Registration number: 09313036

LCIH Australia Two Limited

Directors' Report and Financial Statements
for the year ended 31 December 2020

Contents

Company Information

Directors	J. Jandu K. Kawamura Y. Kataoka
Registered office	13-14 Hobart Place London SW1W 0HH
Company registration number	09313036
Auditors	BDO LLP 55 Baker Street London United Kingdom W1U 7EU

Directors' Report

The directors present their report and the financial statements of the Company for the year ended 31 December 2020.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

Please refer to the Company Information on page 1 for the names of the directors and to the note 14 of the financial statements for disclosure of the financial risks.

Principal activity
The Company is engaged in the leasing of helicopters.

Results and dividends
The Company's loss for the year ended 31 December 2020 amounted to US$816,000 (2019: loss of US$1,461,000). The directors do not recommend the payment of a dividend.

Going concern
The Directors have considered the appropriateness of applying the going concern basis for the Company in conjunction with an assessment of the wider Group's cash flow forecasts and liquidity position.

The Group's forecasts and projections indicate that it will be able to meet liabilities as they fall due. The Group has a strong level of cash reserves and holds security deposits from lessees to protect against default. Fixed rate loans are paired with fixed rate leases to ensure matched financing with lease payments sufficient to cover associated debt service costs. All loans are secured by mortgages over the helicopters and the Group's interests and benefits in the underlying leases.

The Directors have assessed the impact of the Covid-19 pandemic on the Group and will continue to do so on an ongoing basis. The full, long-term effect of the Covid-19 outbreak on business operations, financial performance, strategy, capital allocation and risk mitigation remains to be seen, but the Directors are confident that the Group has sufficient resources to continue in operational existence for the foreseeable future and therefore continue to prepare the financial statements on a going concern basis.

Directors' of the Company
The directors, who held office during the year, were as follows:

J. Jandu

C. Maunder (resigned 4 June 2020)

K. Kawamura (appointed 4 June 2020)

I. Tatara (appointed 4 June 2020 and resigned 5 April 2021)

The following director was appointed after the year end:

Y. Kataoka - Director (appointed 5 April 2021)

Directors' Report

Disclosure of information to the auditor
Each of the persons who are directors at the time when this report is approved has confirmed that:

• so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
• each director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Approved by the Board on 13 May 2021 and signed on its behalf by:

....
J. Jandu
Director

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of LCIH Australia Two Limited

Opinion on the financial statements
In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of LCIH Australia Two Limited (the 'Company') for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of LCIH Australia Two Limited

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We made enquiries of management, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance; and
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud.

Independent Auditor's Report to the Members of LCIH Australia Two Limited

- We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to achieve desired financial results and management bias in accounting estimates. Audit procedures that we performed to address this included challenging assumptions and judgements made by management in their significant accounting estimates and identifying and testing journal entries with certain characteristics considered to be risky.
- We obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Henwood

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Daniel Henwood (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor

London, UK

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

14 May 2021

Statement of Comprehensive Income
for the year ended 31 December 2020

	Note	2020 US$ 000	2019 US$ 000
Revenue	3.3	4,777	5,138
Operating expenses			
Aircraft depreciation	8	(1,774)	(1,759)
Aircraft management fees		(578)	(343)
Administrative expenses		(80)	5
		(2,432)	(2,097)
Operating profit	4	2,345	3,041
Foreign exchange gain		986	219
Loss on financial derivatives		(1,807)	(2,205)
Finance costs	6	(2,774)	(2,813)
Loss before tax		(1,250)	(1,758)
Taxation	7	434	297
Loss for the year		(816)	(1,461)
Other comprehensive loss:			
Items that will or may be reclassified to profit or loss:			
Cash flow hedges		(3,361)	-
Taxation relating to other comprehensive income		33	-
Other comprehensive loss for the year, net of taxation		(3,328)	-
Total comprehensive loss for the year		**(4,144)**	**(1,461)**

The Company has no items of other comprehensive income.

Balance Sheet
as at 31 December 2020

	Note	2020 US$ 000	2019 US$ 000
ASSETS			
Non-current assets			
Aircraft	8	53,704	55,478
Current assets			
Trade and other receivables	9	4,045	3,896
Deferred tax assets	7	1,272	-
		5,317	3,896
Total assets		59,021	59,374
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	39	315
Bank loans	11	3,347	3,110
Income tax liability	7	878	-
Derivative financial instruments	12	1,396	759
		5,660	4,184
Non-current liabilities			
Bank loans	11	44,409	46,508
Derivative financial instruments	12	4,559	2,612
Lease security deposit		508	462
Deferred tax liabilities	7	-	73
		49,476	49,655
Total liabilities		55,136	53,839
Equity			
Share capital	15	1	1
Contributed surplus	16	7,669	5,175
Cash flow hedging reserve	19	(3,328)	-
Retained (deficit)/earnings		(457)	359
Total equity		3,885	5,535
Total equity and liabilities		59,021	59,374

Approved by the Board on 13 May 2021 and signed on its behalf by:

....
J. Jandu
Director

The notes on pages 12 to 30 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital US$ 000	Contributed surplus US$ 000	Cash flow hedging reserve US$ 000	Retained earnings US$ 000	Total US$ 000
At 1 January 2019	1	5,175	-	1,820	6,996
Total comprehensive loss for the year	-	-	-	(1,461)	(1,461)
At 31 December 2019	**1**	**5,175**	**-**	**359**	**5,535**
Loss for the year	-	-	-	(816)	(816)
Other comprehensive loss: Items that will or may be reclassified to profit or loss:					
Cash flow hedges:					
Fair value movement on cash flow hedges	-	-	(3,361)	-	(3,361)
Tax relating to items that may be reclassified (note 7)	-	-	33	-	33
Equity contribution from shareholders	-	2,494	-	-	2,494
At 31 December 2020	**1**	**7,669**	**(3,328)**	**(457)**	**3,885**

The notes on pages 12 to 30 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2020

	Note	2020 US$ 000	2019 US$ 000
Cash flows from operating activities			
Loss for the year before taxation		(1,250)	(1,758)
Adjustments to cash flows from operating activities			
Depreciation of fixed assets	8	1,774	1,759
Foreign exchange gain		(986)	(219)
Loss on derivative financial instruments		1,807	2,205
Finance costs	6	2,774	2,813
		4,119	4,800
Working capital adjustments			
Decrease/(increase) in trade and other receivables		299	(517)
Increase/(decrease) in trade and other payables		137	(1,697)
Net cash flow from operating activities		4,555	2,586
Cash flows from financing activities			
Interest paid		(2,878)	(2,766)
Repayment of bank loans	11	(4,171)	(2,684)
Drawdown of bank loans		-	2,864
Contribution from shareholders		2,494	-
Net cash flows (used in) financing activities		(4,555)	(2,586)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

The Company does not hold a bank account and therefore no cash flows directly through the Company. The cash flows shown above reflect the substance of the Company's activity during the year.

Transactions of the Company are settled through balances with a related company.

Notes to the Financial Statements for the year ended 31 December 2020

1 General information

LCIH Australia Two Limited (the "Company") is a private company limited by share capital, incorporated and domiciled in England and Wales.

The address of its registered office is: 13-14 Hobart Place, London, SW1W 0HH, United Kingdom.

1.1 Preparation

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

1.2 Going concern

The Directors have considered the appropriateness of applying the going concern basis for the Company in conjunction with an assessment of the wider Group's cash flow forecasts and liquidity position.

The Group's forecasts and projections indicate that it will be able to meet liabilities as they fall due. The Group has a strong level of cash reserves and holds security deposits from lessees to protect against default. Fixed rate loans are paired with fixed rate leases to ensure matched financing with lease payments sufficient to cover associated debt service costs. All loans are secured by mortgages over the helicopters and the Group's interests and benefits in the underlying leases.

The Directors have assessed the impact of the Covid-19 pandemic on the Group and will continue to do so on an ongoing basis. The full, long-term effect of the Covid-19 outbreak on business operations, financial performance, strategy, capital allocation and risk mitigation remains to be seen, but the Directors are confident that the Group has sufficient resources to continue in operational existence for the foreseeable future and therefore continue to prepare the financial statements on a going concern basis.

2 Recent accounting pronouncements

2.1 New interpretations and revised standards effective for the year ended 31 December 2020

The Company has adopted the new interpretations and revised standards effective for the year ended 31 December 2020. New standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Company are:

• IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Disclosure Initiative - Definition of Material);
• Definition of a Business (Amendments to IFRS 3);
• COVID-19-Related Rent Concessions (Amendments to IFRS 16); and
• Revisions to the Conceptual Framework for Financial Reporting.

Notes to the Financial Statements for the year ended 31 December 2020

2 Recent accounting pronouncements (continued)

2.2 Standards and interpretations issued but not yet effective

A number of new standards and amendments to existing standards have been published which are mandatory, but are not effective for the year ended 31 December 2020. The directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements in the period of initial application.

3 Summary of significant accounting policies

3.1 Foreign currencies

The functional and presentation currency of the Company is the United States Dollar ("US$"). Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Revenue, costs and non-monetary assets and liabilities are translated at the exchange rates ruling at the dates of transactions. Foreign exchange gains and losses are included in profit or loss.

3.2 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

3.3 Revenue

Revenue from aircraft on operating leases is recognised on a straight-line basis over the period of the lease. Benefits paid or payable as an incentive to enter into an operating lease are also recorded on a straight-line basis over the lease term.

All rental amounts received but unearned under the lease agreements are recorded as deferred income in trade and other payables and accrued income in trade and other receivables.

3.4 Maintenance reserves

Lessees are responsible for helicopter maintenance and repairs during the lease. Amounts received from lessees in relation to maintenance and repairs are recognised as a liability until the relevant maintenance payments are made.

3.5 Security deposits

Security deposits are generally paid by the lessee on the execution of the lease and are non-refundable during the term of the lease. The amounts are held as a security for the timely and faithful performance by the lessee of its obligations during the lease. The deposit may be applied against amounts owing from the lessee for rent or returned to the lessee on the termination of the lease.

Notes to the Financial Statements for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.6 Income tax

Current tax is provided for at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full using the liability method on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates that are expected to apply when they crystallise based on current tax rates. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax is not provided when the amounts involved are not significant.

3.7 Aircraft

Aircraft are stated at cost less accumulated depreciation. Charges for depreciation are calculated to write-down the cost of aircraft over their expected useful life, being 30 years from build date, to an expected residual value of 15% of current market value at the reporting date.

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.9 Impairment of assets

Assets subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

Fair value is assessed by the directors and reflects the underlying economic value of the assets in normal market conditions, with a willing buyer and seller and assumes adequate time for sale.

3.10 Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for credit losses expected over the lifetime of the asset. The Company reviews the ageing of receivables regularly.

Notes to the Financial Statements for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and deposits maturing within three months of the date of deposit.

3.12 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

3.13 Finance income and expense

Finance income and expense are recognised in the Statement of Comprehensive Income as they accrue using the original effective interest rate determined at the acquisition or origination date. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or a shorter period where appropriate to the net carrying amount of the financial asset or financial liability. Finance income and expense includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity on an effective interest rate basis.

3.14 Financial instruments

All financial assets other than marketable securities and derivative financial instruments are categorised as financial assets held at amortised cost. Such assets are subsequently carried at amortised cost using the effective interest method, if the time value of money may have a significant impact on their value, less allowances for any expected lifetime credit losses.

The Company assesses at the balance sheet date whether there is objective evidence that there has been an increase in the credit risk of its financial assets. The Company uses criteria such as significant financial difficulty of the counterparty, the disappearance of an active market for that financial asset because of financial difficulties and breaches of contract as objective evidence.

Financial liabilities other than derivative financial instruments are subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements
for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.15 Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps, forward currency contracts and cross currency swaps to manage its exposure to interest rate and foreign exchange rate risks. All derivatives are initially recognised at fair value and subsequently re-measured to fair value at each balance sheet date.

The method of recognising the resulting gain or loss on derivatives depends on whether the derivative is designated as a hedging instrument. Non-hedging derivates are classified at fair value through profit or loss; changes in the fair value of non-hedging derivative financial instruments are recognised as income or expense in profit or loss as they arise.

3.16 Hedge accounting

The Company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedge relationships.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:
• At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge;
• The hedge relationship meets all of the hedge effectiveness requirements including that an economic relationship exists between the hedged item and the hedging instrument, the credit risk effect does not dominate the value changes, and the hedge ratio is designated based on actual quantities of the hedged item and hedging instrument.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, the effective portion of gains or losses of the derivative or non-derivative hedging instrument is recognised in other comprehensive income and accumulated in the cash flow hedge reserve.

The cumulative gain or loss recognised in other comprehensive income is subsequently reclassified from the cash flow hedge reserve to profit or loss in the same period as the hedged cash flows affect the profit or loss. Any ineffective portion of changes in gains or losses of the derivative or non- derivative hedging instrument is recognised immediately in the profit or loss within finance costs or finance income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the risk management objective or qualifying criteria for cash flow hedge accounting, then hedge accounting is discontinued prospectively with the cumulative gain or loss reclassified from the cash flow hedge reserve to profit or loss.
ective portion of the hedge during the financial year.

Notes to the Financial Statements for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.17 Significant accounting estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the end of the reporting periods, that may cause amounts recognised or disclosed to change in the following accounting periods are:

Asset impairment testing
The Company reviews its non-current assets (aircraft) for impairment at each reporting date. If events or circumstances indicate that the carrying value may not be recoverable, the value is adjusted to the recoverable amount, determined by independent, third party valuations or if impractical or unavailable, by value in use calculations which require estimates of future cash flows to be made. If events or circumstances indicate that the carrying value may not be recoverable, the value is adjusted to the fair value. Any impairment is recognised in profit or loss. A 10% increase or decrease in the discount rate used in calculating the value in use of applicable non-current assets would have no significant impact on the Company's profit or loss before tax.

Asset residual values and estimated remaining lives
The acquisition cost of aircraft is depreciated over 30 years from build date for aircraft. Changes in the residual value and estimated useful lives of aircraft would result in adjustments to the current and future rate of depreciation through profit or loss.

Loss allowances

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history and existing market conditions as well as forward-looking estimates at the end of each reporting period.

3.18 Significant accounting judgements

In the process of applying the Company's accounting policies, the directors have made the following accounting judgements which have the most significant effect on the amounts recognised in the financial statements:

Leases
The Company is party to leasing arrangements as lessor. Accounting for leases is mainly determined by the judgement of whether the lease is considered to be a finance lease or an operating lease. Management look to the substance of the transaction and the terms and conditions of the leasing arrangements in judging whether all the risks and rewards of ownership are transferred. All leases are classified as operating leases.

Notes to the Financial Statements for the year ended 31 December 2020

4 Operating profit

Operating profit is stated after charging:

	2020 US$ 000	2019 US$ 000
Auditor's remuneration		
Audit of financial statements	7	7
	7	7

5 Operating lease

The minimum future lease rentals receivable under non-cancellable operating leases as of the year end are as follows:

	2020 US$ 000	2019 US$ 000
Less than one year	6,135	5,582
Between 1 and 2 years	6,135	5,582
Between 2 and 3 years	6,135	5,582
Between 3 and 4 years	6,135	5,582
Between 4 and 5 years	6,135	5,582
Over five years	9,075	13,839
	39,750	41,749

Although the risks associated with rights that the Group retains in underlying aircraft are not considered to be significant, the Group employs strategies to further minimise these risks. For example, contracts may include maintenance clauses requiring the lessee to compensate the Group when an aircraft has been subjected to excess wear and tear during the lease term. Contracts may additionally include security deposit clauses as a safeguard against any unforeseen event involving the aircraft. It is also a requirement by law that all aircraft are insured.

6 Finance costs

	2020 US$ 000	2019 US$ 000
Interest and finance charges payable on bank borrowings	2,529	2,659
Other interest and finance charges	245	154
	2,774	2,813

Notes to the Financial Statements for the year ended 31 December 2020

7 Taxation

Tax charged in the statement of comprehensive income consists of:

	2020 US$ 000	2019 US$ 000
Current taxation		
Current tax charge	878	-
Deferred tax credit	(1,312)	(297)
Tax credited in the Statement of Comprehensive Income	**(434)**	**(297)**

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK of 19%) (2019 - 19%).

The differences are reconciled below:

	2020 US$ 000	2019 US$ 000
Loss before tax	(1,250)	(1,758)
Corporation tax at standard rate	238	334
Increase from effect of capital allowances depreciation	-	417
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	269	114
(Gain)/Loss on derivatives	-	(419)
(Decrease)/increase from effect of unrelieved tax losses carried forward	-	(332)
Group relief	(73)	-
Total tax credit	**434**	**114**

Notes to the Financial Statements for the year ended 31 December 2020

7 Taxation (continued)

Deferred tax

A reconciliation of the movement in the net deferred tax liability is as follows:

	2020 US$ 000	2019 US$ 000
At beginning of year	(73)	(370)
Tax losses carried forward	1,469	332
Depreciation in deficit/(advance) of capital allowances	(169)	(417)
Amendment to prior year	-	(2)
Loss/(Gain) on interest rate derivatives	45	419
Change in UK tax rate	-	(35)
	1,272	**(73)**

The principal components of the deferred tax asset/(liability) are as follows:

	2020 US$ 000	2019 US$ 000
Accelerated capital allowance	(1,947)	(1,778)
Tax losses carried forward	2,087	618
Other timing differences	1,132	1,087
	1,272	**(73)**

8 *Aircraft*

	2020 US$ 000	2019 US$ 000
Cost		
At beginning of the year	61,610	61,610
At end of the year	61,610	61,610
Accumulated depreciation		
At beginning of the year	(6,132)	(4,373)
Aircraft depreciation	(1,774)	(1,759)
At end of the year	(7,906)	(6,132)
Net book value at 31 December	**53,704**	**55,478**

The aircraft are mortgaged as security for bank loans (note 11).

Notes to the Financial Statements for the year ended 31 December 2020

9 Trade and other receivables

	2020 US$ 000	2019 US$ 000
Amount due from parent company	673	834
Accrued income	2,817	3,062
Prepayments	15	-
Other receivables	540	-
	4,045	3,896

10 Trade and other payables

	2020 US$ 000	2019 US$ 000
Accrued expenses and deferred revenue	39	315
	39	315

The amounts due to the immediate parent company are unsecured, interest-free and repayable on demand.

11 Bank loans

The bank loans outstanding as of 31 December are as follows:

	2020			2019		
	Bank loans US$ 000	Arrangement fees US$ 000	Total US$ 000	Bank loans US$ 000	Arrangement fees US$ 000	Total US$ 000
At 1 January	50,097	(479)	49,618	50,123	(523)	49,600
Movements arising from financing cash flows						
Drawdown of facilities	-	-	-	2,864	-	2,864
Repayment of facilities	(4,171)	-	(4,171)	(2,684)	-	(2,684)
Loan arrangement fees incurred	-	-	-	-	(70)	(70)
Non-cash and other movements						
Currency translation difference	2,210	-	2,210	(206)	-	(206)
Amortisation of loan arrangement fee	-	99	99	-	114	114

Notes to the Financial Statements for the year ended 31 December 2020

11 Bank loans (continued)

	2020			2019		
	Bank loans US$ 000	Arrangement fees US$ 000	Total US$ 000	Bank loans US$ 000	Arrangement fees US$ 000	Total US$ 000
At 31 December	48,136	(380)	47,756	50,097	(479)	49,618
Bank loans						
Current portion	3,441	(94)	3,347	3,215	(105)	3,110
Non-current portion	44,695	(286)	44,409	46,882	(374)	46,508
	48,136	(380)	47,756	50,097	(479)	49,618

The loans are secured by a charge over the aircraft (note 8) and the share capital of the Company (note 15).

Notes to the Financial Statements for the year ended 31 December 2020

12 Derivative financial instruments and hedging activities

The movement in the fair value of the derivative financial instruments is as follows:

	2020 US$ 000	2019 US$ 000
At beginning of year	3,371	1,176
Translation gain/(loss)	282	(10)
Fair value movements	2,302	2,205
	5,955	3,371
Shown as:		
Current liability	1,396	759
Non-current liability	4,559	2,612
	5,955	3,371

13 Hedge accounting

31 December 2020

	Notional amount US$ 000	Carrying value of asset US$ 000	Carrying value of liability US$ 000
<u>Cash flow hedges - foreign currency</u>			
Loan facilities designated as hedging instruments	23,284	-	32,383
<u>Cash flow hedges - foreign currency and interest rate risk</u>			
Cross currency swaps	30,474	-	3,527
<u>Cash flow hedges - interest rate risk</u>			
Interest rate swaps	31,143	-	2,428
Total	**84,901**	-	**38,338**

The Company has elected to adopt the hedge accounting requirements of IFRS 9 Financial Instruments. The Company enters into hedge relationships where the critical terms of the hedging instrument and the hedged item match. Therefore, for the prospective assessment of effectiveness a qualitative assessment is performed. Hedge effectiveness is determined at the origination of the hedging relationship. Qualitative effectiveness tests are performed at each period end to determine the continuing effectiveness of the relationship. For derivative hedging relationships in instances where changes occur to the hedged item which result in the critical terms no longer match the hypothetical derivative method is used to assess effectiveness.

Notes to the Financial Statements for the year ended 31 December 2020

13 Hedge accounting (continued)

The value of derivatives (note 12) designated as cash flow hedge relationships to hedge interest rate risk is US$5,955,000 and the Company has established a hedge ratio of 1:1 for hedging relationships as the underlying risk and key terms of the interest rate and cross currency swaps are identical to the hedged risk components. During the financial period ending 31st December 2020 US$175,000 loss was recognised in Other Comprehensive Income relating to the effective portion of derivative cash flow hedges. The ineffective portion recognised in profit or loss that arose from cash flow hedge relationships relating to derivatives amounts to a gain of US$10,000.

At 31st December 2020, the value of loan facilities (note 11) recognised as non-derivative hedging instruments in designated cash flow hedge relationships to hedge foreign exchange risk of non-functional currency lease rental income is US$32,383,000. The Company has established a hedge ratio of 1:1 for hedging relationships as the underlying foreign exchange exposures of the hedging instrument and hedged items are matched. During the financial period ending 31st December 2020 US$3,186,000 loss was recognised in other comprehensive income relating to the foreign exchange cash flow hedges. The ineffective portion recognised in profit or loss that arose from related cash flow hedges amounts to a loss/gain of US$Nil.

The risk strategy applied by the Company in relation to hedging relationships and the time periods in which the hedge cash flows are expected to occur are detailed in note 14.

14 Financial risk management and impairment of financial assets

The Company's key financial risks arising from its operating activities and its financial instruments are:

- Credit risk;
- Liquidity risk; and
- Market risk (including interest rate risk and currency risk).

The directors of the Company have overall responsibility for the establishment and oversight of the risk management framework.

Categories of financial instruments:

	2020 US$ 000	Fair value US$ 000	2019 US$ 000	Fair value US$ 000
Financial liabilities				
At fair value through profit and loss:				
Derivative financial instrument	5,955	5,955	3,371	3,371
	5,955	5,955	3,371	3,371
Financial liabilities				
At amortised cost:				
Trade and other payables	39	39	315	315
Bank loans	47,756	47,016	49,618	48,027
Security deposits	508	508	462	462
	48,303	47,563	50,395	48,804

Notes to the Financial Statements for the year ended 31 December 2020

14 Financial risk management and impairment of financial assets (continued)

The fair value of financial liabilities has been determined by management, based upon the present value of the expected cash flows deriving from the liability, discounted at an appropriate discount rate.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3, based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 2020 US$ 000	Level 2 2019 US$ 000
Derivative financial instruments	(5,955)	(3,371)
	(5,955)	(3,371)

The fair value of derivative financial instruments is determined using the present value of future cash flows. Future interest rates are based on forward rates prevailing at the balance sheet date.

14.1 Credit risk

The Company services the aviation industry as it leases its aircraft to operators. The aviation industry is cyclical, economically sensitive and highly competitive. A key determinant of the Company's success is the financial strength of its counterparties and their ability to react to and cope with the environment in which they operate.

If a lessee experiences financial difficulties this may result in default or the early termination of the lease. The directors mitigate this risk by conducting comprehensive credit reviews of counterparties both prior to and during the course of a lease. Where appropriate, the Company also collects security deposits from its lessees.

As at 31 December 2020, concentration of credit risk exists to the extent that more than 70% of trade and other receivables is in respect of accrued income (2019: 79%).

14.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company aims to mitigate liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Financial Statements
for the year ended 31 December 2020

14 Financial risk management and impairment of financial assets (continued)

14.2 Liquidity risk (continued)

Maturity analysis

The following table represents the maturity of financial liabilities:

2020	Carrying Amount US$ 000	Contractual cash flow US$ 000	Less than one year US$ 000	One to five years US$ 000	Over five years US$ 000
Trade and other payables	39	39	39	-	-
Bank loans	47,756	60,676	5,952	23,778	30,946
Derivative financial instruments	5,955	6,007	1,392	3,953	662
Security deposit	508	508	-	-	508
	54,258	67,230	7,383	27,731	32,116

2019	Carrying Amount US$ 000	Contractual cash flow US$ 000	Less than one year US$ 000	One to five years US$ 000	Over five years US$ 000
Trade and other payables	315	315	315	-	-
Bank loans	49,618	64,078	5,461	21,850	36,767
Derivative financial instruments	3,371	3,532	778	2,228	526
Security deposit	462	462	-	-	462
	53,766	68,387	6,554	24,078	37,755

14.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

14.3.1 Currency risk

The Company's operations expose it to foreign currency fluctuations. The Company monitors its exposure to currency risk on a regular basis. The Company uses derivative financial instruments to hedge against its foreign currency exposure (note 12). It also seeks wherever possible to match non-US dollar denominated liabilities with lease contracts denominated in the same currency.

The carrying amounts of the Company's foreign currency denominated financial liabilities at the year end are as follows (short-term receivables and payables excluded):

Notes to the Financial Statements for the year ended 31 December 2020

14 Financial risk management and impairment of financial assets (continued)

14.3 Market risk (continued)

14.3.1 Currency risk (continued)

	2020 Bank borrowings US$ 000	2019 Bank borrowings US$ 000
United States Dollar	23,137	24,137
Australian Dollar	24,999	25,960
	48,136	50,097

There are no other significant financial assets or liabilities denominated in foreign currencies.

The Company is exposed to currency risk as leases are denominated in AUD but certain bullet tranches are repayable in USD at maturity. The Company has hedged this risk using cross currency swaps. Under the terms of these swaps, the Company pays a fixed AUD amount and receives a floating USD amount.

At 31 December 2020, had the exchange rates between United States dollar and each of the above currencies increased or decreased by 5% with all other variables held constant, there would not be a significant impact of the result in the year. The decrease/increase in equity respectively would amount to US$965,000 (2019: US$912,000). The higher foreign currency sensitivity in 2020 is attributable to a higher proportion of non-US dollar denominated financial assets and liabilities.

14.3.2 Interest rate risk

The Company's interest bearing liabilities expose it to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The interest rate profile of the Company's financial liabilities excluding short-term payables at the year end was:

	2020				2019			
	Fixed rate items US$ 000	Floating rate items US$ 000	Non-interest bearing items US$000	Total carrying value US$000	Fixed rate items US$ 000	Floating rate items US$ 000	Non-interest bearing items US$000	Total carrying value US$000
Bank loans	-	48,136	-	48,136	-	50,097	-	50,097
Derivatives	-	5,955	-	5,955	-	3,371	-	3,371
	-	54,091	-	54,091	-	53,468	-	53,468

Bank loans bear floating interest rates determined at inception of the agreement. In order to mitigate the interest rate risk associated with the floating rate loans, the Company has hedged the interest payments using interest rate swaps. Under the terms of these swaps, the Company pays a fixed rate of interest and receives floating rate based on the Bank Bill Swap Rate (BBSW) and the London Interbank Offered Rate (LIBOR).

Notes to the Financial Statements for the year ended 31 December 2020

14 Financial risk management and impairment of financial assets (continued)

14.3 Market risk (continued)

14.3.2 Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A number of the Company's bank loans and the credit facility are contracted at floating rates based on LIBOR.

At 31 December 2020 should yields have increased/decreased by 50 basis points, with all other variables remaining constant the decrease/increase in the result for the year ended would have been US$241,000 (2019: US$250,000).

The impact on the fair value of the derivative financial instruments if the interest rates increase/decrease by 50 basis points would be a decrease/increase in financial assets and a corresponding increase/decrease in the gain on derivative financial instruments of US$520,000 (2019: US$442,121).

14.4 Risk management - hedge accounting

The risk strategies of the designated cash flow hedges reflect the Company's market risk strategies detailed above. The Company has hedging strategies to hedge both the interest rate risk of variable loan facilities through interest rate and cross currency swaps as well as hedging the foreign exchange exposure of non-USD denominated rentals.

The objective of the cash flow hedges for interest rate risk is principally to convert the floating rate borrowings into fixed rate borrowings and hedge the interest rate risk. For hedges of Australian dollar denominated borrowings the Company uses a combination of cross-currency and interest rate swaps to hedge its exposure to foreign exchange risk and interest rate risk.

The hedge is considered effective as the critical terms of the hedging instrument, swap maturity dates and liquidity profiles of the nominal cash flows, match exactly with those of the underlying borrowings. The Company expects highly effective hedging relationships with the swap contracts and the value of the corresponding hedged items to change systematically in the opposite direction in response to movements in the underlying interest and exchange rates. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match with the critical terms of the hedging instrument, the Company uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur if there are changes in the critical terms of the hedging instrument or loans that they no longer match; a change in the credit risk of the Company or the counterparty with the hedging instrument; or the effects of the forthcoming reforms to IBOR, if these take effect at a different time for the hedged item and the hedging instrument. There has been no effect on the financial statements during the period ending 31 December 2020 in relation to ineffectiveness of hedge relationships as a result of anticipated IBOR reforms.

The objective of the cash flow hedges for foreign exchange risk is to match non-USD denominated rental with non-USD principal repayments of borrowings.

Notes to the Financial Statements for the year ended 31 December 2020

14 Financial risk management and impairment of financial assets (continued)

14.4 Risk management - hedge accounting (continued)

The hedge is considered effective as the loan terms and currency are structured to match the non-USD denominated lease terms exactly. The foreign exchange exposure of the non-USD principal repayments and the non-USD lease rental receipts are expected to change systematically in the opposite direction in response to movements in the underlying exchange rates.

Hedge ineffectiveness may occur if there are lease modifications or changes in the critical terms of borrowings such that they no longer match or as a result of a mismatch between the receipt of rental payments and the respective principal repayment.

14.5 Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company reviews and monitors its capital structure on a regular basis to ensure its objectives are met. The Company's overall strategy remains unchanged from 2019.

The capital structure of the Company consists of bank loans of US$48,136,000 (2019: US$50,097,000) and all components of equity aggregating to US$3,885,000 (2019: US$5,535,000).

15 Share capital

	2020 US$ 000	2019 US$ 000
Authorised, issued and fully paid		
1,000 ordinary shares of US$1.00 per share	1	1
	1	**1**

The share capital is pledged against the bank loans (note 11).

16 Contributed surplus

Contributed surplus represents funds received from shareholders in addition to their subscriptions to the issued share capital of the Company.

Notes to the Financial Statements for the year ended 31 December 2020

17 Related party transactions

The Company was charged management fees of US$578,000 (2019: US$343,000) by a company that has an element of common control.

None of the directors or members of key management received any emoluments during the year.

18 Parent and ultimate parent undertaking

The Company's parent company is SMFL LCI Helicopters Ltd, a company incorporated in the Republic of Ireland.

As at 31 December 2019, the ultimate controlling undertakings are jointly Libra Holdings Limited, a company incorporated in Bermuda, which is wholly owned under an overseas family discretionary settlement, the beneficiaries of which include the family of M.G. Logothetis, and Raptor Investment Holding LP, a company incorporated in the United States.

As at 31 December 2020, the ultimate controlling undertakings are jointly Sumitomo Mitsui Financial Group Inc., a company incorporated in Japan, which is listed on Tokyo, Nagoya and New York Stock Exchange, and Sumitomo Corporation, a company incorporated in Japan, which is listed on Tokyo, Nagoya and Fukuoka Stock Exchange.

19 Other reserves

Cash flow hedging reserve recognises the gains/losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge.

Retained earnings represents all other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.