraft and sold five owned aircraft, generating a gain on sale of US$26 million. We maintained the quality of our owned fleet, with its very young fleet age of 3.5 years as at 30 June 2020 and long weighted average remaining lease term of 8.5 years.

At 30 June 2020, we had committed capital expenditure of US$9.4 billion. Including the US$3 billion that we invested in the first half, we expect to invest close to US$6 billion in 2020.

During the first half of 2020, we were very active in the bank and bond markets raising more than US$2.1 billion in notes and US$900 million in loans at below 2019's average cost of funds, with our credit ratings unchanged at A- from both Fitch Ratings and S&P Global Ratings. We also repaid US$1.2 billion of maturing debt in the first half of 2020, and have US$0.5 billion in scheduled bond and debt repayments in the second half of the year.

Our operating lease portfolio generated a net lease yield[2] of 8.2%, down slightly from 2019.

Our portfolio has performed well in the face of the challenges that the aviation industry is struggling to meet. As at 30 June 2020, utilisation of the owned fleet was 99.8%, with only two single aisle aircraft off lease for part of the period. However, the collection rate of 88.8% was lower than our historical rate because of the cash flow pressures that our customers continue to face due to the impact of COVID-19.

We redoubled our commitment to community and our charitable activities in 2020. So far in 2020, BOC Aviation and its senior management contributed US$40,000 to Airlink, which was one of the first responding charities to the initial outbreak of COVID-19. We also led a contribution drive through our industry network, which raised a further US$4,000 for the same cause. We donated S$5,000 to the Orbis flying eye hospital charity and, most recently, the Company and our employees contributed a total of S$35,000 to Food From The Heart, a local charity dedicated to improving food security in our Singapore community.

We continued to enhance the strength of the management team during the first half with the appointment of Mr. Paul Kent as Chief Commercial Officer (Europe, Americas and Africa) based in London with effect from 1 June 2020. He has taken over from Mr. Steven Townend, who will start in his new role as Chief Financial Officer based in Singapore with effect from 1 October 2020.

1 *Core lease rental contribution is defined as operating lease rental income and finance lease interest income less aircraft depreciation, finance expenses apportioned to operating lease rental income and finance lease interest income, amortisation of deferred debt issue costs and lease transaction closing costs.*

2 *Net lease yield is defined as operating lease rental income less finance expenses apportioned to operating lease rental income, divided by average of aircraft net book value (including aircraft held for sale). Net lease yield for 1H20 is calculated on an annualised basis.*

BUSINESS OVERVIEW

BOC Aviation Limited is a leading global aircraft operating leasing company and is the largest aircraft operating leasing company headquartered in Asia. Our primary source of revenue is from long-term USD-denominated leases contracted with our globally diversified portfolio of airlines.

Our senior management team is highly experienced and international, with most of the team having extensive experience working in the aviation industry across multiple jurisdictions.

From our inception to 30 June 2020, we have:

- **Purchased and committed to purchase 900 aircraft with an aggregate purchase price of more than US$51 billion**
- **Executed more than 1,030 leases with more than 160 airlines in 57 countries and regions**
- **Raised more than US$31 billion in debt financing since 1 January 2007**
- **Sold more than 360 owned and managed aircraft**
- **Transitioned more than 90 aircraft at lease end and repossessed and redeployed 49 aircraft from customers based in 15 countries and regions**

As at 30 June 2020 our fleet comprised 374 owned and managed aircraft on lease to 91 customers in 40 countries and regions. We also had commitments to acquire 197 aircraft through to 2024. Our orderbook principally comprises single aisle aircraft, such as the A320NEO and 737 MAX new technology models. As at 30 June 2020, single aisle aircraft made up 56% of our owned portfolio, weighted by net book value, with popular twin aisle aircraft and freighters representing the balance.

We benefit from a low average cost of debt, which was 3.2% during the first half of 2020, compared with 3.6% during the first half of 2019, supported by our strong investment grade corporate and issuer credit ratings, which were A- from both S&P Global Ratings and Fitch Ratings, and by our access to diverse debt funding sources. Unsecured bonds and unsecured and secured third-party commercial bank debt are our primary sources of debt funding. We enjoy strong and committed support from Bank of China, a Fortune 50 company and a leading global bank. Bank of China has provided us with a US$2.0 billion committed unsecured revolving credit facility which matures in April 2022, of which US$1.7 billion was unutilised as at 30 June 2020. Our cash and undrawn credit facilities gave us total available liquidity of US$4 billion as at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

STATEMENT OF PROFIT OR LOSS ANALYSIS

Our net profit after tax was US$323 million, a slight increase compared with the same period last year of US$321 million. Total revenues and other income increased by 11.2% to US$1,035 million which was mainly driven by the increase in lease rental income as a result of the growth in the owned aircraft portfolio. Total costs and expenses rose by 17.7%, largely due to an increase in depreciation of property, plant and equipment, impairment of aircraft and impairment losses on financial assets.

Our selected financial data and changes to our consolidated statement of profit or loss are set out below:

	Unaudited 6 months ended 30 June			
	2020 US$'000	2019 US$'000	Change US$'000	Change %
Lease rental income	**887,993**	832,482	55,511	6.7
Interest and fee income	**75,374**	57,081	18,293	32.0
Other income:				
Net gain on sale of aircraft	**25,741**	22,095	3,646	16.5
Fair value gain on investment in equity instruments	**7,192**	—	7,192	nm
Incidental income	**38,733**	18,772	19,961	106.3
Total revenues and other income	**1,035,033**	930,430	104,603	11.2
Depreciation of property, plant and equipment	**328,698**	297,703	30,995	10.4
Impairment of aircraft	**11,600**	—	11,600	nm
Finance expenses	**219,844**	212,570	7,274	3.4
Staff costs	**45,241**	37,280	7,961	21.4
Impairment losses on financial assets	**46,677**	3,844	42,833	nm
Other operating costs and expenses	**29,257**	27,452	1,805	6.6
Total costs and expenses	**(681,317)**	(578,849)	102,468	17.7
Profit before income tax	**353,716**	351,581	2,135	0.6
Income tax expense	**(30,384)**	(30,490)	(106)	(0.3)
Profit for the period	**323,332**	321,091	2,241	0.7

nm: Not meaningful

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUES AND OTHER INCOME

Our total revenues and other income increased by 11.2% to US$1,035 million in the first half of 2020 ("1H 2020") from US$930 million in the first half of 2019 ("1H 2019"), primarily due to an increase in lease rental income as described below.

LEASE RENTAL INCOME

Our lease rental income increased by 6.7% to US$888 million in 1H 2020 compared with US$832 million in 1H 2019. The main driver of the increase in lease rental income was the growth in our fleet to 328 aircraft on operating leases compared with 314 aircraft as at 30 June 2019. During 1H 2020, we added 16 aircraft on operating leases and sold five aircraft. The lease rental yield[1] for aircraft subject to operating leases was 10.4% for 1H 2020 compared with 10.8% for 1H 2019.

INTEREST AND FEE INCOME

Our interest and fee income rose to US$75 million in 1H 2020 from US$57 million in 1H 2019. This growth was primarily due to an increase in fees from pre-delivery payment transactions and interest income on new finance leases for six aircraft. The lease rental yield[2] for aircraft on leases classified as finance leases in accordance with IFRS 16 *(Leases)* was 6.2% for 1H 2020.

NET GAIN ON SALE OF AIRCRAFT

Net gain on sale of aircraft increased by 16.5% to US$26 million in 1H 2020 compared with US$22 million in 1H 2019 due to higher profit achieved per aircraft from the sale of five aircraft in 1H 2020 compared with nine aircraft in 1H 2019.

FAIR VALUE GAIN ON INVESTMENT IN EQUITY INSTRUMENTS

The investment in equity instruments relates to quoted equity shares that were issued to the Company in 1H 2020 in connection with the financial restructuring of an airline under which certain present and future receivables under aircraft leases were converted into equity. The investment was measured at fair value in May 2020 when the shares were issued and was subsequently re-measured at fair value as at 30 June 2020 based on the closing price of the quoted shares. The change in fair value was an unrealised gain of US$7 million which was recognized in profit or loss in 1H 2020.

INCIDENTAL INCOME

Incidental income was mainly related to tax rebates and wage subsidies under the job support scheme received from government agencies, amounts paid by manufacturers based on mutual agreements and income arising from the termination of leases with certain airline customers.

1 *Lease rental yield for operating leases is defined as annualised operating lease rental income divided by the average of aircraft net book value (including aircraft held for sale).*

2 *Lease rental yield for finance leases is defined as the average effective interest rate per annum on finance lease receivables as at 30 June 2020.*

MANAGEMENT DISCUSSION AND ANALYSIS

COSTS AND EXPENSES

The increase in costs and expenses of 17.7% to US$681 million in 1H 2020 from US$579 million in 1H 2019 was primarily due to the increase in depreciation of property, plant and equipment, impairment of aircraft and impairment losses on financial assets which are described below.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment increased by 10.4% to US$329 million in 1H 2020, up from US$298 million in 1H 2019, mainly due to an increase in aircraft assets, with aircraft net book value rising from US$15.9 billion as at 30 June 2019 to US$16.8 billion as at 31 December 2019, and a further increase to US$17.3 billion as at 30 June 2020.

IMPAIRMENT OF AIRCRAFT

Impairment of aircraft was US$12 million in 1H 2020 for five 737-8 MAX aircraft originally delivered in 2018 and grounded on-lease since March 2019, where the recoverable values of each aircraft was lower compared with its net book value.

FINANCE EXPENSES

Finance expenses rose by 3.4% to US$220 million in 1H 2020 from US$213 million in 1H 2019 mainly due to an increase in our total indebtedness from US$13.1 billion as at 30 June 2019 to US$13.5 billion as at 31 December 2019 and a further increase to US$16.0 billion as at 30 June 2020, partially offset by lower cost of debt of 3.2% per annum in 1H 2020 from 3.6% per annum in 1H 2019.

STAFF COSTS

Staff costs increased by 21.4% to US$45 million in 1H 2020 from US$37 million in 1H 2019 mainly due to adjustments to provisions for deferred bonuses awarded in prior years in accordance with the terms of the cash-based long-term incentive plan and higher provisions on account of the amortisation of awards under our share-based long-term incentive plan. Awards under the RSU Plan are amortised over the vesting period of three years, with the first awards being granted in and amortised from 2018. Thus, staff costs for 1H 2020 included amortisation of RSU awards for three years, whereas staff costs for 1H 2019 included amortisation of RSU awards for only two years.

IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Impairment losses on financial assets of US$47 million in 1H 2020 increased significantly from US$4 million in 1H 2019 stemming from more receivables from lessees exceeding the security deposits held by us under those leases as a result of financial difficulties faced by lessees arising from the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER OPERATING COSTS AND EXPENSES

Other operating costs and expenses mainly comprise amortisation of deferred debt issue costs, repossession and transition costs, general and administration costs, and taxes (other than income tax expense). The increase in these costs of 6.6% to US$29 million in 1H 2020 from US$27 million in 1H 2019 was mainly due to provision for costs in relation to the repossession of aircraft.

PROFIT BEFORE INCOME TAX AND PRE-TAX PROFIT MARGIN

Profit before income tax increased by 0.6% to US$354 million in 1H 2020 from US$352 million in 1H 2019. Our pre-tax profit margin decreased to 34.2% in 1H 2020 from 37.8% in 1H 2019.

INCOME TAX EXPENSE

Income tax expense was US$30 million in 1H 2020, similar to 1H 2019. Our effective tax rate was 8.6% in 1H 2020, close to 8.7% in 1H 2019.

PROFIT FOR THE PERIOD

As a result of the foregoing, our profit after tax increased by 0.7% to US$323 million in 1H 2020 from US$321 million in 1H 2019.

Since the publication of our audited financial statements for the year ended 31 December 2019 on 11 March 2020, there have been no material changes to our business.

MANAGEMENT DISCUSSION AND ANALYSIS

STATEMENT OF FINANCIAL POSITION ANALYSIS

Our total assets increased by 14.4% to US$22.6 billion as at 30 June 2020 from US$19.8 billion as at 31 December 2019. Our total equity increased by 1.3% to US$4.6 billion as at 30 June 2020 compared with 31 December 2019.

Our selected financial data and changes to our consolidated financial position are set out below:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000	Change US$'000	Change %
Property, plant and equipment and assets held for sale	**21,092,147**	19,327,401	1,764,746	9.1
Finance lease receivables	**695,293**	—	695,293	nm
Trade receivables	**105,826**	18,232	87,594	480.4
Cash and short-term deposits	**435,670**	287,126	148,544	51.7
Investment in equity instruments	**109,318**	—	109,318	nm
Derivative financial instruments	**—**	2,373	(2,373)	(100.0)
Other assets	**180,445**	129,296	51,149	39.6
Total assets	**22,618,699**	19,764,428	2,854,271	14.4
Loans and borrowings	**15,867,276**	13,305,935	2,561,341	19.2
Maintenance reserves	**673,110**	592,549	80,561	13.6
Security deposits and non-current deferred income	**372,936**	340,775	32,161	9.4
Derivative financial instruments	**314,716**	222,495	92,221	41.4
Trade and other payables	**217,806**	206,298	11,508	5.6
Other liabilities	**531,180**	515,462	15,718	3.0
Total liabilities	**17,977,024**	15,183,514	2,793,510	18.4
Net assets	**4,641,675**	4,580,914	60,761	1.3
Share capital	**1,157,791**	1,157,791	—	—
Retained earnings	**3,689,133**	3,515,584	173,549	4.9
Statutory reserves	**625**	262	363	138.5
Share-based compensation reserves	**12,808**	8,021	4,787	59.7
Hedging reserves	**(218,682)**	(100,744)	(117,938)	(117.1)
Total equity	**4,641,675**	4,580,914	60,761	1.3

nm: Not meaningful

MANAGEMENT DISCUSSION AND ANALYSIS

PROPERTY, PLANT AND EQUIPMENT AND ASSETS HELD FOR SALE

We had property, plant and equipment and assets held for sale of US$21.1 billion as at 30 June 2020, which increased by 9.1% from US$19.3 billion as at 31 December 2019 due to net addition of 11 aircraft on operating leases in 1H 2020.

Aircraft constituted the largest component, amounting to US$17.3 billion and US$16.8 billion as at 30 June 2020 and 31 December 2019, respectively, representing 81.9% and 86.7% of our total property, plant and equipment and assets held for sale as at the same dates. Aircraft pre-delivery payments constituted 18.0% and 13.2% of our total property, plant and equipment and assets held for sale as at 30 June 2020 and 31 December 2019, respectively.

FINANCE LEASE RECEIVABLES

Finance lease receivables of US$695 million as at 30 June 2020 were in respect of six aircraft subject to leases contracted in 1H 2020 that were classified as finance leases in accordance with IFRS 16 *(Leases)*.

TRADE RECEIVABLES

Trade receivables, net of allowance for impairment losses, increased to US$106 million as at 30 June 2020 from US$18 million as at 31 December 2019 mainly due to delayed payments by certain airline customers as at 30 June 2020. The gross trade receivables as at 30 June 2020 was US$177 million and an amount of US$71 million, representing the receivables in excess of security deposits were provided for as impairment losses in profit or loss. The gross trade receivables comprised US$45 million which was contractually deferred by mutual agreement and is generally interest bearing and US$132 million which was past due. Subsequent to 30 June 2020, US$41 million of trade receivables due on or prior to 30 June 2020 have been collected as at 15 September 2020, increased from US$32 million collected as at 19 August 2020.

CASH AND SHORT-TERM DEPOSITS

Our cash and short-term deposits, which were mainly denominated in US Dollar, increased to US$436 million as at 30 June 2020 from US$287 million as at 31 December 2019. The increase in cash and short-term deposits was mainly due to the total net cash inflows from operating activities, financing activities and proceeds from sales of property, plant and equipment, having been greater than the cash outflows from capital expenditure during 1H 2020.

INVESTMENT IN EQUITY INSTRUMENTS

Investment in equity instruments of US$109 million as at 30 June 2020 was in respect of our investment in quoted equity shares in 1H 2020, measured using the closing price of the shares as at 30 June 2020 as described under "Fair value gain on investment in equity instruments".

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER ASSETS

Other assets increased to US$180 million as at 30 June 2020 from US$129 million as at 31 December 2019 mainly due to an amount receivable from the buyer for the sale of equipment (which was paid in July 2020), an increase in accrued receivables and payment to an independent trustee in 1H 2020 in respect of the RSU Plan for FY2019.

LOANS AND BORROWINGS

Our loans and borrowings increased by 19.2% to US$15.9 billion as at 30 June 2020 from US$13.3 billion as at 31 December 2019 to finance the increase in capital expenditure. The increase in loans and borrowings included the issuance of over US$2.1 billion of notes under our Global Medium Term Note Program, the drawing down of US$1.6 billion in term loans and utilisation of US$610 million under revolving credit facilities as at 30 June 2020. An amount of US$1.2 billion in term loans, revolving credit facilities and medium term notes was repaid as part of regular loan repayment and loan prepayments in 1H 2020.

DERIVATIVE FINANCIAL INSTRUMENTS

Our assets and liabilities with respect to derivative financial instruments represent unrealised gains and losses, respectively, which were recognised in the hedging reserve in equity or profit or loss, on the cross-currency interest rate swap and interest rate swap contracts that we contracted as at 30 June 2020 and 31 December 2019 respectively. Under assets, our derivative financial instruments were nil as at 30 June 2020 compared with US$2 million as at 31 December 2019. Under liabilities, our derivative financial instruments increased to US$315 million as at 30 June 2020 from US$222 million as at 31 December 2019. The movements in derivative financial assets and liabilities were primarily due to changes in marked-to-market values of the derivative financial instruments as a result of changes in interest rates. Due to the further downward movements in USD interest rates in 1H 2020, the unrealised loss in the hedging reserve increased to US$219 million as at 30 June 2020 compared with US$101 million as at 31 December 2019.

TRADE AND OTHER PAYABLES

Our trade and other payables increased by 5.6% to US$218 million as at 30 June 2020 compared with US$206 million as at 31 December 2019, primarily due to the increase in accrued maintenance reserve payables.

TOTAL EQUITY

Total equity was US$4.6 billion as at 30 June 2020, similar to 31 December 2019, as profit for the period was partially offset by payment of dividends amounting to US$149 million and an increase in unrealised losses in hedging reflected in hedging reserve as explained under "Derivative financial instruments".

CONTINGENT LIABILITIES

Other than corporate guarantees for certain loans extended to our subsidiary companies and for obligations under certain lease agreements entered into by our subsidiary companies as set out in Note 23 to the interim condensed consolidated financial statements as set out in the Appendix (Interim Financial Statements) hereto, the Company had no material contingent liabilities as at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity comprise cash generated from aircraft leasing operations, proceeds from aircraft sales and borrowings. Our business is capital intensive, requiring significant investments and borrowings in order to grow and to maintain a young aircraft fleet. The cash flows from our operations, particularly our revenues from operating leases of aircraft, have historically provided a significant portion of the liquidity for these investments.

Our gearing as at 30 June 2020 compared with 31 December 2019 increased as set out in the table below.

	Unaudited	Audited
	30 June 2020	31 December 2019
	US$m	US$m
Gross debt	**16,045**	13,513
Net debt	**15,610**	13,226
Total equity	**4,642**	4,581
Gross debt to equity (times)	**3.5**	2.9
Net debt to equity (times)	**3.4**	2.9

Gross debt is defined as loans and borrowings before adjustments for deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes. Total equity refers to the equity attributable to Shareholders. Gross debt to equity is calculated by dividing gross debt by total equity.

Net debt is defined as gross debt less cash and short-term deposits. Net debt to equity is calculated by dividing net debt by total equity.

Our liquidity remains strong, with cash and cash equivalents of US$398 million and US$3.6 billion in undrawn revolving credit facilities as at 30 June 2020.

INDEBTEDNESS

	30 June 2020 US$m	31 December 2019 US$m
Secured		
Term loans	**679**	729
Export credit agency supported financing	**501**	601
Total secured debt	**1,180**	1,330
Unsecured		
Term loans	**4,120**	2,580
Revolving credit facilities	**610**	640
Medium term notes	**10,135**	8,963
Total unsecured debt	**14,865**	12,183
Total indebtedness	**16,045**	13,513
Less: deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes	**(178)**	(207)
Total debt	**15,867**	13,306
Number of aircraft pledged as security	**61**	64
Net book value of aircraft pledged as security	**2,759**	2,915
Number of unencumbered aircraft	**267**	253
Net book value of unencumbered aircraft	**14,522**	13,845

Indebtedness comprises our loans and borrowings before adjustments for deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes.

Of the total indebtedness, the amount of debt at fixed rates, including floating rate debt swapped to fixed rate liabilities, amounted to US$11.9 billion as at 30 June 2020 compared with US$10.4 billion as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Collateral for secured debt will typically include a mortgage over the relevant aircraft, an assignment of the operating lease of the relevant aircraft and/or a pledge of the shares in the subsidiary company that holds title to the relevant aircraft. In line with our strategy to reduce secured debt as a proportion of total assets and of total indebtedness, these proportions have come down in 1H 2020 as set out in the table below:

	30 June 2020	31 December 2019
Secured debt/total assets	**5.2%**	6.7%
Secured debt/total indebtedness	**7.4%**	9.8%

As at 30 June 2020, the debt repayment profile was as follows:

DEBT REPAYMENT PROFILE

	30 June 2020 US$'b
2H 2020	**0.5**
2021	**1.9**
2022	**2.5**
2023	**2.8**
2024	**2.4**
2025 and beyond	**5.9**
Total	**16.0**

FOREIGN CURRENCY RISK

Our transactional currency exposures mainly arise from borrowings that are denominated in currencies other than US Dollar, our functional currency.

All loans and borrowings that are denominated in Australian Dollar, Chinese Yuan, Hong Kong Dollar and Singapore Dollar are swapped into US Dollar. To eliminate foreign currency exposure that may arise, we utilise cross-currency interest rate swap contracts to hedge our Australian Dollar, Chinese Yuan, Hong Kong Dollar and Singapore Dollar denominated financial liabilities. Such contracts are entered with counterparties that are rated at least A- by S&P Global Rating. Under these agreements, we receive foreign currency amounts sufficient to meet the obligations in foreign currency borrowings and payment of US Dollar to the counterparties.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS

Our estimated cash outflows based on aircraft capital expenditure commitments as at 30 June 2020 are set out below:

	30 June 2020
	US$'b
2H 2020	**1.9**
2021	**3.2**
2022	**1.2**
2023	**2.3**
2024	**0.8**
Total	**9.4**

The table above is based on estimated contractual capital expenditure commitments as at 30 June 2020 and include all commitments to purchase aircraft, including those where an airline has a right to acquire the relevant aircraft on delivery. The capital expenditure figures for each year include anticipated escalation and are net of advance payments made before 30 June 2020.

The aircraft expected to be delivered in the second half of 2020 include certain Boeing 737 MAX aircraft under purchase and leaseback transactions that may be delayed depending on the timing of recertification of the 737 MAX, and the delivery schedules of both Airbus and Boeing may be subject to delay due to the impact of COVID-19 and other factors.

Since 30 June 2020, we announced that we entered into a purchase and leaseback with an airline for five Boeing 737 MAX aircraft and reduced our A320NEO orders by 18 aircraft. Please refer to the Company's announcements dated 2 August 2020 and 30 August 2020 respectively on the websites of the Stock Exchange and the Company for more information

SOURCES OF FUNDING

Our aircraft purchase commitments as at 30 June 2020 are expected to be financed through a range of funding sources, including (a) cash flows generated from our operating activities, (b) proceeds from our notes issuance from debt capital markets, (c) amounts made available and drawn down under our various bank financing facilities, and (d) net proceeds from sales of owned aircraft.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 30 June 2020 and 30 June 2019, we had 179 and 165 employees, respectively, who were engaged in the operation and management of our business.

We provide certain benefits to our employees including retirement, health, life, disability and accident insurance coverage. We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, confidentiality and grounds for termination.

We set targets for our employees based on their position and role and periodically assess their performance. The results of such assessments are used in their salary reviews, bonus awards and assessing promotions. The employee remuneration package generally comprises a basic salary and a discretionary bonus element. Our employee bonuses include two employee incentive plans as follows: (i) our short term incentive plan which is cash-based and payable over a maximum three year period, under which a bonus is payable to employees when certain key performance indicator targets for each year are met, and (ii) our long term incentive plan, under which a bonus is awarded to selected employees based on the achievement of certain key performance targets at the end of a pre-determined period. The long term incentive plan comprises a mix of cash-based and share-based elements. The share-based long term incentive plan involves the grant of awards in the form of RSUs, fulfilled through the purchase of Shares in the secondary market by an independent trustee after the announcement of results for the relevant financial year in which performance occurred. Upon vesting, RSUs will generally be satisfied by the transfer of Shares from the independent trustee to the employee. Three annual grants under the RSU Plan have been made since 2018, and each RSU award is amortised over the vesting period of approximately three years commencing from the date of grant.

None of our employees are represented by a union or collective bargaining agreement. We believe we have good employment relationships with our employees.

For the six months ended 30 June 2020 and 30 June 2019, our staff costs were US$45 million and US$37 million respectively, representing approximately 4.4% and 4.0% of the Group's total revenues and other income of each period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2020, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Company.

GENERAL INFORMATION

DIVIDEND POLICY

The Company's dividend policy is to distribute up to 35% of net profit after tax for a full financial year. The Board has absolute discretion as to whether to declare any dividend for any year, and if it decides to declare a dividend, how much to declare.

INTERIM DIVIDEND

Consistent with the dividend policy, the Directors have declared an interim dividend of US$0.1398 per Share for the six months ended 30 June 2020. The interim dividend will be paid in Hong Kong dollars (converted from US Dollar at the prevailing market rate at least one week before the payment date) on 15 October 2020 to Shareholders registered at the close of business on the record date, being 6 October 2020. This declared interim dividend is not reflected as a dividend payable in the Interim Financial Statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

The register of members will be closed from 30 September 2020 to 6 October 2020 (both dates inclusive), during which no transfer of Shares will be effected. In order to qualify for entitlement to the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai Hong Kong, for registration not later than 4:30 p.m. on 29 September 2020.

GENERAL INFORMATION

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2020, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Shareholder	Capacity/ Nature of Interest	Number and class of Shares held	Approximate percentage of total issued share capital (%)
Central Huijin Investment Limited	Interest of controlled corporation (L)	485,807,334 (Ordinary)	70
BOC	Interest of controlled corporation (L)	485,807,334 (Ordinary)	70
BOCGI	Interest of controlled corporation (L)	485,807,334 (Ordinary)	70
Sky Splendor Limited	Beneficial owner (L)	485,807,334 (Ordinary)	70

Notes:

1. *BOCGI holds the entire issued share capital of Sky Splendor Limited. Accordingly, BOCGI is deemed to have the same interests in the Company as Sky Splendor Limited for the purpose of the SFO. Sky Splendor Limited directly holds 485,807,334 Shares.*

2. *BOC holds the entire issued share capital of BOCGI, which in turn holds the entire issued share capital of Sky Splendor Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCGI and Sky Splendor Limited for the purpose of the SFO. Sky Splendor Limited directly holds 485,807,334 Shares.*

3. *Central Huijin Investment Limited holds the controlling stake in the equity capital of BOC. Accordingly, for the purpose of the SFO, Central Huijin Investment Limited is deemed to have the same interest in the Company as BOC.*

All the interests stated above represented long positions. Save as disclosed above and so far as the Directors are aware as at 30 June 2020, no other persons or corporations had 5% or more interests or short positions in the Shares or underlying shares of the Company which were recorded in the register maintained by the Company under section 336 of the SFO.

GENERAL INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, interests of the Directors or the Chief Executive Officer or their respective associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO and section 164 of the Singapore Companies Act, Cap. 50 or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

LONG POSITION (ORDINARY SHARES)

Name of Director	Number of underlying Shares held under equity derivatives (Note)	Approximate percentage of total issued share capital (%)
Mr. Robert James MARTIN	616,243	0.09

Note: These represent the number of the RSUs which were granted to the Director. Please see "Restricted Share Unit Long Term Incentive Plan" below for details.

Mr. Sun Yu has a personal interest in 10,000 H shares of Bank of China Limited, which is a controlling shareholder of the Company, representing approximately 0.0000001% of the total issued H share capital of Bank of China Limited.

Save as disclosed above, none of the Directors or the Chief Executive Officer of the Company or their respective associates had any other interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO and section 164 of the Singapore Companies Act, Cap. 50 or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2020.

RESTRICTED SHARE UNIT LONG TERM INCENTIVE PLAN

The Company adopted the RSU Plan on 18 December 2017. The purpose of the RSU Plan is to attract skilled and experienced management and professional employees, to motivate and reward them to maximise profit and long term investment returns for Shareholders by providing them with the opportunity to acquire Shares in the Company, thereby aligning the respective interests of employees and Shareholders.

Eligible participants of the RSU Plan are selected employees (including Executive Directors) of the Company or any of its subsidiaries. An independent trustee (Computershare Hong Kong Trustees Limited) will purchase Shares of the Company from the market and will hold such Shares on trust in accordance with the rules of the RSU Plan. The RSU Plan will not involve any issue of new Shares by the Company.

The RSU Plan is a discretionary scheme, and does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purposes of Chapter 17 of the Listing Rules. For more information on the RSU Plan, please refer to the Company's announcement dated 31 January 2018 on the websites of the Stock Exchange and the Company.

During the six months ended 30 June 2020, the Company granted awards under the RSU Plan on 28 April 2020 as set out below:

RSU Participants	Position	Number of Shares underlying the RSUs granted	Approximate percentage of the total issued share capital (%)
Mr. Robert James MARTIN	Executive Director	243,535	0.04
Mr. WANG Jian	Former Executive Director#	60,881	0.01
Certain directors of subsidiaries of the Company	Subsidiary Directors	478,812	0.07
Employees and former employees of the Group other than the Executive Director, Former Executive Director and Subsidiary Directors mentioned above	—	972,148	0.14
Total		1,755,376	0.25

\# *Mr. Wang Jian retired on 31 December 2019.*

Subject to the terms and conditions of the RSU Plan and the fulfilment of all conditions to the vesting of the awards, the Shares underlying each RSU award will vest in favour of the relevant RSU Participants (as set out in the table above) in accordance with the RSU Plan. For more information on the grant of awards under the RSU Plan on 28 April 2020, please refer to the Company's announcement dated 28 April 2020 on the websites of the Stock Exchange and the Company.

CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's 2019 annual report dated 16 April 2020, up to 15 September 2020 (being the approval date of this interim report) is set out below:

EXPERIENCE INCLUDING OTHER DIRECTORSHIPS

Mdm. ZHU Lin, a non-executive Director of the Company, was appointed as the Chief Manager and Deputy General Manager of BOC Beijing Branch with effect from 29 June 2020, and as the Chief Risk Officer of BOC Beijing Branch with effect from 28 July 2020.

GENERAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors and two non-executive Directors. It is chaired by Mr. Dai Deming. The other members are Mr. Liu Chenggang, Mdm. Zhu Lin, Mr. Fu Shula and Mr. Antony Nigel Tyler.

Based on the principle of independence, the Audit Committee assists the Board in overseeing the financial reporting system and internal control procedures of the Company, reviewing the financial information of the Company and considering issues relating to the external auditors and their appointment.

Our external auditor has carried out a review of the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. The Audit Committee has reviewed with the management the accounting principles and practices we adopted and discussed auditing, internal controls and financial reporting matters including the review of the unaudited Interim Financial Statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

The Company is committed to enhancing shareholder value by achieving high standards of corporate conduct, transparency and accountability. During the six months ended 30 June 2020, the Company was in full compliance with all code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established and implemented a Dealing Policy on terms no less exacting than the Model Code to govern the Directors' securities transactions of the Company. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had strictly complied with the provisions set out in both the Dealing Policy and the Model Code throughout the six months ended 30 June 2020.

RELATED PARTY TRANSACTIONS

Set out below is supplemental information relating to certain related party transactions entered into by the Group during the year ended 31 December 2019 which has been disclosed in the Company's 2019 Annual Report.

Paragraph 5 of the Directors' Statement to the Company's audited financial statements for the year ended 31 December 2019 (the "2019 Financial Statements") disclosed the grant of restricted share units to certain directors of the Company, which constituted fully exempt connected transactions of the Company under the Listing Rules.

GENERAL INFORMATION

Note 17 to the 2019 Financial Statements disclosed the cash and bank balances of the Group. Such bank balances included the Group's bank deposits with the BOC Group (other than the BOCHK Holdings Group) pursuant to the deposit framework agreement with BOC, which constituted non-exempt continuing connected transactions of the Company under the Listing Rules, details of which are set out in the "Continuing Connected Transactions" section of the Company's 2019 Annual Report.

Note 21 to the 2019 Financial Statements disclosed the loans and borrowings of the Group. Such loans and borrowings included (a) unsecured loans from the BOC Group (other than the BOCHK Holdings Group) and the BOCHK Holdings Group in the aggregate amount of US$479 million and (b) US$2.02 billion in unutilised committed revolving credit facilities from the BOC Group (other than the BOCHK Holdings Group), all of which constituted fully exempt continuing connected transactions of the Company under the Listing Rules.

Note 35 to the 2019 Financial Statements disclosed certain significant transactions of the Group with related parties in the normal course of business and on commercial terms, other than those that were disclosed in other notes to the 2019 Financial Statements. In relation to the interest expense payable to the intermediate holding company and other related parties in 2019, (a) a de minimis amount related to office lease liabilities owing to the BOC Group (other than the BOCHK Holdings Group) and (b) an aggregate amount of US$17.75 million related to interest expenses payable on unsecured loans due to the BOC Group (other than the BOCHK Holdings Group) and the BOCHK Holdings Group, all of which constituted fully exempt continuing connected transactions of the Company under the Listing Rules. The directors' remuneration paid by the Company in 2019 and payable as at 31 December 2019 constituted fully exempt continuing connected transactions of the Company under the Listing Rules.

FORWARD-LOOKING STATEMENTS

This interim report contains forward-looking statements. These forward-looking statements reflect our current views as to future events and are not a guarantee of our future performance. Forward-looking statements are subject to certain known and unknown risks, uncertainties and assumptions. We do not intend to update the forward-looking statements in this interim report, whether as a result of new information, future events or developments or otherwise. Accordingly, you should not place undue reliance on any forward-looking information.

INTERIM REPORT

This interim report is available in both English and Chinese. A copy prepared in the language different from that which you have received is available by writing to the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bocaviation.ecom@computershare.com.hk. This interim report is also available (in both English and Chinese) on the Company's website at www.bocaviation.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the interim report and other corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

If you have any queries about how to obtain copies of this interim report or how to access those corporate communications on the Company's website, please call the Company's hotline at +852 2862 8688.

CORPORATE INFORMATION

As at 15 September 2020

BOARD OF DIRECTORS

Chairman
SUN Yu*

Vice Chairman
ZHANG Xiaolu

Directors
Robert James MARTIN
LI Mang*
LIU Chenggang*
WANG Zhiheng*
ZHU Lin*
DAI Deming#
FU Shula#
Antony Nigel TYLER#
YEUNG Yin Bernard#

* Non-executive Directors
\# Independent Non-executive Directors

SENIOR MANAGEMENT

Managing Director and Chief Executive Officer
Robert James MARTIN

Deputy Managing Director
ZHANG Xiaolu

Deputy Managing Director and
Chief Financial Officer
PHANG Thim Fatt

Deputy Managing Director and
Chief Operating Officer
David WALTON

Deputy Managing Director
Steven TOWNEND

Chief Commercial Officer
(Europe, Americas and Africa)
Paul KENT

Chief Commercial Officer
(Asia Pacific and the Middle East)
DENG Lei

COMPANY SECRETARY

ZHANG Yanqiu Juliana

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

8 Shenton Way
#18-01
Singapore 068811

PLACE OF BUSINESS IN HONG KONG

54th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITOR

Ernst & Young LLP

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

CREDIT RATINGS

S&P Global Ratings
Fitch Ratings

STOCK CODES

Ordinary shares:	
The Stock Exchange of Hong Kong Limited	2588
Reuters	2588.HK
Bloomberg	2588 HK

WEBSITE

www.bocaviation.com

DEFINITIONS

In this interim report, the following expressions have the meanings set out below unless the context requires otherwise:

TERMS	MEANINGS
"Board"	The board of directors of the Company
"BOC" or "Bank of China"	Bank of China Limited (中國銀行股份有限公司), a joint stock limited company incorporated in the PRC on 26 August 2004, the H-share and A-shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange respectively, the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules
"BOC Group"	BOC and its subsidiaries (excluding the Group)
"BOCGI"	Bank of China Group Investment Limited (中銀集團投資有限公司), a company incorporated in Hong Kong with limited liability on 11 December 1984, a wholly-owned subsidiary of BOC, a controlling shareholder of the Company and a connected person of the Company under the Listing Rules
"BOCHK"	Bank of China (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on 16 October 1964, a wholly-owned subsidiary of BOCHK Holdings and an associate of a connected person of the Company under the Listing Rules
"BOCHK Holdings"	BOC Hong Kong (Holdings) Limited (中銀香港 (控股) 有限公司), a company incorporated in Hong Kong with limited liability on 12 September 2001, the shares of which are listed on the Stock Exchange, a subsidiary of BOC and a connected person of the Company under the Listing Rules
"BOCHK Holdings Group"	BOCHK Holdings and its subsidiaries
"Company"	BOC Aviation Limited, a company incorporated under the laws of Singapore with limited liability and listed on the Stock Exchange which, together with its subsidiaries, is engaged in aircraft leasing, aircraft purchase and sale and related businesses

DEFINITIONS

"Dealing Policy"	The Directors'/Chief Executive Officer's Dealing Policy adopted by the Board on 12 May 2016 on terms no less exacting than the Model Code
"Director(s)"	The director(s) of the Company
"Group"	The Company together with its subsidiaries
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"RSU"	A restricted share unit, which is a contingent right to receive Shares, awarded pursuant to the RSU Plan
"RSU Plan"	The BOC Aviation Limited Restricted Share Unit Long Term Incentive Plan
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder"	A holder of Shares
"Shares"	Ordinary shares in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"USD", "US$" or "US Dollar"	The lawful currency of the United States of America
"USD LIBOR"	The interest rate calculated by reference to the London interbank rate for unsecured funds denominated in US Dollar

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

(Incorporated in Singapore. Registration No. 199307789K)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 January 2020 to 30 June 2020

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 January 2020 to 30 June 2020

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of BOC Aviation Limited (the "Company") and its subsidiaries (collectively, the "Group") as at 30 June 2020, which comprise the interim consolidated statement of financial position as at 30 June 2020 and the related interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 Interim Financial Reporting ("IAS 34") and SFRS(I) 1-34 Interim Financial Reporting ("SFRS(I) 1-34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". 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 International 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 accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 and SFRS(I) 1-34.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

20 August 2020

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period from 1 January 2020 to 30 June 2020

	Note	**Unaudited 1 January 2020 to 30 June 2020 US$'000**	Unaudited 1 January 2019 to 30 June 2019 US$'000
Revenues			
Lease rental income	28(a)	**887,993**	832,482
Interest and fee income	3	**75,374**	57,081
Other income:			
Net gain on sale of aircraft	4	**25,741**	22,095
Fair value gain on investment in equity instruments		**7,192**	–
Incidental income	5	**38,733**	18,772
		1,035,033	930,430
Costs and expenses			
Depreciation of property, plant and equipment		**328,698**	297,703
Finance expenses	6	**219,844**	212,570
Amortisation of deferred debt issue costs		**12,760**	12,256
Amortisation of lease transaction closing costs		**93**	77
Staff costs	7	**45,241**	37,280
Marketing and travelling expenses		**927**	2,746
Impairment of aircraft	9	**11,600**	–
Impairment losses on financial assets		**46,677**	3,844
Other operating expenses		**15,477**	12,373
		(681,317)	(578,849)
Profit before income tax		**353,716**	351,581
Income tax expense	8	**(30,384)**	(30,490)
Profit for the period attributable to owners of the Company		**323,332**	321,091
Earnings per share attributable to owners of the Company:			
Basic earnings per share (US$)	27	**0.47**	0.46
Diluted earnings per share (US$)	27	**0.47**	0.46

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2020 to 30 June 2020

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Profit for the period	**323,332**	321,091
Other comprehensive income for the period, net of tax:		
Items that may be reclassified subsequently to statement of profit or loss:		
Effective portion of changes in fair value of cash flow hedges, net of tax	**(142,657)**	(98,765)
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax	**24,719**	(3,720)
Total comprehensive income for the period attributable to owners of the Company	**205,394**	218,606

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	**Unaudited 30 June 2020 US$'000**	Audited 31 December 2019 US$'000
Non-current assets			
Property, plant and equipment	9	**21,092,147**	19,002,975
Lease transaction closing costs		**1,668**	1,536
Derivative financial instruments	16	**–**	1,850
Finance lease receivables	22(b)	**675,381**	–
Other receivables	11	**33,471**	–
Deferred income tax assets	17	**237**	169
Other non-current assets		**23,199**	18,625
		21,826,103	19,025,155
Current assets			
Derivative financial instruments	16	**–**	523
Trade receivables	10	**105,826**	18,232
Prepayments		**3,894**	2,534
Finance lease receivables	22(b)	**19,912**	–
Other receivables	11	**110,560**	106,432
Investment in equity instruments	21	**109,318**	–
Short-term deposits	12	**355,174**	202,935
Cash and bank balances	12	**80,496**	84,191
Assets held for sale		**–**	324,426
Other current assets		**7,416**	–
		792,596	739,273
Total assets		**22,618,699**	19,764,428
Current liabilities			
Derivative financial instruments	16	**68,817**	55,409
Trade and other payables	13	**217,806**	206,298
Deferred income	14	**136,694**	62,397
Loans and borrowings	15	**1,635,821**	1,715,233
Lease liabilities		**1,996**	1,981
Security deposits		**28,947**	34,375
Income tax payables		**421**	431
Liabilities associated with assets held for sale		**–**	64,766
		2,090,502	2,140,890
Net current liabilities		**(1,297,906)**	(1,401,617)
Total assets less current liabilities		**20,528,197**	17,623,538

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

As at 30 June 2020

	Note	**Unaudited 30 June 2020 US$'000**	Audited 31 December 2019 US$'000
Non-current liabilities			
Derivative financial instruments	16	**245,899**	167,086
Loans and borrowings	15	**14,231,455**	11,590,702
Lease liabilities		**7,599**	8,587
Security deposits		**260,818**	250,691
Deferred income	14	**83,171**	55,709
Maintenance reserves		**673,110**	592,549
Deferred income tax liabilities	17	**353,088**	334,345
Other non-current liabilities		**31,382**	42,955
		15,886,522	13,042,624
Total liabilities		**17,977,024**	15,183,514
Net assets		**4,641,675**	4,580,914
Equity attributable to owners of the Company			
Share capital	18	**1,157,791**	1,157,791
Retained earnings		**3,689,133**	3,515,584
Statutory reserves		**625**	262
Share-based compensation reserves		**12,808**	8,021
Hedging reserves	19	**(218,682)**	(100,744)
Total equity		**4,641,675**	4,580,914
Total equity and liabilities		**22,618,699**	19,764,428

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2020 to 30 June 2020

	Note	Attributable to owners of the Company					
		Share capital US$'000	Retained earnings US$'000	Statutory reserves* US$'000	Share-based compensation reserves US$'000	Hedging reserves US$'000	Total equity US$'000
Unaudited 2020							
Balance at 1 January 2020		1,157,791	3,515,584	262	8,021	(100,744)	4,580,914
Profit for the period		–	323,332	–	–	–	323,332
Transfers to statutory reserves		–	(363)	363	–	–	–
Other comprehensive income for the period, net of tax	19	–	–	–	–	(117,938)	(117,938)
Total comprehensive income for the period		–	322,969	363	–	(117,938)	205,394
Transactions with owners of the Company:							
Dividends	20	–	(149,420)	–	–	–	(149,420)
Share-based compensation		–	–	–	4,787	–	4,787
Balance at 30 June 2020		**1,157,791**	**3,689,133**	**625**	**12,808**	**(218,682)**	**4,641,675**
Unaudited 2019							
Balance at 1 January 2019, as previously reported/restated		1,157,791	3,037,898	63	1,931	1,343	4,199,026
Profit for the period		–	321,091	–	–	–	321,091
Transfers to statutory reserves		–	(199)	199	–	–	–
Other comprehensive income for the period, net of tax		–	–	–	–	(102,485)	(102,485)
Total comprehensive income for the period		–	320,892	199	–	(102,485)	218,606
Transactions with owners of the Company:							
Dividends	20	–	(128,045)	–	–	–	(128,045)
Share-based compensation		–	–	–	2,052	–	2,052
Balance at 30 June 2019		**1,157,791**	**3,230,745**	**262**	**3,983**	**(101,142)**	**4,291,639**

* In accordance with statutory requirements in China and France, each subsidiary company in these countries is required to make appropriation of a certain percentage of its annual profit after tax to a statutory reserve until a statutory limit is reached.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BOC AVIATION LIMITED AND ITS SUBSIDIARY COMPANIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2020 to 30 June 2020

	Note	**Unaudited 1 January 2020 to 30 June 2020 US$'000**	Unaudited 1 January 2019 to 30 June 2019 US$'000
Cash flows from operating activities:			
Profit before income tax		**353,716**	351,581
Adjustments for:			
Depreciation of property, plant and equipment		**328,698**	297,703
Amortisation of deferred debt issue costs		**12,760**	12,256
Amortisation of lease transaction closing costs		**93**	77
Share-based compensation	7	**4,787**	2,052
Net gain on sale of aircraft	4	**(25,741)**	(22,095)
Fair value gain on investment in equity instruments		**(7,192)**	–
Interest and fee income	3	**(75,374)**	(57,081)
Finance expenses	6	**219,844**	212,570
Impairment of aircraft	9	**11,600**	–
Impairment losses on financial assets		**46,677**	3,844
Operating profit before working capital changes		**869,868**	800,907
Increase in receivables		**(171,025)**	(84,786)
Increase in payables		**7,877**	1,999
Increase in maintenance reserves		**23,605**	55,541
Decrease in deferred income		**(1,166)**	(1,577)
Cash generated from operations		**729,159**	772,084
Security deposits (paid)/received, net		**(10,277)**	22,461
Lease transaction closing costs paid		**(225)**	(52)
Income tax paid, net		**(430)**	(4,563)
Interest and fee income received		**70,073**	56,781
Net cash flows from operating activities		**788,300**	846,711
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(2,269,644)**	(1,455,368)
Purchase of aircraft classified as finance lease		**(703,800)**	–
Proceeds from sale of property, plant and equipment		**206,881**	392,410
Net cash flows used in investing activities		**(2,766,563)**	(1,062,958)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

For the period from 1 January 2020 to 30 June 2020

	Note	**Unaudited 1 January 2020 to 30 June 2020 US$'000**	Unaudited 1 January 2019 to 30 June 2019 US$'000
Cash flows from financing activities:			
Proceeds from loans and borrowings		**3,750,000**	2,152,372
Repayment of loans and borrowings		**(1,187,875)**	(900,081)
Decrease in borrowings from revolving credit facilities, net		**(30,000)**	(624,000)
Repayment of lease liabilities		**(1,559)**	(706)
Finance expenses paid		**(233,291)**	(217,720)
Debt issue costs paid		**(21,048)**	(13,386)
Dividends paid	20	**(149,420)**	(128,045)
Decrease in cash and bank balances - encumbered		**3,734**	41
Increase in cash and bank balances - encumbered		**(6,440)**	(27,959)
Net cash flows from financing activities		**2,124,101**	240,516
Net increase in cash and cash equivalents		**145,838**	24,269
Cash and cash equivalents at 1 January		**251,663**	222,733
Cash and cash equivalents at 30 June		**397,501**	247,002

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

BOC Aviation Limited (the "Company") is a public company limited by shares and is listed on the main board of The Stock Exchange of Hong Kong Limited. The Company's majority shareholder is Sky Splendor Limited, which is incorporated in the Cayman Islands. Its shareholder is Bank of China Group Investment Limited, incorporated in Hong Kong and owned by Bank of China Limited, incorporated in the People's Republic of China ("PRC"). Bank of China Limited is majority owned by Central Huijin Investment Limited ("Central Huijin"), which is incorporated in the PRC. Central Huijin is a wholly owned subsidiary of China Investment Corporation ("CIC"), which is a wholly state-owned company in the PRC.

The registered address of the Company is 8 Shenton Way, #18-01, Singapore 068811.

The principal activities of the Company, which are conducted in Singapore, are the leasing of aircraft, management of aircraft leases and other related activities. The subsidiary companies are primarily engaged in the leasing of aircraft and other related activities.

2. Basis of preparation and significant accounting policies

As at 30 June 2020, the Group's current liabilities exceeded its current assets by US$1,297.9 million (31 December 2019: US$1,401.6 million). The interim financial statements have been prepared on a going concern basis as the management is reasonably confident that the Group will have sufficient resources including committed rental cash flows and unutilised committed banking facilities for it to pay its debts as and when they fall due.

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are also prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)"). Accordingly, the interim condensed consolidated financial statements of the Group have been prepared in accordance with both International Accounting Standard 34 *Interim Financial Reporting* and SFRS(I) 1-34 *Interim Financial Reporting*.

In preparing these set of financial statements for the year, the Group has considered the impact of COVID-19 on the impairment of aircraft assets, expected credit losses on financial assets and funding requirements based on the information available as of the date of this report.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2019.

The interim financial statements have been prepared on a historical cost convention, except as disclosed in the accounting policies and the explanatory notes. The interim financial statements are presented in the Group's functional currency, United States Dollar ("US$" or "US Dollar") and all values are rounded to the nearest thousand (US$'000), except when otherwise indicated.

2. Basis of preparation and significant accounting policies (cont'd)

2.1 Changes in significant accounting policies

The significant accounting policies adopted are consistent with those of the previous financial year which are set out in the audited consolidated financial statements of the Group for the financial year ended 31 December 2019, except for the adoption of new and revised standards effective for annual periods beginning on or after 1 January 2020. In the current financial period, the Group adopted the Amendments to IFRS 9/SFRS(I) 9: *Financial Instruments*, IAS 39/SFRS(I) 1-39: *Financial Instruments: Recognition and Measurement* and IFRS 7/SFRS(I) 7: *Interest Rate Benchmark Reform*. The amendments provide relief which allow entities to assume that the uncertainty arising from the Interbank Offered Rates ("IBOR") reform does not affect hedge relationships to the extent that they must be discontinued. The adoption of these standards did not have any material impact on the interim financial statements of the Group.

2.2 Additional significant accounting policy

An investment in equity instruments which is not held as strategic investment is initially recognised at fair value through profit or loss and is measured again at fair value at the end of each reporting period. Any change in the fair values is recognised in profit or loss and such instruments are reflected in the balance sheet at fair value as at the end of the reporting period.

As at 30 June 2020, the Group held an investment in equity instruments as a result of the financial restructuring of the obligations of an airline customer under which certain present and future receivables under aircraft leases were converted into equity.

3. Interest and fee income

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Fee income from aircraft pre-delivery payments	**57,499**	49,886
Interest income from finance leases	**9,154**	–
Interest income from short-term deposits and bank balances	**2,187**	3,160
Lease management and remarketing fee income	**2,021**	2,679
Others	**4,513**	1,356
	75,374	57,081

4. Net gain on sale of aircraft

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Proceeds from sale of aircraft	**196,181**	247,799
Maintenance reserves released	**1,785**	33,425
Net book value of aircraft classified as:		
Property, plant and equipment	**(63,393)**	(255,265)
Assets held for sale	**(108,783)**	–
Expenses, net of costs written back	**(49)**	(3,864)
	25,741	22,095

5. Incidental income

During the period ended 30 June 2020 and 30 June 2019, incidental income was mainly related to tax rebates and wage subsidies under job support scheme received from government agencies, amounts paid by manufacturers based on mutual agreement and income arising from the termination of leases with certain airline customers.

6. Finance expenses

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Interest expense and other charges on:		
Loans and borrowings	**219,683**	212,409
Lease liabilities	**161**	161
	219,844	212,570

7. Staff costs

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Salaries, bonuses and other staff costs	**39,071**	33,600
Employers' defined contributions	**1,383**	1,628
Share-based compensation	**4,787**	2,052
	45,241	37,280

Share-based compensation (equity-settled)

The Group has in place a Restricted Share Unit Long Term Incentive Plan for certain employees. The Restricted Share Units ("RSU") granted in a financial year will vest in the third year from the year of grant.

RSUs granted by the Group but not yet vested:

Year of grant	Fair value at grant date HK$	Fair value at grant date US$	At 1 January 2020	Granted during the period	Forfeited during the period	At 30 June 2020
2018	46.61	5.94	1,247,429	–	–	1,247,429
2019	65.64	8.36	1,153,695	–	–	1,153,695
2020	47.08	6.06	–	1,755,376	–	1,755,376
			2,401,124	**1,755,376**	**–**	**4,156,500**

Year of grant	Fair value at grant date HK$	Fair value at grant date US$	At 1 January 2019	Granted during the period	Forfeited during the period	At 30 June 2019
2018	46.61	5.94	1,273,080	–	(25,651)	1,247,429
2019	65.64	8.36	–	1,153,695	–	1,153,695
			1,273,080	1,153,695	(25,651)	2,401,124

The fair value of RSU at grant date was determined by the average market price at which the shares of the Company were purchased by an independent trustee in the secondary market.

8. Income tax expense

	Unaudited 1 January 2020 to 30 June 2020	Unaudited 1 January 2019 to 30 June 2019
	US$'000	US$'000
Current income tax	**412**	9,648
Deferred income tax	**34,182**	24,274
Overprovision in prior years	**(4,210)**	(3,432)
Income tax expense	**30,384**	30,490

9. Property, plant and equipment

	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Right-of-use asset US$'000	Total US$'000
Cost:						
At 1 January 2019	16,764,092	3,013,699	1,893	13,183	–	19,792,867
Adoption of IFRS 16/SFRS(I) 16	–	–	–	–	9,899	9,899
Additions	2,173,757	1,059,072	104	2,142	2,278	3,237,353
Disposals/reductions	(407,217)	(349,985)	–	(180)	(16)	(757,398)
Transfers	1,167,922	(1,167,922)	–	–	–	–
Transfer to assets held for sale	(1,206,620)	–	–	–	–	(1,206,620)
Adjustments	(2,824)	–	(107)	–	–	(2,931)
At 31 December 2019 and 1 January 2020	18,489,110	2,554,864	1,890	15,145	12,161	21,073,170
Additions	981,290	1,306,172	–	445	222	2,288,129
Disposals/reductions	(69,200)	(32,472)	–	(623)	–	(102,295)
Transfers	28,247	(28,247)	–	–	–	–
Transfer from assets held for sale	260,284	–	–	–	–	260,284
Adjustments	(208)	–	–	–	–	(208)
At 30 June 2020	**19,689,523**	**3,800,317**	**1,890**	**14,967**	**12,383**	**23,519,080**

9. Property, plant and equipment (cont'd)

	Aircraft US$'000	Aircraft pre-delivery payments US$'000	Office renovations US$'000	Furniture, fittings and office equipment US$'000	Right-of-use asset US$'000	Total US$'000
Accumulated depreciation and impairment:						
At 1 January 2019	1,806,420	–	1,073	11,893	–	1,819,386
Charge for the period	605,689	–	304	1,801	1,870	609,664
Disposals	(106,615)	–	–	(180)	(4)	(106,799)
Transfer to assets held for sale	(252,056)	–	–	–	–	(252,056)
At 31 December 2019 and 1 January 2020	2,053,438	–	1,377	13,514	1,866	2,070,195
Charge for the period	326,665	–	157	805	1,071	328,698
Disposals	(27,578)	–	–	(623)	–	(28,201)
Impairment of aircraft	11,600	–	–	–	–	11,600
Transfer from assets held for sale	44,641	–	–	–	–	44,641
At 30 June 2020	**2,408,766**	**–**	**1,534**	**13,696**	**2,937**	**2,426,933**
Net book value:						
At 31 December 2019	16,435,672	2,554,864	513	1,631	10,295	19,002,975
At 30 June 2020	**17,280,757**	**3,800,317**	**356**	**1,271**	**9,446**	**21,092,147**

9. Property, plant and equipment (cont'd)

(a) Impairment of aircraft assets

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Movement of impairment provision:		
At beginning of period/year	**–**	–
Impairment loss	**11,600**	–
At end of period/year	**11,600**	–

The impairment loss for period ended 30 June 2020 represented the write-down of the book value of certain aircraft to their recoverable amounts. The recoverable amount was determined based on the management's best estimate of each aircraft value from appraisers' valuation as at 30 June 2020.

(b) Right-of-use assets

The Group has lease contracts for its office and facility spaces.

The Group has certain leases that either have lease terms of 12 months or less or are of low value. The Group applies the exemption under IFRS 16/SFRS(I) 16 *Leases* not to recognise right-of-use assets and liabilities for these leases.

(c) Assets pledged as security

As at 30 June 2020, the net book value of aircraft owned by the Group that have been charged for loan facilities granted (Note 15) by way of mortgages and/or by way of a pledge by the Company of all its benefits in respect of its entire shareholding in certain subsidiary companies which hold title to such aircraft amounted to US$2,758.7 million (31 December 2019: US$2,915.3 million).

(d) Capitalisation of borrowing costs

As at 30 June 2020, the borrowing costs capitalised as cost of aircraft amounted to US$18.3 million (31 December 2019: US$37.8 million). The rate used to determine the amount of borrowing costs for capitalisation ranged from 2.4% to 3.6% per annum for the period ended 30 June 2020 (for the year ended 31 December 2019: 2.4% to 3.6% per annum).

10. Trade receivables

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Trade receivables – gross carrying amount	**177,251**	42,980
Less: Allowance for expected credit losses	**(71,425)**	(24,748)
Trade receivables – net of allowance for expected credit losses	**105,826**	18,232

Trade receivables are recognised at their original invoice amounts which represent their fair values on initial recognition and are generally received monthly in advance. Trade receivables are generally secured by cash security deposits or letters of credit. As at 30 June 2020, an amount of US$45.2 million (31 December 2019: nil), comprised of amounts contractually deferred by mutual agreements which are generally interest bearing.

Impairment of financial assets – trade receivables

The Group recognises an allowance for expected credit losses of trade receivables when the lessee does not pay the amounts due and/or deferred under its lease agreements in excess of the security deposit or the value of the collateral.

10. Trade receivables (cont'd)

Impairment of financial assets – trade receivables (cont'd)

As at 30 June 2020, the aging of trade receivables based on the receivables due date was as follows:

Unaudited 30 June 2020	**Deferred /Current**	**Less than 30 days past due**	**30 to 60 days past due**	**61 to 90 days past due**	**More than 90 days past due**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Gross carrying amount	45,172	31,241	31,017	26,135	43,686	177,251
Allowance for expected credit losses	(11,058)	(1,305)	(3,426)	(12,640)	(42,996)	(71,425)

Audited 31 December 2019	**Current**	**Less than 30 days past due**	**30 to 60 days past due**	**61 to 90 days past due**	**More than 90 days past due**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Gross carrying amount	109	8,945	7,933	4,946	21,047	42,980
Allowance for expected credit losses	–	(2,590)	(2,696)	(1,583)	(17,879)	(24,748)

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	Unaudited 30 June 2020	Audited 31 December 2019
	US$'000	US$'000
At beginning of period/year	**24,748**	–
Charged to profit or loss	**46,677**	24,748
At end of period/year	**71,425**	24,748

11. Other receivables

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Current:		
Deposits	**660**	680
Interest receivables	**934**	136
Sundry receivables	**2,933**	1,849
Receivables from manufacturers	**100,363**	103,227
Accrued receivables	**5,670**	540
	110,560	106,432
Non-current:		
Receivables from manufacturers	**25,845**	–
Accrued receivables	**7,626**	–
	33,471	–

The sundry receivables of the Group are non-trade related, unsecured and non-interest bearing.

As at 30 June 2020, included in current and non-current portion of the Group's receivables from manufacturers was an amount of US$79.0 million (31 December 2019: US$103.2 million) and US$25.8 million (31 December 2019: nil) respectively, contractually deferred by mutual agreement in return for a fee. The balance amount of US$21.4 million in the current portion has subsequently been received in July 2020.

Accrued receivables relate to future receipts for revenues and other income for which services have been rendered.

12. Cash and cash equivalents

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Short-term deposits	**355,174**	202,935
Cash and bank balances	**80,496**	84,191
	435,670	287,126
Less: encumbered cash and bank balances	**(38,169)**	(35,463)
Cash and cash equivalents	**397,501**	251,663

As at 30 June 2020, the Group's short-term deposits included an amount of US$35.0 million (31 December 2019: nil) placed with the intermediate holding company.

As at 30 June 2020, the Group's cash and bank balances included an amount of US$12.8 million (31 December 2019: US$14.1 million) placed with the intermediate holding company.

13. Trade and other payables

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Trade payables	**10**	70
Sundry payables	**6,816**	4,603
Accrued interest expenses	**97,459**	95,191
Accrued maintenance reserve payables	**48,321**	37,613
Accrued technical expenses	**6,331**	2,673
Staff costs related accruals	**53,944**	54,153
Other accruals and liabilities	**4,925**	11,995
	217,806	206,298

Trade payables and sundry payables are substantially denominated in United States dollar, non-interest bearing, current in nature and are settled on mutually agreed credit terms.

13. Trade and other payables (cont'd)

The table below summarises the aging of trade payables based on invoice due date:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Current	**–**	36
1 – 30 days	**–**	34
31 – 60 days	**–**	–
61 – 90 days	**10**	–
More than 90 days	**–**	–
	10	70

14. Deferred income

Deferred income (current) relates to advance receipts for revenues and other income for which services have not yet been rendered.

Deferred income (non-current) relates to advance receipts for revenues and other income for which services have not yet been rendered, and the difference between the nominal value of the security deposits and their fair value. The deferred income is charged to profit or loss on a straight-line basis over the lease term.

15. Loans and borrowings

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Current:		
Medium term notes	**838,040**	1,129,788
Loans	**863,530**	650,273
Medium term notes discount (net of premium)	**–**	(213)
Fair value and revaluation adjustments	**(56,889)**	(55,547)
Deferred debt issue costs	**(8,860)**	(9,068)
	1,635,821	1,715,233
Non-current:		
Medium term notes	**9,297,321**	7,833,194
Loans	**5,046,509**	3,900,021
Medium term notes discount (net of premium)	**(24,472)**	(19,058)
Fair value and revaluation adjustments	**(17,103)**	(53,562)
Deferred debt issue costs	**(70,800)**	(69,893)
	14,231,455	11,590,702
Total loans and borrowings	**15,867,276**	13,305,935

As at 30 June 2020, total loans and borrowings of the Group included secured liabilities of US$1,180.0 million (31 December 2019: US$1,330.3 million). These amounts are secured by the related aircraft, certain cash and bank balances and designated bank accounts and/or a pledge of the shares in certain subsidiary companies that hold title to aircraft.

In addition, the Company and certain subsidiary companies have provided negative pledges relating to all of these companies' assets and revenues. These exclude any encumbrance in existence at the time the negative pledge is entered into or created subsequently to secure finance to acquire or re-finance any aircraft.

15. Loans and borrowings (cont'd)

The table below summarises the maturity profile of the Group's gross loans and borrowings before adjustments for debt issue costs, fair values, revaluations and discounts/premiums to medium term notes:

	One year or less	One to two years	Two to five years	Over five years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Unaudited 30 June 2020					
Medium term notes	838,040	1,000,000	5,896,895	2,400,426	10,135,361
Loans	863,530	1,111,216	3,931,760	3,533	5,910,039
Total gross loans and borrowings	**1,701,570**	**2,111,216**	**9,828,655**	**2,403,959**	**16,045,400**
Audited 31 December 2019					
Medium term notes	1,129,788	1,185,873	3,788,011	2,859,310	8,962,982
Loans	650,273	790,682	3,098,745	10,594	4,550,294
Total gross loans and borrowings	1,780,061	1,976,555	6,886,756	2,869,904	13,513,276

15. Loans and borrowings (cont'd)

(a) Medium term notes

Outstanding notes issued at fixed coupon rate and floating rate denominated in various currencies were:

			Unaudited As at 30 June 2020		
		Maturity	**Outstanding amounts**	**Amounts swapped to US$ and floating rates**	**Amounts swapped to US$ and fixed rates**
		(Year)	**US$'000**	**US$'000**	**US$'000**
Currency	**Fixed Coupon Rate (p.a.)**				
Australian Dollar	3.15% to 5.375%	2021 to 2029	326,462	185,872	140,590
Chinese Yuan	4.5% to 5.5%	2020 to 2024	250,179	250,179	–
Hong Kong Dollar	3.25% to 3.6%	2026 to 2027	159,837	–	159,837
Singapore Dollar	3.93%	2025	108,883	–	108,883
United States Dollar	2.375% to 4.375%	2021 to 2029	7,850,000	–	–
			8,695,361	436,051	409,310
Currency	**Floating Rate (p.a.)**				
United States Dollar	3-month LIBOR + Margin ranging from 1.05% to 1.30%	2021 to 2025	1,440,000	–	1,440,000
			10,135,361	**436,051**	**1,849,310**

			Audited As at 31 December 2019		
		Maturity	**Outstanding amounts**	**Amounts swapped to US$ and floating rates**	**Amounts swapped to US$ and fixed rates**
		(Year)	**US$'000**	**US$'000**	**US$'000**
Currency	**Fixed Coupon Rate (p.a.)**				
Australian Dollar	3.15% to 5.375%	2020 to 2029	514,083	373,493	140,590
Chinese Yuan	4.5% to 5.5%	2020 to 2024	290,179	250,179	40,000
Hong Kong Dollar	3.25% to 3.6%	2026 to 2027	159,837	–	159,837
Singapore Dollar	3.93%	2025	108,883	–	108,883
United States Dollar	2.375% to 4.375%	2020 to 2029	6,450,000	200,000	–
			7,522,982	823,672	449,310
Currency	**Floating Rate (p.a.)**				
United States Dollar	3-month LIBOR + Margin ranging from 1.05% to 1.30%	2021 to 2025	1,440,000	–	1,440,000
			8,962,982	823,672	1,889,310

15. Loans and borrowings (cont'd)

(a) Medium term notes (cont'd)

As at 30 June 2020, an amount of US$436.1 million (31 December 2019: US$823.7 million) in medium term notes has been swapped to floating rate liabilities and US Dollar (for non-US Dollar denominated notes) via interest rate swap and cross-currency interest rate swap contracts. The carrying amount of these medium term notes was US$368.1 million (31 December 2019: US$721.2 million). These notes are liabilities designated as hedged items in fair value hedge and classified under Level 2 of the fair value hierarchy. The floating interest rates ranged from 1.7% to 4.4% per annum for the period ended 30 June 2020 (for the year ended 31 December 2019: 2.6% to 5.0% per annum).

The effects of fair value hedges on the notes as at 30 June 2020 and 31 December 2019 were as follows:

	Unaudited 30 June 2020			
	Outstanding amounts	**Discount and deferred debt issue costs**	**Accumulated amount of fair value and revaluation adjustments**	**Carrying amounts of liabilities**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Fair value hedge				
Foreign currency and interest rate risks				
- Cross-currency interest rate swaps	**436,051**	**(162)**	**(67,765)**	**368,124**

	Audited 31 December 2019			
	Outstanding amounts	**Discount and deferred debt issue costs**	**Accumulated amount of fair value and revaluation adjustments**	**Carrying amounts of liabilities**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Fair value hedge				
Foreign currency and interest rate risks				
- Cross-currency interest rate swaps	623,672	(278)	(101,908)	521,486
- Interest rate swaps	200,000	(105)	(194)	199,701
	823,672	(383)	(102,102)	721,187

15. Loans and borrowings (cont'd)

(a) Medium term notes (cont'd)

As at 30 June 2020, an amount of US$409.3 million (31 December 2019: US$449.3 million) in medium term notes which was denominated in non-US Dollar currencies at fixed rates has been swapped to US Dollars and at fixed rates via cross-currency interest rate swap contracts to hedge (i) the exposure to exchange rates of loans and borrowings issued in non-US Dollar currencies (fair value hedge) and (ii) the exposure to variability in cash flows for the related borrowings (cash flow hedge). The portion of the fair value change attributable to changes in the exchange rate are recognised in profit or loss, and the remaining portion attributable to cash flow variability is recognised in hedging reserve. The net fair value loss of US$9.8 million for the period ended 30 June 2020 (for the year ended 31 December 2019: US$11.1 million) on these cross-currency interest rate swaps was recognised in hedging reserve while the balance amount was recognised in profit or loss.

As at 30 June 2020, an amount of US$1,440.0 million (31 December 2019: US$1,440.0 million) in medium term notes has been swapped to fixed rate liabilities via interest rate swaps to hedge exposure to variability in cash flows from related loans which are pegged to US Dollar LIBOR. These hedges are classified as cash flow hedges. The net fair value loss of US$42.7 million for the period ended 30 June 2020 (for the year ended 31 December 2019: US$32.5 million) on these financial instruments was recognised in hedging reserve.

The terms of the above cross-currency interest rate swap and interest rate swap contracts have been negotiated to match the terms of the notes and accordingly, the hedges are assessed to be highly effective.

(b) Loans

Interest on floating rate loans of the Group is set at specified margins above US Dollar LIBOR. Interest rate for floating rate loans is reset at intervals of up to six months and the weighted average effective interest rate was 2.2% per annum for the period ended 30 June 2020 (for the year ended 31 December 2019: 3.4% per annum). The loans are repayable based on agreed repayment schedules, until the expiry date of the respective loans. The final maturities of the loans as at 30 June 2020 are between 2020 and 2025 (31 December 2019: 2020 and 2025).

As at 30 June 2020, the loans due to the intermediate holding company amounted to US$995.0 million (31 December 2019: US$95.0 million), and the loans due to other related parties amounted to US$1,322.2 million (31 December 2019: US$761.9 million).

As at 30 June 2020, loans outstanding amounting to US$2,255.0 million (31 December 2019: US$2,255.0 million) have been swapped to fixed rate liabilities via interest rate swaps to hedge exposure to variability in cash flows from related loans which are pegged to US Dollar LIBOR. These hedges are classified as cash flow hedges. The terms of the interest rate swap contracts have been negotiated to match the terms of the loans and accordingly, the cash flow hedges were assessed to be highly effective. The net fair value loss of US$65.4 million for the period ended 30 June 2020 (for the year ended 31 December 2019: US$58.5 million) was accounted for in hedging reserve.

15. Loans and borrowings (cont'd)

(b) Loans (cont'd)

As at 30 June 2020, the Group had unutilised unsecured committed revolving credit facilities of US$3,585.0 million (31 December 2019: US$3,655.0 million). These facilities included US$1.7 billion out of a US$2 billion committed revolving credit facility which is granted by the intermediate holding company and matures in 2022, and an amount of US$324.8 million (31 December 2019: US$248.0 million) in undrawn commitments which are provided by other related parties as part of committed syndicated revolving credit facilities which mature between 2021 and 2024 (31 December 2019: 2021 and 2024).

As at 30 June 2020, the Group had no committed unutilised unsecured term loan facility. As at 31 December 2019, the Group had US$700 million of committed unutilised unsecured term loan facility, of which US$337 million was provided by other related parties.

16. Derivative financial instruments

	Unaudited 30 June 2020			Audited 31 December 2019		
	Outstanding notional amounts	**Assets**	**Liabilities**	Outstanding notional amounts	Assets	Liabilities
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Current:						
Cross-currency interest rate swaps	**338,040**	**–**	**(56,889)**	379,788	–	(55,215)
Interest rate swaps	**760,000**	**–**	**(11,928)**	280,000	523	(194)
		–	**(68,817)**		523	(55,409)
Non-current:						
Cross-currency interest rate swaps	**507,320**	**–**	**(32,566)**	693,194	182	(58,886)
Interest rate swaps	**2,905,000**	**–**	**(213,333)**	3,615,000	1,668	(108,200)
		–	**(245,899)**		1,850	(167,086)

The fair values of interest rate swaps and cross-currency interest rate swaps as shown above are determined with reference to marked-to-market values provided by counterparties.

Hedge accounting has been applied for interest rate swaps and cross-currency interest rate swaps that are assessed by the Group to be highly effective hedges.

16. Derivative financial instruments (cont'd)

The Group determines the economic relationship between the loans and borrowings and the derivatives by matching the critical terms of the hedging instruments with the terms of the hedged items. The hedge ratio (the ratio between the notional amount of the derivative financial instrument to the amount of the loans and borrowings being hedged) is determined to be 1:1. There were no expected sources of ineffectiveness on the Group's hedges as the critical terms of the derivatives match exactly with the terms of the hedged items.

The following hedging instruments used by the Group are shown as derivative financial instruments in the statement of financial position:

	Outstanding notional amounts US$'000	Assets/ (Liabilities) US$'000	Hedge rates: USD interest rates (p.a.)	Hedge rates: Foreign currency rates	Maturity (Year)
Unaudited 30 June 2020					
Fair value hedge					
Cross-currency interest rate swaps[1]					
- Australian Dollar	185,872	(46,749)	6-month LIBOR + Margin ranging from 1.70% to 1.79%	US$1 : AUD1.07 to AUD1.08	2021
- Chinese Yuan	250,179	(21,016)	6-month LIBOR + Margin ranging from 0.64% to 2.28%	US$1 : CNY6.04 to CNY6.57	2020 to 2024
Cash flow hedge					
Cross-currency interest rate swaps[2]					
- Australian Dollar	140,590	(11,219)	3.43%	US$1 : AUD1.42	2029
- Hong Kong Dollar	159,837	(4,383)	3.72% to 4.13%	US$1 : HK$7.81 to HK$7.84	2026 to 2027
- Singapore Dollar	108,882	(6,088)	4.00%	US$1 : SGD1.33	2025
Interest rate swaps[3]					
- United States Dollar	3,665,000	(225,261)	1.975% to 4.242%	–	2020 to 2025

16. Derivative financial instruments (cont'd)

	Outstanding notional amounts US$'000	Assets/ (Liabilities) US$'000	Hedge rates USD interest rates (p.a.)	Hedge rates Foreign currency rates	Maturity (Year)
Audited **31 December 2019**					
Fair value hedge					
Cross-currency interest rate swaps[1]					
- Australian Dollar	373,493	(82,664)	6-month LIBOR + Margin ranging from 1.70% to 1.96%	US$1 : AUD1.06 to AUD1.08	2020 to 2021
- Chinese Yuan	250,179	(19,244)	6-month LIBOR + Margin ranging from 0.64% to 2.28%	US$1 : CNY6.04 to CNY6.57	2020 to 2024
Interest rate swaps[4]					
- United States Dollar	200,000	(194)	6-month LIBOR + Margin ranging from 1.28% to 1.38%	–	2020
Cash flow hedge					
Cross-currency interest rate swaps[2]					
- Australian Dollar	140,590	(3,151)	3.43%	US$1 : AUD1.42	2029
- Chinese Yuan	40,000	(4,137)	2.95%	US$1 : CNY6.25	2020
- Hong Kong Dollar	159,837	(4,926)	3.72% to 4.13%	US$1 : HK$7.81 to HK$7.84	2026 to 2027
- Singapore Dollar	108,883	203	4.00%	US$1 : SGD1.33	2025
Interest rate swaps[3]					
- United States Dollar	3,695,000	(106,009)	1.975% to 4.242%	–	2020 to 2025

[1] The Group uses these cross-currency interest rate swaps to hedge against the exposure to exchange rates and interest rates arising from the Group's non-US Dollar loans and borrowings which are liabilities designated as hedged items in fair value hedge. Under these cross-currency interest rate swaps, the Group receives non-US Dollar principal and fixed interest and pays US Dollar principal and floating interest pegged to US Dollar LIBOR. These hedges are classified as fair value hedges and the fair value changes of these cross-currency interest rate swaps are recognised in profit or loss.

[2] The Group uses these cross-currency interest rate swaps to hedge against (i) the exposure to exchange rates of loans and borrowings issued in non-US Dollar currencies (fair value hedge) and (ii) the exposure to variability in cash flows for the related loans and borrowings (cash flow hedge). Under these cross-currency interest rate swaps, the Group receives non-US Dollar principal and fixed interest, and pays US Dollar principal and fixed interest. The cross-currency interest rate swaps are bifurcated into two portions. The portion of the fair value change attributable to changes in the exchange rate are recognised in profit or loss, and the remaining portion attributable to cash flow variability is recognised in hedging reserve.

16. Derivative financial instruments (cont'd)

[3] The Group uses these interest rate swaps to hedge against the exposure to variability in cash flows from the related loans and borrowings which are pegged to US Dollar LIBOR. Under these interest rate swaps, the Group receives floating interest pegged to US Dollar LIBOR and pays fixed interest. These hedges are classified as cash flow hedges and the fair value changes of these interest rate swaps are recognised in hedging reserve.

[4] The Group uses these interest rate swaps to hedge against the exposure to interest rates arising from the Group's US Dollar loans and borrowings which are liabilities designated as hedged items in fair value hedge. Under these interest rate swaps, the Group receives fixed interest and pays floating interest pegged to US Dollar LIBOR. These hedges are classified as fair value hedges and the fair value changes of these interest rate swaps are recognised in profit or loss.

17. Deferred income tax assets and liabilities

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Deferred income tax liabilities, net	**353,088**	334,345
Deferred income tax assets, net	**(237)**	(169)
	352,851	334,176

Deferred income tax liabilities arose mainly from differences in depreciation after offsetting unabsorbed capital allowances and unutilised tax losses which relate to the same taxable entity and the same tax authority.

18. Share capital

	Unaudited 30 June 2020		Audited 31 December 2019	
	No. of shares '000	**US$'000**	No. of shares '000	US$'000
Issued and fully paid ordinary shares:				
At beginning and end of period/year	**694,010**	**1,157,791**	694,010	1,157,791

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

19. Hedging reserves

Hedging reserves record the portion of the fair value changes on derivative financial instrument designated as hedging instrument in cash flow hedges that is determined to be an effective hedge.

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Interest rate and foreign currency risk:		
At beginning of period/year	**(100,744)**	1,343
Effective portion of changes in fair value of cash flow hedges, net of tax:		
- Interest rate swaps	**(129,543)**	(92,457)
- Cross-currency interest rate swaps	**(13,114)**	(12,063)
	(142,657)	(104,520)
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax:		
- Interest rate swaps	**21,437**	1,514
- Cross-currency interest rate swaps	**3,282**	919
	24,719	2,433
	(117,938)	(102,087)
At end of period/year	**(218,682)**	(100,744)

20. Dividends

	Unaudited 1 January 2020 to 30 June 2020	Unaudited 1 January 2019 to 30 June 2019
	US$'000	US$'000
Declared and paid during the period:		
Final dividend for 2019: US$0.2153 (2018: US$0.1845) per share	**149,420**	128,045
Proposed as at 30 June:		
Interim dividend for 2020: US$0.1398 (2019: US$0.1388) per share	**97,023**	96,329

At the Annual General Meeting held on 27 May 2020, the shareholders approved a final dividend of US$0.2153 per ordinary share, which amounted to US$149.4 million, in respect of the profit for the year ended 31 December 2019. This dividend was paid in June 2020.

At a meeting on 20 August 2020, the directors declared an interim dividend of US$0.1398 per ordinary share for the period ended 30 June 2020 amounting to US$97.0 million. This declared interim dividend is not reflected as a dividend payable in this interim financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

21. Investment in equity instruments

	Unaudited 30 June 2020 $'000	Audited 31 December 2019 $'000
Quoted equity shares	**109,318**	–

The Group's investment in equity instruments, measured at fair value through profit or loss, relates to its interest in the quoted equity shares of Norwegian Air Shuttle ASA ("NAS") as part of the consideration received from a lease restructuring during the period ended 30 June 2020.

The fair value of this investment and the unrealised gain or loss on this investment will vary depending on the share price of NAS, the exchange rate between Norwegian Krone and United States Dollar and the number of shares of NAS held by the Group at the end of each financial period.

22. Commitments

(a) Operating lease commitments

(i) Operating lease commitments - As lessor

Aircraft

The Group leases its aircraft under operating lease agreements that are non-cancellable.

Future net minimum lease receivables under the non-cancellable operating leases for existing aircraft are as follows:

	Unaudited 30 June 2020 US$ million	Audited 31 December 2019 US$ million
Within one year	**1,717**	1,740
Between one and two years	**1,721**	1,694
Between two and three years	**1,660**	1,625
Between three and four years	**1,587**	1,592
Between four and five years	**1,458**	1,499
After five years	**5,337**	5,591
	13,480	13,741

Future net minimum lease receivables committed for aircraft yet to be delivered are as follows:

	Unaudited 30 June 2020 US$ million	Audited 31 December 2019 US$ million
Within one year	**312**	87
Between one and two years	**504**	230
Between two and three years	**454**	242
Between three and four years	**456**	240
Between four and five years	**480**	240
After five years	**3,310**	1,689
	5,516	2,728

22. Commitments (cont'd)

(a) Operating lease commitments (cont'd)

(ii) Operating lease commitments - As lessee

The Group leases office and facility spaces under non-cancellable operating lease agreements. In accordance with IFRS 16/SFRS(I) 16 *Leases,* the Group has recognised the lease liabilities representing the present value of the minimum lease payments on the statement of financial position.

(b) Finance lease commitments

Finance lease commitments - As lessor

	Group			
	Unaudited	**Unaudited**	Audited	Audited
	Minimum lease payments	**Present value of payments**	Minimum lease payments	Present value of payments
	30 June 2020	**30 June 2020**	31 December 2019	31 December 2019
	US$'000	**US$'000**	US$'000	US$'000
Within one year	**62,496**	**19,912**	–	–
Between one and two years	**704,132**	**675,381**	–	–
Total minimum lease payments	**766,628**	**695,293**	–	–
Less: Amounts representing finance charges	**(71,335)**	**–**	–	–
	695,293	**695,293**	–	–

The scheduled receivables of the finance lease are as follows:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Finance lease receivables	**695,293**	–
Less: Current portion	**(19,912)**	–
Non-current portion	**675,381**	–

22. Commitments (cont'd)

(b) Finance lease commitments cont'd)

Finance lease commitments - As lessor

The effective interest rates on the finance lease receivables ranged from 6.1% to 6.3% per annum for the period ended 30 June 2020.

(c) Capital expenditure commitments

During the period ended 30 June 2020, the Group (i) placed an order with Airbus SAS for 20 A320NEO family aircraft, (ii) entered into purchase and leaseback commitments with airlines for six Boeing 777-300ER aircraft, 28 Boeing 787 aircraft, 26 Boeing 737 MAX aircraft and six Airbus A321 aircraft, (iii) cancelled the purchase from Boeing of 30 737 MAX aircraft and (iv) extended the delivery timeframe for certain other Airbus and Boeing aircraft.

As at 30 June 2020, the Group had committed to purchase various aircraft delivering between 2020 and 2024. The amount of future commitments under purchase agreements including assumed escalation to delivery was US$9,405 million (31 December 2019: US$7,509 million). This includes all commitments to purchase aircraft, including those where an airline has a right to acquire the relevant aircraft on delivery.

23. Contingent liabilities

Corporate guarantees for subsidiary companies

The Company has provided corporate guarantees for certain loans extended to its subsidiary companies by the banks and for obligations under certain lease agreements entered into by the subsidiary companies. As at 30 June 2020, the corporate guarantees for loans to subsidiary companies amounted to US$4,181.8 million (31 December 2019: US$3,344.3 million).

24. Related party transactions

The Group is majority owned by Bank of China Limited which is controlled by Central Huijin, a wholly owned subsidiary of CIC, which is a wholly state-owned company in the PRC. Central Huijin and CIC have equity interests in certain other entities in the PRC. Bank of China Limited is indirectly subject to the control of the State Council of the PRC Government through CIC and Central Huijin. The State Council directly or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities.

The Group enters into leasing, purchase and leaseback, borrowings and other transactions with certain state-owned entities mentioned above in the normal course of business and on commercial terms.

The Group considers only those entities known to the management to be a subsidiary company, associate or joint venture of Central Huijin to be related parties.

In addition to the information disclosed elsewhere in the interim financial statements, the following significant transactions took place between the Group and related parties in the normal course of business and on commercial terms:

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Costs and expenses		
(a) Intermediate holding company:		
Interest expense	**5,514**	223
Debt issue costs	**3,000**	475
(b) Other related parties:		
Interest expense	**13,313**	13,415
Debt issue costs	**2,880**	725

24. Related party transactions (cont'd)

	Unaudited 1 January 2020 to 30 June 2020 US$'000	Unaudited 1 January 2019 to 30 June 2019 US$'000
Directors' and key executives' remuneration paid during the period*		
(a) Directors of the Company:		
Salary, fees, bonuses and other costs	**4,610**	5,991
CPF and other defined contributions	**3**	4
	4,613	5,995
(b) Key executives (excluding executive directors) of the Group:		
Salary, bonuses and other costs	**7,467**	8,895
CPF and other defined contributions	**218**	218
	7,685	9,113

* Exclude share-based compensation expense as described below.

As at 30 June 2020, deferred cash bonuses of US$21.2 million (31 December 2019: US$19.2 million) in respect of services performed in prior years were payable to directors of the Company and key executives of the Group.

As at 30 June 2020, the Group granted 616,243 and 915,641 (31 December 2019: 457,353 and 643,571) RSUs to directors of the Company and key executives of the Group respectively.

The share-based compensation expense for the period ended 30 June 2020 was US$0.6 million (2019: US$0.4 million) and US$1.2 million (2019: US$0.5 million) for directors of the Company and key executives of the Group respectively.

25. Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign exchange risk. The Group reviews and agrees policies for managing each of these risks.

Except for credit risk, there has been no significant change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

As a result of COVID-19 pandemic, there is heightened monitoring of the credit risks of airline customers, manufacturers and suppliers and other counterparties with whom the Group does business. The Group recognises an allowance for expected credit losses when a lessee does not pay the amounts due and/or deferred under its lease agreements in excess of the security deposit or the value of the collateral.

26. Capital management

The primary objective of the Group's capital management is to maximise shareholder value given an optimal debt to equity structure.

The Group manages its capital structure through the use of equity and debt after taking into account its capital expenditure and financing requirements. To maintain or adjust the capital structure, the Group may request for additional capital from the shareholders, adjust dividend payments to the shareholders or return capital to the shareholders. The changes in share capital and dividends are disclosed in Note 18 and Note 20 respectively. There were no changes made in the objectives, policies or processes during the period from 1 January 2020 to 30 June 2020 and the year ended 31 December 2019.

The Group monitors its gross debt to equity, which is gross debt divided by total equity. The Group ensures that it operates within the gross debt to equity covenant in its loan facilities and to maintain its investment grade credit rating. Gross debt comprises the Group's loans and borrowings before adjustments for deferred debt issue costs, fair values, revaluations and discounts/premiums to medium term notes. Total equity refers to the equity attributable to owners of the Company.

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Gross debt	**16,045,400**	13,513,276
Total equity	**4,641,675**	4,580,914
Gross debt to equity (times)	**3.5**	2.9

27. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing profit for the period attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing profit for the period attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There were no dilutive potential ordinary shares as at 30 June 2020 and 30 June 2019.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share:

	Unaudited 1 January 2020 to 30 June 2020	Unaudited 1 January 2019 to 30 June 2019
Earnings		
Earnings used in the computation of basic and diluted earnings per share (profit for the period attributable to owners of the Company) (US$'000)	**323,332**	321,091
Number of shares		
Weighted average number of ordinary shares of basic and diluted earnings per share computation ('000)	**694,010**	694,010
Basic earnings per share (US$)	**0.47**	0.46
Diluted earnings per share (US$)	**0.47**	0.46

28. Segmental analysis

All revenues are derived from the Group's principal activities of leasing and management of aircraft leases and other related activities. There is no known seasonality of the Group's contracted revenues. The main revenue and assets are analysed by geographical region as follows:

(a) Lease rental income

Lease rental income is derived from leasing of aircraft on operating lease to various airline customers around the world. The lease rental income is recognised during the period including rent deferral provided to the airline customer to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The distribution of lease rental income by geographic region based on the jurisdiction of each airline customer under the relevant operating lease was as follows:

	Unaudited 1 January 2020 to 30 June 2020		Unaudited 1 January 2019 to 30 June 2019	
	US$ million	**%**	US$ million	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**211**	**23.8**	195	23.4
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**261**	**29.4**	251	30.2
Americas	**77**	**8.6**	82	9.9
Europe	**239**	**26.9**	211	25.4
Middle East and Africa	**100**	**11.3**	93	11.1
	888	**100.0**	832	100.0

Other than the lease rental income attributable to airline customers in Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan which accounted for 29.4% (2019: 30.2%) of the total lease rental income, there was no other country concentration in excess of 10% of the total lease rental income for the period ended 30 June 2020 and the period ended 30 June 2019.

28. Segmental analysis (cont'd)

(b) Net book value of aircraft

The distribution of net book value of aircraft (including assets held for sale) by geographic region based on the jurisdiction of each airline customer under the relevant operating lease was as follows:

	Unaudited 30 June 2020		Audited 31 December 2019	
	US$ million	**%**	US$ million	%
Asia Pacific (excludes Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan)	**3,775**	**21.9**	3,858	23.0
Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan	**5,066**	**29.3**	5,136	30.6
Americas*	**1,954**	**11.3**	1,152	6.9
Europe	**4,444**	**25.7**	4,534	27.1
Middle East and Africa	**2,042**	**11.8**	2,080	12.4
	17,281	**100.0**	16,760	100.0

Represented by:	**Unaudited 30 June 2020 US$ million**	Audited 31 December 2019 US$ million
Property, plant and equipment (Note 9)	**17,281**	16,436
Assets held for sale	**–**	324
	17,281	16,760

* Americas region includes two single-aisle aircraft that were off-lease at 30 June 2020 following the termination of leases with an airline in Americas region.

The net book value of aircraft leased to airline customers in Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan accounted for 29.3% of the total net book value as at 30 June 2020 (31 December 2019: Chinese Mainland, Hong Kong SAR, Macau SAR and Taiwan accounted for 30.6% and Qatar accounted for 10.4%). Other than as disclosed above, there was no other country concentration in excess of 10% of total net book value for the period ended 30 June 2020 and the year ended 31 December 2019.

29. Classification of financial instruments and their fair values

The carrying amounts of each category of financial assets and financial liabilities, as defined in IFRS 9/SFRS(I) 9, are disclosed either in the statement of financial position or in the notes to the financial statements.

Financial assets measured at amortised cost comprise trade receivables (Note 10), other receivables (Note 11), short-term deposits (Note 12), cash and bank balances (Note 12), finance lease receivables (Note 22(b)) and other non-current assets.

As at 30 June 2020, the financial assets measured at amortised cost for the Group were US$1,383.9 million (31 December 2019: US$413.4 million).

Financial liabilities measured at amortised cost comprise trade and other payables (Note 13), loans and borrowings (Note 15), lease liabilities, security deposits and other non-current liabilities.

As at 30 June 2020, the financial liabilities measured at amortised cost for the Group were US$16,415.8 million (31 December 2019: US$13,915.6 million).

(a) Financial instruments carried at fair values

Financial assets and liabilities at fair value through profit or loss comprise derivative financial instruments (Note 16) and investment in equity instruments (Note 21).

The fair values of the derivative financial instruments are determined by reference to marked-to-market values provided by counterparties. The fair value measurement of all derivative financial instruments under the Group are classified under Level 2 of the fair value hierarchy, for which inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) are included as inputs for the determination of fair value.

The fair values of the quoted equity shares are measured using quoted prices and are classified under Level 1 of the fair value hierarchy.

(b) Financial instruments whose carrying amounts approximate fair values

Management has determined that, except for derivative financial instruments and investment in equity instruments, the carrying amounts of current financial assets and liabilities reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

Non-current loans and borrowings reasonably approximate their fair values for those that are at floating rate and are re-priced to market interest rates on or near the end of each period/year.

Non-current finance lease receivables reasonably approximate their fair values as implicit interest rate of each lease approximates the market interest rate prevailing at the end of each period.

29. Classification of financial instruments and their fair values (cont'd)

(c) Financial instruments not measured at fair value, for which fair value is disclosed

Set out below is a comparison of carrying amounts and fair values of the Group's financial instruments not measured at fair value:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Medium term notes :		
Carrying amounts	**8,211,079**	6,661,979
Fair values	**8,430,642**	6,817,043

As at 30 June 2020, the fair value measurement of the above financial instruments were classified under Level 1 of the fair value hierarchy as these amounts were based on quoted prices, except for the carrying amount of US$159.5 million (31 December 2019: US$159.5 million) with fair value of US$160.3 million (31 December 2019: US$158.7 million) which was classified under Level 2 of the fair value hierarchy as it was determined based on indicative bid price obtained from a counterparty.

30. Impact of COVID-19

The World Health Organisation declared the outbreak of COVID-19 as a global pandemic in March 2020. The COVID-19 outbreak has provoked responses including government-imposed travel restrictions, which have negatively affected passenger demand for air travel and the financial condition of certain airlines.

The COVID-19 pandemic has affected air travel and the ability of the Group's airline customers to satisfy their lease obligations to the Group, which in turn, has negatively affected the Group's cash flow and results of operations for the period ended 30 June 2020.

The COVID-19 pandemic is continuing to affect air travel and thus may affect the ability of the Group's airline customers to satisfy their lease obligations to the Group. It could also reduce demand for aircraft which could result in lower market values for aircraft. The future financial impact on the Group arising from the inability of its airline customers to satisfy their lease obligations and the potential reduction in market values of aircraft cannot be reliably measured and the management is closely monitoring the situation.

31. Authorisation of interim financial statements for issue

The interim financial statements for the period from 1 January 2020 to 30 June 2020 were authorised for issue in accordance with a resolution of the directors passed on 20 August 2020.

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