RISK MANAGEMENT REPORT

1 MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the company's strategic objectives and ensuring that the company establishes and maintains appropriate and effective risk management and internal control systems and review their effectiveness. Such risks include, amongst others, material risks relating to ESG. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. Such internal control systems are designed to manage instead of eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. In this connection, the Board ensures there is adequacy of resources, staff qualifications and experience, training programs and budget for the accounting, internal audit and financial reporting functions, as well as those relating to the company's ESG performance and reporting.

The system of internal control is designed to achieve a high level and strong management of key types and overall risks in pursuit of the Company's business objectives.

The Board operates within clearly defined terms of reference, and has appropriate committees established, namely, Strategy Committee, Audit Committee, Nomination Committee and Remuneration Committee to oversee risk and internal control activities. These Committees also have clearly defined terms of reference.

The Board aims at achieving an appropriate balance between taking risks and generating returns for shareholders while executing its responsibility for ongoing monitoring of risk and internal controls.

Our Audit Committee is designated to oversee the risk management and internal control process, particularly, standards of financial reporting, risk management and internal controls.

On the operational level, we have a Risk Management team overseeing the operational and business risks of the aircraft leasing business. On the Group level, we have an Internal Audit function, which is directly reporting to the Audit Committee for independent monitoring and reporting of risks and controls.

The Company has the objectives of risk management and internal control as follows:

(i) Continue to optimize its business model, integrating it with its enhanced corporate governance structure to reduce the inherent risks in its business activities, such as liquidity risk and credit risk;

(ii) Continue to utilize its business network to effectively enhance its industry knowledge so as to reduce the probability of and the impact from defaulted and discontinued lease transactions; and

(iii) Continue to cultivate a strong risk management corporate culture throughout the organization. The Company has implemented its risk management system and policies from the business model and strategic dimension.

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Business model dimension

The Group's business is organized and operated on transaction basis so as to ensure each transaction is reviewed from different perspectives to ensure stringent selection of suitable aircraft assets and stringent review of credit assessment and approval.

Strategic dimension

Risk management initiatives are led by the Board (through its Audit Committee) and executed by CEO and his senior management team, through an independent Risk Management team.

The Company's risk management and internal control framework is designed to minimize the risks in the delivery of the Company's strategic objectives. The key principles of the framework are as follows:

– The Board and the Management shall promote a culture to identify, assess and report risks in an open, transparent and objective manner.

– The priority of the Company is to protect its long-term and sustainable interests.

Risk management is embedded within all businesses and operations of the Company. The Company expects all individual behavior to mirror and share the culture and core values of the Company. All employees have the responsibility of upholding the Company's risk and control culture and supporting effective risk management to deliver its strategy.

The Company operates a "three lines of defense" framework for managing and identifying risks.

The first line of defense against undesirable outcomes is undertaken by the business function and the respective line managers. Department heads of all business areas are responsible for implementing and maintaining appropriate controls.

Line management is supported and monitored by middle and back office functions like, Transaction Support, Finance and Accounting, Legal, Company Secretarial, Human Resources, Information Technology and Risk Management, which constitute the second line of defense. This line of defense monitors and facilitates implementation of effective risk management practices by risk owners and reports risk related information throughout the organization.

The third line of defense is carried out by our Internal Audit function. It provides independent review on the operation of controls.

In addition, the Board reviews the effectiveness of the Group's risk management and internal control system with the assistance of Audit Committee, which covers all material controls including financial, operational and compliance controls, and the risk management system.

2 ANNUAL REVIEW OF THE RISK MANAGEMENT AND INTERNAL CONTROL

On behalf of the Board and the Audit Committee, the Internal Audit team carried out the annual review of the effectiveness of the Group's risk management and internal control system for the year ended 31 December 2023. The results were reported to our Audit Committee and the Board. The Board acknowledged that the risk management and internal control system of the Group during the review period were effective and adequate.

The annual review conducted by the Internal Audit team are set out as follows:

2.1 Ongoing Monitoring of Risk and Internal Control

2.1.1Scope and quality

During the year, the Board reviewed the business of the Company through its regular meetings in order to ensure that business risks had been considered, assessed and managed as an integral part of the business. There was an ongoing process for identifying, evaluating and managing the Company's significant risks. The Company's risk assessment process included the monitoring of key strategic, financial risks and ESG risks. In addition, the Company reviewed the impact of any changes and developments on its risk profile, strategic risk and reputation.

The impact and likelihood of each significant risk was evaluated with reference to associated measures and key performance indicators. The adequacy of the risk mitigation plans was assessed and, if necessary, improvements were made.

2.1.2Extent and frequency of communication

Our Audit Committee held regular meetings and reviewed quarterly for assessing control of the Company and the effectiveness of risk management.

Risk and risk events are captured by the business and reported to the second line of defense. Specific reports and periodic updates are submitted to the Board after the review by our Audit Committee, if necessary. Issues would be raised when there were control failings, weaknesses and inefficient processes identified or through continuous monitoring reviews by the second and third line of defense teams.

2.2 Significant Control Failings or Weaknesses

The Company has underlying procedures to handle significant control failings or weaknesses, which include material adverse event assessment, mitigation plan and follow up action. Significant control failing is required to be reported by senior management to our Audit Committee and the Board. No significant control failings or weaknesses were identified during the year upon the Internal Audit team's annual review.

2.3 Effectiveness of Financial Reporting and Listing Rule Compliance

With the support and input from the External Auditors, our Audit Committee carried out its review and assessment of the Company's financial reporting, covering key areas such as whether suitable accounting policies were adopted, whether management made appropriate estimates and judgments and whether disclosures in published financial statements were fair, balanced and understandable.

Our Audit Committee carries out its compliance review to assess whether the Company has been complying with the relevant regulatory requirements on a quarterly basis. The compliance review summarized the compliance status, corrective actions and the enhancement recommendations.

In regard to the above, our Audit Committee considered the Company's processes for financial reporting and Listing Rules' Compliance were effective.

2.4 Risk Mitigating Measures and Key Changes

Risk management and internal controls are the day-to-day responsibility of every employee. The Company is exposed to various risks including but not limited to financial market risk, counterparty risk, compliance risk and business risk.

In order to cope with these risks, the Company monitors and implements mitigating measures.

Most air travel markets have recovered from the pandemic period while some even exceeded 2019 traffic volume in 2023 – globally, industry revenue for 2023 is expected to be approximately 7% higher than 2019 with a similar net result. During 2023, most of the airline customers who lease aircraft from the Company's portfolio showed an improvement in liquidity and profitability. It should however be noted that, in certain regions, airlines continue to struggle with high debt and changed travel behaviours brought about by the pandemic and the competitive response to it. The Company continues to use the opportunity presented by this largely favourable environment to erase a significant amount of the deferred balance and arrears remaining from the pandemic period. The current shortage of aircraft supply also presents opportunities to remove remaining exposure to non-performing airlines, moving aircraft to better, more stable credits in the process. During 2023, the Company agreed the transfer of 9 owned and managed aircraft from challenged credits.

As the global aviation industry moved into a new growth phase, other than eradicating remaining deferred balances, the Risk Management team continues to support efforts to improve the portfolio credit quality and leverage the current market dynamics to achieve a higher average credit quality and more robust levels of security. With the introduction of a new concentration model scheduled for early 2024, monitoring and management of concentration risk will be materially improved. This, together with the Risk Adjusted Pricing mechanism introduced previously, will help to guide and inform management decisions on placements, trading strategy and portfolio management. The status of receivables is reported to the Management on a regular basis and remedial actions are discussed during the weekly Operations Meeting. Where required to protect the integrity of Company assets, Risk Management forms and leads a team to take all necessary steps.

During the year, the Company undertook the following measures in order to further mitigate finance/portfolio related risks:

(i) Took new delivery of 21 aircraft and disposed of 4 aircraft to third party to reduce geographical and portfolio concentration risks.

(ii) With the relatively stable interest rate environment and abundant liquidity supply in China, the Company managed to issue RMB1.5 billion, and RMB0.5 billion corporate bonds with a term of three years, at the coupon rate of 3.85% and 3.58% respectively. The latter one is the historical low interest rate of the Group's corporate bonds.

(iii) Continues to maintain abundant standby credits and committed working capital facilities from commercial banks to ensure sufficient liquidity.

(iv) The Company closely monitors currency exchange risks and hedges the exposure where necessary and appropriate. In order to mitigate RMB exchange rate risks, the Company uses the currency swaps and currency forward contracts to hedge its exposure to currency exchange risk.

(v) With the interest rate swap arrangements, the Company's floating interest rate borrowings were hedged as per its prudent interest rate hedging policy. The interest rate risk would be monitored on an ongoing basis.

Regarding environmental risk, the Group has identified pertinent climate change risks, with a particular focus on both the physical and transitional risks across various time horizons. To mitigate these climate-related risks, the Group has developed a climate change policy. This policy delineates detailed mechanisms for identifying and addressing each potential financial and operational impact stemming from climate change.

In terms of governance risk, the Group recognizes its exposure to internal governance risks, including legal compliance, anti-bribery measures, and tax-related risks. These risks are overseen by the internal audit department. The internal audit department independently implements the Company's internal control system and conducts assessments of control effectiveness for each identifiable risk. Additionally, our internal audit department conducts annual assessments of the overall internal control system and performs operational audits to evaluate the effectiveness and adequacy of internal controls, providing recommendations for improvement.