



*Vision  
to Reality*  
**Corporate Governance &  
Risk Management Report 2017**

***CALC***

China Aircraft Leasing Group Holdings Limited

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

Stock code : 01848

# CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the “Board”) is pleased to present this corporate governance report in the annual report for the year ended 31 December 2017 of the Company and its subsidiaries (the “Group”).

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

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

The Company has adopted the principles as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company has complied with all Code Provisions as set out in the CG Code during the year ended 31 December 2017 with the exception of Code Provision A.2.1 due to the overlapping roles of Chairman and Chief Executive Officer (the “CEO”) of the Company performed by Mr. CHEN Shuang during a short period from 1 to 18 January 2017. The Board considered that the balance of power and authority of the Board were not impaired even though the roles of the Chairman and the CEO were performed by the same individual.

Mr. POON Ho Man was appointed as the CEO in place of Mr. CHEN Shuang on 19 January 2017, thereby separating the roles of Chairman and CEO. The Company has therefore complied with Code Provision A.2.1 of the CG Code since 19 January 2017.

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

## CORPORATE GOVERNANCE REPORT

## THE BOARD

## Composition

(as at the date of this annual report)



Throughout the year, the Board has complied with the Listing Rules to have at least three independent non-executive directors (the "INED(s)") who represent one-third of the Board and with at least one of whom holds appropriate professional qualifications and accounting or related financial management expertise.

The Board received from each INED a written annual confirmation of their independence satisfied with guidelines set out in Rule 3.13 of the Listing Rules, and the Nomination Committee assessed the independence of each INED before the date of this report. Each INED will inform the Company in writing as soon as practicable if there is any change of circumstances which may affect his independence.

The directors do not have financial, business, family or other material/relevant relationships with each other.

After annual assessment by the Nomination Committee before the date of this report, the Board considers the current structure, size and composition of the Board is performing a balanced and independent monitoring function on management practices to complement the Company's corporate strategy. The profile of directors as at the date of this report is set out on pages 88 to 94.

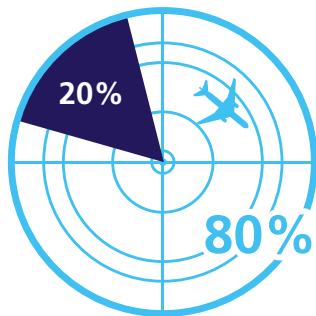
## CORPORATE GOVERNANCE REPORT

### Board Diversity

The Company has adopted a policy on diversity of the Board members. Under the policy, the Nomination Committee is delegated to review, assess and recommend any appointment, re-election or any succession plan of any directors to the Board from time to time after considering a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience, to allow for the Company's business model and specific needs.

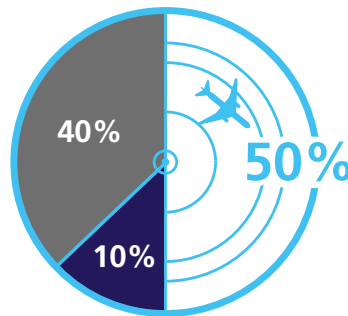
#### GENDER

- Male
- Female



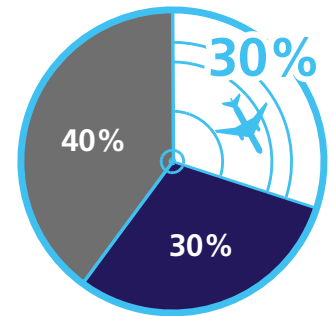
#### AGE GROUP

- 31-50
- 51-60
- 61-70



#### BOARD'S COMPOSITION

- Executive Directors
- Non-executive Directors
- Independent Non-executive Directors



### Roles of the Board

The executive Board is responsible for setting up the Company's corporate strategy, monitoring its implementation and reviewing operational and financial performance of the Group by making decisions in major aspects of the Company's matters, including but not limited to approving and monitoring key policies, material transactions, business plans, annual budgets, internal control and risk management systems, annual and interim results, major capital expenditure and appointment of directors.

The non-executive Board (including more than half are INEDs) has diversified industry expertise and professional knowledge, and provides advisory, adequate check and balances for effective and constructive contribution to the executive Board to safeguard interests of the shareholders and the Company as a whole.

Implementation of the corporate strategies of the Group is delegated to the Strategy Committee while day-to-day operational management and administration functions of the Group are delegated to the management team of the Group (the "Management Team").

## CORPORATE GOVERNANCE REPORT

### Appointment, Re-election, Rotation and Removal of Directors

The Company has established formal, considered and transparent procedures for appointment, re-election, rotation, and removal of the directors. The Nomination Committee is responsible for considering the suitability of individual to act as a director and making recommendations to the Board on appointment or re-election of directors, succession planning of directors and assessing the independence of the INEDs. The key matters addressed by the Nomination Committee during the year are as set out below under sub-section headed "Nomination Committee".

All non-executive directors (the "NED(s)") (including INEDs) entered into service contracts with the Company with specific term of office. However, their term of office each is the period up to his/her retirement by rotation or retirement, but eligible for re-election at annual general meetings of the Company in accordance with the Company's articles of association.

In accordance with the Company's articles of association, the Company may from time to time in general meeting elect any person to be a director to fill a casual vacancy or as an addition to the Board. The directors shall have power from time to time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Any director so appointed shall hold office only until the next following general meeting, and shall then be eligible for re-election at that general meeting.

At each annual general meeting of the Company, not less than one-third of the directors (including those appointed for a specific term) shall retire from office by rotation provided that each director shall be subject to retirement by rotation at least once every three years.

### Board Meetings and General Meetings

An annual general meeting was held during the year. The attendances of each director at the Board and general meetings during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

Annual schedule of Board meetings and draft agenda of each meeting are made available to the directors sufficient time in advance to encourage the directors' involvement. Notice of Board meetings at least 14 days has been given and Board papers are sent at least 3 days before the Board meetings. All directors have full and timely access to the Management Team for any information to enable them to make informed decisions at the Board meetings, as well as the company secretary of the Company who ensures that the regulatory Board procedures are followed. Members of the Management Team are usually invited to attend the Board meetings to promote an effective communication within the Group. Each director is authorised to hire external consultants or experts for independent professional advice at the Company's expenses to discharge the director's responsibilities.

The Company has arranged appropriate liabilities insurance to indemnify the directors from any liabilities arising from the business of the Group.

## CORPORATE GOVERNANCE REPORT

### Induction and Continuing Development of Directors

The newly-appointed director was provided with a comprehensive, formal and tailored induction so as to ensure he/she was fully aware of his/her responsibilities as a listed company director under the Listing Rules and any other regulatory requirements.

The Company encourages all directors to participate in continuous professional development to further enhance and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Company received from the directors the following records of the training attended during the year, which is relevant to the Company's business or directors' duties and responsibilities:

Directors	Nature of Trainings	
	Type 1	Type 2
<b>Executive Directors</b>		
CHEN Shuang	✓	✓
POON Ho Man	✓	✓
LIU Wanting	✓	✓
<b>Non-executive Directors</b>		
TANG Chi Chun	✓	✓
GUO Zibin	✓	–
CHEN Chia-Ling	✓	–
<b>Independent Non-executive Directors</b>		
FAN Yan Hok, Philip	✓	✓
NIEN Van Jin, Robert	✓	✓
CHEOK Albert Saychuan	✓	✓
CHOW Kwong Fai, Edward	✓	✓

*Type of trainings:*

1. Reading materials.
2. Attending or giving speech at seminars or training sessions/press conference.

NEDs (including INEDs) had attended meeting(s) independently held with the Chairman of the Board, who is also the Chairman of the Strategy Committee, on direction of the Group's strategy and policies during the year.

## CORPORATE GOVERNANCE REPORT

### Chairman and Chief Executive Officer

Since Mr. POON Ho Man was appointed as the CEO in place of Mr. CHEN Shuang on 19 January 2017, the roles of the Chairman of the Board and the CEO are separately performed by two individuals.

Ms. LIU Wanting (executive director) and Mr. MOK Chung Tat, Barry (Chief Financial Officer) hold the position of Deputy CEO of the Group.

The respective responsibilities of the Chairman and CEO are set out in the delegation policy which has been approved by the Board.

The Chairman is focusing on determination of strategy, direction and goal of the Group by chairing the Strategy Committee. The Chairman is also responsible for leading the Board to effective management of the Company by, among others, ensuring good corporate governance practices and procedures, encouraging the directors to make full and active contribution to the affairs of the Board, developing a culture of openness and debate among the directors and so Board decisions fairly reflect consensus, drawing up and approving Board meetings agenda, chairing Board meetings.

The CEO, within the powers delegated by the Board from time to time, is responsible for day-to-day management of the Company and to implement strategies and major policies decided by the Board with support of another executive directors and the Management Team.

### REMUNERATION OF DIRECTORS

The remuneration paid to and/or entitled by each of the directors for the year ended 31 December 2017 is set out in Note 31(a) to the financial statements.

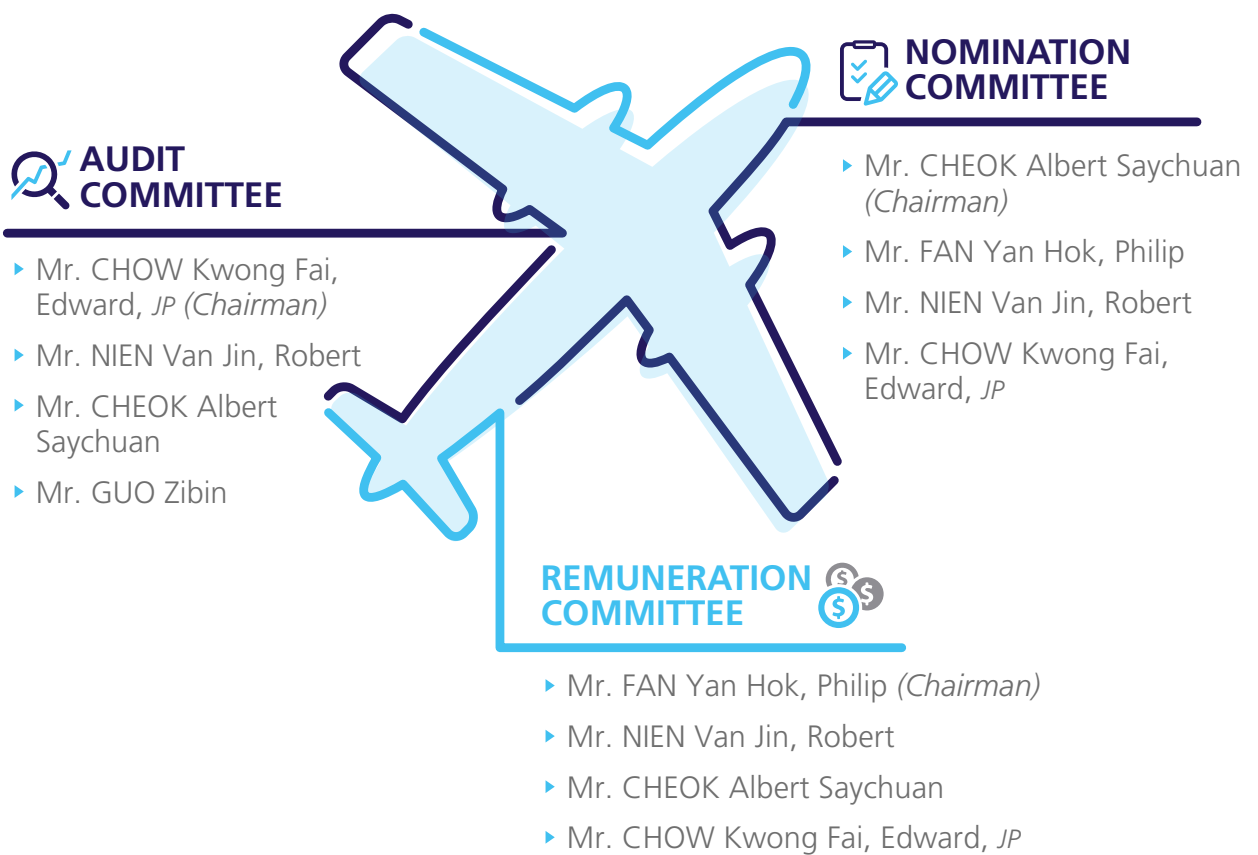
### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Following specific enquiries by the Company, all directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

The Company established three Board committees under the Listing Rules in September 2013, namely Audit Committee, Remuneration Committee and the Nomination Committee and all chaired by an INED to oversee their respective functions set out below, and to report to the Board on their decisions or recommendations by circulating the minutes of the committee meetings to all Board members. Each committee or committee member is authorised to hire outside consultants or experts for independent professional advice at the Company's expenses to discharge their responsibilities.





## CORPORATE GOVERNANCE REPORT

### Audit Committee

The Audit Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 of the CG Code. The primary duties of the Audit Committee include but not limited to reviewing and supervising the Group's financial reporting process, internal audit function, internal control and risk management systems, and providing advices and comments to the Board. As at the date of this report, the Audit Committee consisted of Mr. CHOW Kwong Fai, Edward (chairman), Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. GUO Zibin, among whom, three are INEDs. Two Audit Committee members including the chairman of the Audit Committee hold appropriate professional qualifications or expertise in accounting or relevant financial management. Five Audit Committee meetings were held during the year. The attendances of each Audit Committee member during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

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

- the review of the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017, which have been reviewed by PwC in accordance with Hong Kong Standard on Review Engagements 2410 *"Review of Interim Financial Information performed by the Independent Auditor of the Entity"* issued by the Hong Kong Institute of Certified Public Accountants; and the audited consolidated financial statements of the Group for the year ended 31 December 2016;
- the discussion with PwC on the nature and scope of the audit and reporting obligations before commencement of audit;
- the recommendation to the Board for the proposal for re-appointment of PwC and approval of the remuneration and terms of engagement of PwC; and
- the review of the Company's financial control, internal control and risk management systems, and the effectiveness of the internal audit function.

## CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The Remuneration Committee was established by the Board in September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Code Provision B.1 of the CG Code. The primary duties of the Remuneration Committee include but not limited to regular monitoring of the remuneration of all the directors and senior management to ensure that levels of their remuneration and compensation are appropriate. As at the date of this report, the Remuneration Committee consisted of Mr. FAN Yan Hok, Philip (chairman), Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward. One Remuneration Committee meeting with adjournment was held during the year. The attendances of each Remuneration Committee member during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Remuneration Committee has considered and recommended to the Board the remuneration and other benefits paid by the Company to the directors and senior management.

### Nomination Committee

The Nomination Committee was established by the Board in September 2013 with written terms of reference in compliance with Code Provision A.5 of the CG Code. The primary duties of the Nomination Committee include but not limited to selecting and recommending candidates for directorship, review of the structure, size and composition of the Board and assessment of the independence of INEDs. As at the date of this report, the Nomination Committee consisted of Mr. CHEOK Albert Saychuan (chairman), Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert and Mr. CHOW Kwong Fai, Edward. One Nomination Committee meeting was held during the year. The attendances of each Nomination Committee member during the year are set out in section headed "Board, Board Committee and General Meetings Attendance".

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of INEDs and made recommendation to the Board on the appointment or re-election of directors.

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

PwC, the external auditor of the Company, had given to the Company a written confirmation of its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants before the conduct of the annual audit for the year ended 31 December 2017.

During the year, PwC provided both audit and non-audit services to the Company for a total remuneration of HK\$6,556,000. The relevant fee paid for audit services amounted to approximately HK\$4,010,000 and the balancing of the remuneration related to the non-audit services of approximately HK\$2,546,000.

The Board and the Audit Committee satisfied PwC of their findings, independence, objectivity and effectiveness in the annual audit and their audit fees. PwC is proposed for re-appointment as the Company's external auditor at the forthcoming annual general meeting of the Company.

## CORPORATE GOVERNANCE REPORT

### DIRECTORS' AND AUDITOR'S RESPONSIBILITY OF FINANCIAL REPORTING

The directors acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 to give true and fair presentation of the financial position of the Company in accordance with all applicable Hong Kong Financial Reporting Standards and for timely financial disclosures under the Listing Rules and any other regulatory requirements.

The directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statements as to the auditor's responsibility of financial reporting is set out in the independent auditor's report on pages 97 to 104.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board, through efforts of the Audit Committee, oversees the Group's risk management and internal control systems on an ongoing basis and has conducted an annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2017 covering aspects of the Group's financial, operational, compliance controls and risk management functions. The Board has considered that the Group's risk management and internal control systems are effective and adequate.

Through the Audit Committee, the Board has annually reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions, and considered that the above are adequate.

Detailed control guidelines have been set and made available to all employees of the Group about the handling and dissemination of inside information under the Inside Information Provisions (as defined under the Listing Rules).

A comprehensive analysis of the risks affecting the businesses of the Company and the associated mitigation measures is set out in the risk management report on pages 57 to 67.

### COMPANY SECRETARY

Ms. TAI Bik Yin is the company secretary of the Company and has professional qualification and extensive experience in discharging her duties as the company secretary of the Company. Ms. TAI is an employee of the Company and reports to the Chairman and the CEO. She also acts as the secretary to the three Board committees. She has day-to-day knowledge of the Company's affairs and advises the Board on compliance and corporate governance matters. The Board has access to the advice and services of Ms. TAI to ensure that board procedures, and all applicable law, rules and regulations are followed. Ms. TAI has complied with the requirement to take no less than 15 hours of professional training during the year under review.

## CORPORATE GOVERNANCE REPORT

### SHAREHOLDERS' RIGHTS

Shareholders of the Company holding not less than 10% of the paid up capital of the Company may deposit at the Company's principal place of business in Hong Kong a requisition which specifies the objects of the meeting and is signed by the requisitionists to require an extraordinary general meeting to be convened by the Board. Shareholders could use the same way of calling an extraordinary general meeting as above to put forward proposals in detail at shareholders' meetings.

Shareholders' specific enquiries to the Board could be sent in writing to the company secretary of the Company whose contact details are as follows:

China Aircraft Leasing Group Holdings Limited  
28/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong  
email: ir@calc.com.hk

The Company's Hong Kong branch share registrar and transfer office serves the shareholders with respect to all share registration matters.

Shareholders' rights are further preserved when separate resolutions are proposed at shareholders' meetings on each substantially separate issue, including but not limited to election or re-election of individual director at annual general meeting. All resolutions proposed at shareholders' meetings are put to vote by poll.

### SHAREHOLDERS' COMMUNICATION POLICY

The Company has adopted a shareholders' communication policy. Under the policy, the Company communicates with its shareholders and investors through various means. Timely publication of interim and annual results, announcements on the latest development of the Company and press release on the websites of the Company and Hong Kong Exchanges and Clearing Limited, if appropriate, could make shareholders of the Company appraise the Company's financial position. Shareholders are highly required to pay attention to these public information. Holding of an annual general meeting could provide an effective forum for the Company's shareholders to share their views with the Board. Shareholders are welcome to attend the forthcoming annual general meeting. The directors and the external auditor of the Company would be available at the forthcoming annual general meeting to answer shareholders' questions about the annual results for the financial year ended 31 December 2017.

### CONSTITUTIONAL DOCUMENTS

Since the adoption of amended and restated memorandum and articles of the Company took effect from the listing date of 11 July 2014, there are no changes in the memorandum and articles of association of the Company during the year.

## CORPORATE GOVERNANCE REPORT

## BOARD, BOARD COMMITTEE AND GENERAL MEETINGS ATTENDANCE

The attendances of each director at all Board and Board committee meetings and general meetings during the year, demonstrating satisfactory attendance, are set out below:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
<b>Executive Directors</b>					
CHEN Shuang	4/5	n/a	n/a	n/a	1/1
POON Ho Man <sup>(Note)</sup>	4/4	n/a	n/a	n/a	1/1
LIU Wanting	5/5	n/a	n/a	n/a	1/1
<b>Non-executive Directors</b>					
TANG Chi Chun	5/5	n/a	n/a	n/a	1/1
GUO Zibin	3/5	3/5	n/a	n/a	0/1
CHEN Chia-Ling	5/5	n/a	n/a	n/a	0/1
<b>Independent Non-executive Directors</b>					
FAN Yan Hok, Philip	5/5	n/a	1/1	1/1	1/1
NIEN Van Jin, Robert	5/5	5/5	1/1	1/1	1/1
CHEOK Albert Saychuan	5/5	5/5	1/1	1/1	1/1
CHOW Kwong Fai, Edward	3/5	5/5	1/1	1/1	1/1
Total number of meetings	5	5	1	1	1
Dates of Meetings	19/1/2017 24/3/2017 30/6/2017 25/8/2017 18/12/2017	22/3/2017 24/4/2017 23/8/2017 27/10/2017 15/12/2017	17/2/2017 (adjourned on 27/2/2017)	17/2/2017	22/5/2017

Note: Mr. POON Ho Man was appointed as an executive director and the CEO on 19 January 2017.

# RISK MANAGEMENT REPORT

## 1 MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Company's system of internal control, ongoing monitoring of risk management and internal control, and reviewing their effectiveness periodically. 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.

The system of internal control is designed to manage rather than to eliminate the risk of failure to achieve the Company's business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss.

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 risk 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 team of Risk Management function 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:

- 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;
- 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
- Continue to cultivate a strong risk management corporate culture through implementation of its management and staff

The Company has implemented its risk management system and policies from the business model and strategic dimension.

### **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.

## RISK MANAGEMENT REPORT

### Strategic dimension

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

The Company's risk management and internal control framework is designed to minimize the risk 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 risk.

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, Compliance, Company Secretarial, Human Resources, Information Technology and Risk Management, which constitute the second line of defense to ensure all risks are considered and tackled.

Risk Management team prepares the risk management reports on a quarterly basis and submits it to our Audit Committee for review. 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 control, and the risk management system.

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

## RISK MANAGEMENT REPORT

## 2 ANNUAL REVIEW OF THE RISK MANAGEMENT & INTERNAL CONTROL

The Risk Management team carried out the annual review of the effectiveness of the Group's risk management and internal control system and 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.

### 2.1 Ongoing Monitoring of Risks and Internal Control

#### 2.1.1 *Scope 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 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 and financial risk matrix. 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 mitigations plans was assessed and, if necessary, extra improvement action would be added.

#### 2.1.2 *Extent and frequency of communication*

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

The Risk Management team, being supported by other relevant departments, summarized the key risks and internal control matters, and identified changes in the risk and internal control profile of the Company.

Risk and risk events were captured by the business and reported to the second line of defense. Specific reports and periodic updates were 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.

The risk and internal control review report was updated at each Audit Committee meeting where our Audit Committee members contributed their views and raised questions to ensure the risk management and internal controls were in place and effective.

### 2.2 Significant Control Failings or Weaknesses

The Company has underlying procedures to handle significant control failings or weaknesses, which includes 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.



## RISK MANAGEMENT REPORT

### 2.3 Effectiveness of Financial Reporting & 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 those key areas like 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.

With the support from the Company Secretarial Department, our Audit Committee carried 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 was effective.

### 2.4 Changes of Key Risks

This section summarised the key risks and uncertainties that are inherent with the Company, particularly in the aircraft leasing industry.

The risks mentioned below did not purport to be exhaustive as there may be additional risks that the Company has not yet identified or has deemed to be immaterial that could have a material adverse effect on the business. In order to cope with those risks, the Company had its monitoring and mitigating measures.

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>1. Procurement of aircraft</b> Risks related to aircraft include:</p> <ul style="list-style-type: none"> <li>– aircraft type selection</li> <li>– terms and conditions negotiation</li> <li>– aircraft delivery schedule &amp; budgeting</li> </ul> <p>Risks related to procurement personnel include:</p> <ul style="list-style-type: none"> <li>– corruption</li> <li>– conflict of interest</li> <li>– counterparty risks</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has several professional teams to monitor, control and review the entire procurement process.</li> <li>• Initial acquisition plan, budget and proposal are prepared internally and reviewed by senior management prior to submission for approval of Strategy Committee.</li> <li>• Due diligence is conducted to check against each counterparty and preventive clauses in transaction agreements is inserted, if necessary.</li> </ul>

## RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>2.1 Engineering and configuration of aircraft (technical and engineering)</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– information leakage,</li> <li>– conflict of interest,</li> <li>– engineering corruption</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has a team of experienced engineers with in-depth technical knowledge and a series of procedural controls to prevent the occurrence of material problems.</li> <li>• Detailed scope of responsibilities and proper approval procedure are measures taken to prevent corruption.</li> <li>• Incentive system is in place to align individual's expectation with corporate objective for avoiding engineering corruption.</li> </ul>
<p><b>2.2 Engineering and configuration of aircraft (industry)</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– change of government policies</li> <li>– industry demand and changes for aircraft configuration fitting</li> </ul>	<ul style="list-style-type: none"> <li>• There are regular alerts on customers and industry-wise changes and news.</li> <li>• A designated team monitors regularly on changes in government policies relating to the industry.</li> </ul>
<p><b>3. Placement of aircraft and leasing</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– change in demand in global &amp; local markets</li> <li>– timely placement to meet customer's need</li> <li>– leasable and sellable conditions of aircraft</li> </ul>	<ul style="list-style-type: none"> <li>• The Company's commercial team monitors the leasing market closely and report to senior management regularly on marketing and placement plans for business expansion.</li> <li>• The Company has a placing mechanism and checklist to ensure timely, appropriate and satisfactory placements of new and used aircraft to minimize the risk of idle asset.</li> <li>• Perform jurisdictional analysis before inception of a lease, except well-developed jurisdictions.</li> <li>• Annual inspection is performed for leased aircraft to monitor its sellable or leasable condition upon the expiry of aircraft lease.</li> </ul>
<p><b>4. Financing</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– mismatch of business &amp; funding plans</li> <li>– concentration on one financing source</li> <li>– insufficient working capital</li> </ul>	<ul style="list-style-type: none"> <li>• The Company plans its project funding requirements and maintaining cohesive business network with various onshore and offshore financing banks/institutions.</li> <li>• The Company explores other available financing channels to diversify its financing sources.</li> </ul>

## RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>5. Delivery of aircraft</b> Related risks include mismatched timing for:</p> <ul style="list-style-type: none"> <li>– manufacture of aircraft</li> <li>– financing</li> <li>– transfer of titles</li> <li>– delivery to airlines</li> <li>– approval by government</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings of professional teams are in place to monitor: a) the manufacturing progress; b) readiness of our customer to take delivery; c) availability of aircraft financing (if required); d) completion of delivery and financing related legal documents.</li> <li>• Comprehensive checklists are used to ensure processes are handled properly and completed as scheduled.</li> <li>• Any failure to meet schedule will be reported immediately to CEO and senior management.</li> </ul>
<p><b>6. Counterparty default and concentration</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– counterparties unable to fulfill their contractual obligations under aircraft purchases contracts, aircraft lease agreements, aircraft acquisition financing agreements, other financial and relevant transaction agreements</li> </ul>	<ul style="list-style-type: none"> <li>• The Company assesses its counterparty default and concentration risk prior to entering into any agreement through a rigorous selection process and only deal with those counterparties that meet its internal selection criteria and its initial due diligence check.</li> <li>• The Company continues to monitor the creditworthiness of its counterparties after engaging with them through its ongoing monitoring of lease receivable collection status, market news, on-site customer visits, review of the counterparties' financial and operational data and/or other measures considered appropriate.</li> <li>• In case of deteriorating creditworthiness, CEO and senior management are alerted immediately by the appropriate team for taking necessary action(s).</li> </ul>
<p><b>7. Liquidity &amp; interest rate</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– mismatch of financing terms and lease terms of aircraft deals</li> <li>– fluctuation of market interest rates</li> </ul>	<p>To minimize the uncertainty in mismatched future cash flow stream and frequency of refinancing:</p> <ul style="list-style-type: none"> <li>• The Company structures the lease terms to match that of the loan to the extent that its receipt from lease is sufficient to cover its payment on loan installments throughout the loan term or in line with the realization or refinancing plan of the lease.</li> <li>• The Company manages to maintain a balanced loan portfolio with fixed and floating interest rates by entering into appropriate hedging arrangement on need basis for each deal to mitigate the interest rate risk &amp; balance the overall return.</li> <li>• CEO/CFO approves to execute derivative instruments (i.e. interest rate swap) to hedge against its cash flow and interest rate risk exposure.</li> </ul>

## RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>8. Exchange rate</b> Related risks include: – mismatch of currency on related receipts and payments</p>	<ul style="list-style-type: none"><li>• To manage its exchange rate risk, aircraft and lease related contracts (including procurement, placement and disposal) are mostly denominated in USD.</li><li>• The Company manages this risk by closely monitoring the outstanding foreign currencies positions and preparing regular sensitivity analysis, if significant. Any exceptions will be reported to CFO.</li></ul>
<p><b>9. Maintenance and residual value of aircraft</b> Related risks include: – poor maintenance of aircraft during the lease term</p>	<ul style="list-style-type: none"><li>• The Company includes several asset protection clauses in aircraft lease agreement of which its customers are obliged to observe and fulfill the maintenance obligations and reserve, return compensation and re-delivery condition, etc. throughout and upon the expiry of the lease term.</li><li>• Its airline customers are further required to maintain full value insurance of the leased aircraft and its installed part and restricted from subleasing the leased aircraft without its prior written consent to ensure the actual user of the leased aircraft are indeed its intended customers.</li><li>• The Company is entitled to and has continuously performed periodic inspection on site of the leased aircraft and the maintenance records to ensure the performance of the maintenance obligations by its customers.</li><li>• The Company also periodically engage independent professional advisor to assess the fair value of its aircraft portfolio for impairment review.</li><li>• Any exceptions or non-compliance issues revealed in its monitoring process are reported to CEO and senior management.</li></ul>

## RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>10. Investment value (at exit)</b> Related risks include: – inability to re-lease or dispose the aircraft upon return from lessee.</p>	<p>The Company takes measures to mitigate this risk:–</p> <ul style="list-style-type: none"> <li>• Choosing popular and easily-marketable aircraft models for acquisition with subsequent regular inspection</li> <li>• Monitoring controls to ensure the aircraft to be returned in sellable or leasable condition.</li> <li>• Monitoring closely the development of aircraft leasing market and carry out early marketing campaign to dispose its finance lease receivable and/or its aircraft at early stage.</li> <li>• Reviewing summary of its aircraft portfolio by senior management to identify any appropriate exit strategy periodically.</li> <li>• Obtain opinion from external legal counsel for each new country's jurisdiction; and keep up to date on major legal developments in countries with existing leases.</li> </ul>
<p><b>11. Financial covenants and settlement obligations</b> Related risks include: – failure to comply with covenants or obligations of signed agreements.</p>	<ul style="list-style-type: none"> <li>• The Company manages this compliance risk through closely and frequently reviews of covenants compliance status and other conditions as required by the agreement or rules and regulations by using checklist.</li> <li>• Early alert will be flagged to its senior management and CEO if any potential noncompliance event is anticipated.</li> </ul>
<p><b>12. Business secret and information confidentiality</b> Related risks include: – business information leakage – breaching non- disclosure and/or information confidentiality clauses of signed agreements.</p>	<ul style="list-style-type: none"> <li>• The Company manages this risk by allowing only sufficient but not excessive information made available to the respective functions or teams.</li> <li>• Non-disclosure of business information and non-competitive clauses are also built in its employees' employment agreements to protect its interests upon departure of its employees.</li> </ul>

## RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>13. Financial management and tax</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– cash flow (liquidity) risk – counterparty default (credit) risk</li> <li>– interest rate risk</li> <li>– currency risk</li> <li>– tax risk</li> </ul>	<ul style="list-style-type: none"> <li>• To balance the risk and return, the Company has professional teams to monitor, on a periodic basis, the financial and tax risk exposure of the whole Company by various methods embedded in the respective process, including the interest rate derivative hedging arrangement which is the only derivative hedging allowed by the Strategy Committee.</li> <li>• Approval by CEO (or his delegates) is a must for derivative transaction for hedging which should be in conformity with the Interest Rate Risk Management Policy of the Group.</li> <li>• Monthly cash flow forecast is prepared for review by CFO to ensure sufficient liquidity of its business operations at Corporate level.</li> <li>• External professional advisers are engaged to advise on critical issues arising from business transactions.</li> <li>• Any exception or unexpected exposure is reported to CEO and Strategy Committee for proper action.</li> <li>• The Company manages these risks by preparing regular analysis to closely monitor these risks positions. Any exceptions will be reported to CFO.</li> </ul>
<p><b>14. Capital management &amp; Financial Leverage</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– inability to continue as a going concern</li> <li>– fluctuation in returns for shareholders and long term shareholders' value</li> </ul>	<ul style="list-style-type: none"> <li>• The Company manages its capital structure and make appropriate adjustments in light of changes in economic condition and its business expansion plan by various means, including issuing new shares, raising new debts or bonds or adjusting dividend payment to shareholders.</li> <li>• The Company reviews its capital requirements at budgeting stage and monitor its asset-liability (gearing) ratio on a monthly basis.</li> <li>• Alert will be made to CFO if the asset-liability or other critical ratio exceeds the threshold set by its annual budget.</li> </ul>

## RISK MANAGEMENT REPORT

Key Risk	Risk Monitoring and Mitigating Measures
<p><b>15. Human resources</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– recruitment and retention of industry talents, key personnel and leaders</li> <li>– compliance of labour laws and regulations in different jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>• The Company provides training opportunities to staff to grow their talents and offers comparable remuneration and incentive package including bonus and share options. It encourages its employees to attend relevant training courses, either in house or external to keep their business and technical knowledge up-to-date.</li> <li>• The Company adopts standardized operating procedures and drives to have employee succession plan in place to minimize the potential adverse impact on its business operation due to departure of any key personnel.</li> <li>• Human resources team has procedures to satisfy and comply with all relevant labour laws and regulations in different jurisdictions.</li> </ul>
<p><b>16. Compliance</b> Related risks include:</p> <ul style="list-style-type: none"> <li>– change of government policies affecting the Group's business or operation</li> <li>– disclosure or leakage of business information not accordance with rules and regulations</li> <li>– loss of important agreements</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has designated teams to 1) monitor and follow up changes in existing government policies; 2) monitor changes in regulatory requirements and advise the relevant teams; 3) monitor the compliance of listing requirement (e.g. connected party transactions) on a regular basis; and 4) seek advice from external advisor(s) on new requirements, if necessary.</li> <li>• The Company has a designated corporate communication team to monitor news/media/social media and take initiatives to disclose information timely to stakeholders &amp; the public.</li> <li>• The Company centralizes all key agreements and legal documents in safe custody by designated officers and in a centralized document management system; and standard document lists are maintained for this purpose.</li> </ul>

## RISK MANAGEMENT REPORT

During the year, the Company achieved the following to mitigate its risks:

- continued to expand its global footprint and signed leases with airlines in different geographic region
- delivered and leased out 26 aircraft on time
- disposed of finance lease receivables for 21 aircraft among which the Group launches China's First Foreign Currency Asset-Backed Security ("ABS") and First Aircraft Leasing ABS (in USD) listed on Shanghai Stock Exchange
- diversified its financing channel through:
  - issuance of USD bonds for totally USD500 million
  - arrangement of USD425 million syndicated loan facility
  - arrangement of Japanese Operating Lease with Call Option (JOLCO) financing with multiple Purchase Option
  - Launch of USD3 billion medium-term note programme in Hong Kong

The diversity of funding channels increased the confidence of investors and banks in the Company and helped reducing its funding costs. In addition, the cash received through various financing channels, for example: issue of bonds and disposal of finance lease receivable, had helped strengthen the Group's cash position during the year and maintained at HK\$7,023.4 million at 31 December 2017. The overall liquidity risk and financial leverage risk were considered to be maintained at an acceptable level during the year.

Following the issuance of RMB medium-term notes, the RMB position increased but not considered to be significant. The Company minimises the currency exchange risk by matching the finance lease receivables and borrowings under the same currency and considers hedging significant currency exchange exposure where necessary and appropriate.

The cost of borrowing would be expected to increase following the increase of USD interest rate. With the interest rate swap arrangement, the Company's floating interest rate borrowings were hedged as per our hedging policy. The overall interest rate risk was still considered to be at an acceptable level. In view of the upward trend of the USD interest rate, the interest rate risks would be monitored on an ongoing basis.

Apart from the above, no significant risk event occurred during the year in respect of other business, market, financial or operational risks of the Company and no significant change in the above-mentioned risks was noted during the year.



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