THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **International Alliance Financial Leasing Co., Ltd.**, you should hand this circular together with the accompanying proxy form at once to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.
国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

MAJOR TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION:
FINANCE LEASING FRAMEWORK AGREEMENT

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Lego Corporate Finance Limited
力高企業融資有限公司

Capitalised terms used in this cover page shall bear the same meanings as those defined in the section headed "Definitions" in this circular.

A notice convening the EGM to be held at Unit 4902, 49th Floor, Block C of Beijing Yintai Office Tower, No. 2 Jianguomenwai Street, Chaoyang District, Beijing, The People's Republic of China on Tuesday, 17 December 2019 at 10 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you plan to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

2 December 2019

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Annual Cap(s)"	the proposed annual maximum transaction amounts (comprised of the principal amounts and expected interest income from provision of Finance Leasing Service) in aggregate for the entire lease period of the Individual Agreements entered into or to be entered into during the Effective Period
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Baoxinlianjin"	Beijing Baoxinlianjin Management & Consulting (Limited Partnership) (北京寶信聯金管理諮詢企業(有限合夥)), a limited partnership established in PRC
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CCB Investor"	Design Time Limited, a company incorporated in the BVI with limited liability on 18 October 2010, one of the pre-IPO investors and the Shareholders
"CCB Subscription and Shareholders' Agreement"	the subscription and shareholders' agreement dated 7 March 2017 relating to the Company entered into among, among others, CCB Investor as investor and Union Capital, FuJin, JinChuang, RongJin and PA Investor as the then Shareholders
"Company"	International Alliance Financial Leasing Co., Ltd. (國際友聯融資租賃有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock code: 1563)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Conditions Precedent"	the conditions precedent of the Finance Leasing Framework Agreement as set out in the paragraph headed "Duration" in this circular
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"continuing connected transaction(s)"	has the meaning ascribed to it under the Listing Rules

"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Deed of Indemnity"	a deed of indemnity dated 20 February 2019 entered into by the Controlling Shareholders in favour of the Company, particulars of which are set out in the paragraph headed "E. Other information – 1. Estate duty, tax and other indemnity" in Appendix V to the Prospectus
"Deed of Non-competition"	a deed of non-competition undertaking dated 20 February 2019 entered into by the Controlling Shareholders in favour of the Company, particulars of which are set out in the section headed "Relationship with Controlling Shareholders – Non-competition undertaking" in the Prospectus
"Director(s)"	the director(s) of the Company
"Effective Period"	three (3) years from the date of the fulfilment or waiver (if applicable) of the Conditions Precedent
"EGM"	the extraordinary general meeting of the Company to be convened on 17 December 2019 for approving, among other things, the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps
"Finance Leasing Framework Agreement"	the finance leasing and framework agreement entered into between the Company and Nanshan Group on 20 September 2019
"Finance Leasing Service"	including but not limited to the sale-leaseback service and direct finance leasing service to be provided by the Group to Nanshan Group in relation to the Leased Assets in accordance with the Finance Leasing Framework Agreement
"FuJin"	FuJin Enterprise Management & Consulting Co., Ltd, a company incorporated in the BVI with limited liability and one of the Shareholders
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Hong Kong Underwriting Agreement"	the Hong Kong underwriting agreement dated 27 February 2019, relating to the Hong Kong public offering of the Company, as further described in the section headed "Underwriting" in the Prospectus
"IFRS"	International Financial Reporting Standards
"Independent Board Committee"	the independent committee of the Board, comprising the independent non-executive Directors, Mr. Liu Changxiang, Mr. Liu Xuewei and Mr. Jiao Jian, established for the purpose of making recommendations to the Independent Shareholders in respect of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps
"Independent Shareholders"	the Shareholders other than Union Capital and JinChuang and their respective associates who are not required to abstain from voting on resolutions approving the Finance Leasing Framework Agreements, the transactions contemplated thereunder and the Annual Caps
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons
"Individual Agreement(s)"	separate individual agreement for each Finance Leasing Service to be entered into between Nanshan Group and its relevant members of Nanshan Group pursuant to the Finance Leasing Framework Agreement
"Interim Report"	the interim report of the Company for the six months ended 30 June 2019
"JinChuang"	Jinchuang Enterprise Management & Consulting Co., Ltd., a company incorporated in the BVI, one of the Shareholders and indirectly wholly-owned by the late Mr. Song Jianpeng who was the Chairman and non-executive Director of the Company at the time of entering into the Finance Leasing Framework Agreement by the Company
"Latest Practicable Date"	25 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Leased Asset(s)"	the assets contemplated to be leased by the Group pursuant to Individual Agreements, including healthcare equipment, engineering vehicles or equipment, equipment used in power stations as well as carriers such as aircraft and vessels for transport of goods and/or passengers

"Lego" or "Independent Financial Adviser"	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps and the explanation as to why the Individual Agreement requires a longer period
"Listing Date"	15 March 2019, the date which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules
"Nanshan Group"	Nanshan Group Co., Ltd.* (南山集團有限公司) (also including members of Nanshan Group), a company established in the PRC with limited liability on 16 July 1992, which is owned as to 51% by the village member committee (龍口市東江街道南山村民委員會) of Nanshan Village, Dongjiang Street, Longkou City, Shandong Province, PRC (龍口市東江街道南山村) and 49% by Mr. Song Zuowen. Mr. Song Zuowen is the father-in-law of Ms. Sui Yongqing, one of the Controlling Shareholders
"Nanshan Interest Rate"	the expected final effective interest rate under the Individual Agreements to be offered to Nanshan Group after negotiations with the latter
"Nanshan Leasing"	Nanshan Financial Leasing (Tianjin) Co., Ltd.* (南山融資租賃(天津)有限公司), a company established in the PRC, an indirect wholly-owned subsidiary of the Company
"PA Investor"	PA Investment Funds SPC, an exempted company incorporated and existing under the laws of the Cayman Islands registered as a segregated portfolio company on 3 May 2013, one of the pre-IPO investors and the Shareholders
"PA Subscription and Shareholders' Agreement"	the subscription and shareholders' agreement dated 30 December 2015 relating to the Company entered into among, among others, PA Investor as investor and Union Capital, FuJin, JinChuang and RongJin as the then Shareholders
"PBOC"	the People's Bank of China

"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Prospectus"	the prospectus of the Company dated 28 February 2019
"RMB" or "Renminbi"	the lawful currency of the PRC
"RongJin"	RongJin Enterprise Management & Consulting Co., Ltd, a company incorporated in the BVI with limited liability on 15 September 2015, one of the Shareholders and is indirectly wholly-owned by Mr. Li Luqiang
"Securities Dealing Code"	a securities dealing code regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in the Model Code
"SFC"	the Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong
"Shareholder(s)"	the shareholder(s) of the Company
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Union Capital"	Union Capital Pte. Ltd., a company incorporated in Singapore, a Controlling Shareholder and is wholly-owned by Ms. Sui Yongqing (隋永清). Ms. Sui Yongqing is the daughter-in-law of Mr. Song Zuowen (宋作文), who is interested in 49% of the equity interest in Nanshan Group, and she is the wife of Mr. Song Jianbo (宋建波), who is the legal representative, chairman and general manager of Nanshan Group
"%"	percent

In this circular, amount in HK$ is converted into RMB on the basis of HK$1.00 to RMB0.909. The exchange rate has been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts in HK$ or RMB were or may have been exchanged at this or any other rates or at all.

In this circular, the English names of the PRC entities or enterprises are translations of their Chinese names. In the event of any inconsistency, the Chinese names shall prevail.

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.
国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

Executive Directors:
Mr. LI Luqiang *(Chief executive officer)*
Mr. LI Zhixuan
Ms. XU Juan

Independent non-executive Directors:
Mr. LIU Changxiang
Mr. LIU Xuewei
Mr. JIAO Jian

Registered office:
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong principal place of business:
Unit 2602, 26th Floor
One Hennessy
No. 1 Hennessy Road
Wan Chai
Hong Kong

2 December 2019

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION:
FINANCE LEASING FRAMEWORK AGREEMENT

INTRODUCTION

References are made to the announcements of the Company dated 23 August 2019 and 20 September 2019 in relation to the Finance Leasing Framework Agreement, as well as the announcement of the Company dated 10 October 2019 in relation to the passing away of Mr. Song Jianpeng.

The purpose of this circular is, among other things, to provide you with (i) further details of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, (ii) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps; and (iii) a letter from Lego to the Independent Board Committee containing its advice in respect of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

The principal terms of the Finance Leasing Framework Agreement are set out as follows:

Date

20 September 2019

Parties

(1) the Company (including its direct and indirect subsidiaries); and

(2) Nanshan Group (including its direct and indirect subsidiaries)

Subject of the Transaction

The Company will provide Finance Leasing Service in relation to the Leased Assets by way of, including but not limited to, sale-leaseback service and direct finance leasing service:

(1) under sale-leaseback service, the Group will purchase the Leased Assets from Nanshan Group, and then the Group will lease such Leased Assets back to Nanshan Group for an agreed term and will receive the rental fees on a periodic basis and the refundable security deposit (if applicable); and

(2) under the direct finance leasing service, the Group will purchase the Leased Assets from the relevant supplier upon the instructions of Nanshan Group, and then the Group will lease such Leased Assets to Nanshan Group for an agreed term and will receive the rental fees on a periodic basis and the refundable security deposit (if applicable).

The rental fees to be received by the Group for the leasing of the Leased Assets to Nanshan Group represent the principal amounts and interest income.

Duration

The Finance Leasing Framework Agreement shall be effective for three (3) years upon the Independent Shareholders' approval of the Finance Leasing Framework Agreement at the EGM.

The effectiveness of the Finance Leasing Framework Agreement is conditional upon the Independent Shareholders' approval.

Separate Individual Agreements

With respect to the provision of Finance Leasing Service, the Group and the relevant Nanshan Group companies will enter into separate Individual Agreements pursuant to the Finance Leasing Framework Agreement and the transactions contemplated thereunder shall be conducted on normal commercial terms or better and major terms and conditions contemplated thereunder shall be no less favourable to the Group than the same offered to Independent Third Parties for comparable finance leasing service.

Contract Period

The Board has assessed that (i) the Leased Assets generally have a longer useful life in the range of approximately five (5) to 20 years; (ii) it is the norm of the relevant industries to which the Leased Assets belong to enter into the relevant Individual Agreements for a term of more than three (3) years; (iii) the Individual Agreements for the Leased Assets, in particular the Leased Assets involving carriers for transport of goods and/or passengers, typically involve a relatively larger financing amount and thus a relatively longer repayment term of approximately eight (8) years. In light of the above, the contract periods of the Individual Agreements with respect to Finance Leasing Service are expected to range from three (3) to eight (8) years, depending on the type of Leased Assets involved, and the Board is of the view that it is in normal business practice to enter into such longer term of Individual Agreements to minimise the risk of potential disruption to our Group's business operations.

The Individual Agreements may have contract periods longer than the Effective Period. The Individual Agreements duly executed shall remain to have full force and effect for their respective contract periods even if the Finance Leasing Framework Agreement is expired or terminated and is not renewed. The Company will closely monitor the effectiveness and validity of the Finance Leasing Framework Agreement and the Individual Agreements, and shall comply with the relevant requirements in accordance with the Listing Rules as and when appropriate. For the avoidance of doubt, the Finance Leasing Framework Agreement will not be renewed simply for the purpose of covering the entire period of the relevant Finance Leasing Service.

The Annual Caps will cover the aggregate transaction amounts (comprised of principal amounts and expected interest income) for the entire lease period of the Individual Agreements entered into or to be entered into during the Effective Period. In the event that the Company enters into new Individual Agreements with Nanshan Group after the expiry of the Effective Period, the Company will set new Annual Caps and comply with the relevant Listing Rules.

Interests and Refundable Security Deposit

The interest rate and refundable security deposit to be agreed for the Finance Leasing Service shall be fair and reasonable and on normal commercial terms or better. The refundable security deposit may be required based on the size of the finance lease, lessee's credit history and financial conditions. The Company normally requests from the lessee approximately 1% to 5% of the investment amount of the relevant Leased Assets as the refundable security deposit, subject to the parties' negotiations. The refundable security deposit is refundable to Nanshan Group upon the expiry of the relevant Individual Agreement.

In particular, when determining the effective interest rate, the Group shall make reference to the following non-exhaustive factors:

(1) the benchmark lending rates published by PBOC. The finance department of the Company will obtain such benchmark lending rates every time before entering into the Individual Agreements;

(2) the secured lending rate for the borrowings granted to Nanshan Group by financial institutions. Such secured lending rate will be obtained by the finance department of the Company through verbal and written communications with Nanshan Group during business negotiations and discussions. The Company will use its best endeavours to obtain such secured lending rates every time before entering into the Individual Agreements;

(3) in the event that the Group is unable to reasonably obtain the relevant information in relation to the secured lending rate mentioned in sub-paragraph (2) above, the funding costs (i.e. the costs of borrowing of the Group) incurred by the Group at the time of entering into of the relevant Individual Agreement;

(4) the quotations (which will be obtained by the finance department of the Company every time before entering into the Individual Agreements) for similar finance leasing services offered by the Company to at least two (2) Independent Third Party customers, so as to ensure that the relevant effective interest rate of the Finance Leasing Service provided by the Company to Nanshan Group shall not be lower than the average effective interest rates offered to its other Independent Third Party customers at the prevailing time; and/or

(5) the risk premium of Nanshan Group contemplated within the range approximately from 1% to 4%, which is dependent on the financial conditions, credit history, size of finance lease, industry and scale of business of the lessee.

Further, when coming up with the Nanshan Interest Rate, the management team of the Company, together with the relevant departments of the Company including the finance department and the asset management department will discuss and deliberate the above non-exhaustive factors in an integrated way with the following considerations:

(1) the benchmark lending rates published by PBOC is a representative indicator of the applicable interest rates given the economic and market condition in the PRC at the material time, and the Nanshan Interest Rate shall be higher than the PBOC benchmark lending rates in order for the Company to reasonably profit from the provision of the Finance Leasing Service;

(2) the secured lending rate for the borrowings granted to Nanshan Group by financial institutions is an useful information for our Directors to negotiate a competitive Nanshan Interest Rate, and the Nanshan Interest Rate shall be higher than such secured lending rate in order for the Company to ensure that the former is not undervalued;

(3) the funding costs shall not be higher than the Nanshan Interest Rate in order to ensure that the Company will not incur loss out of the provision of the Finance Lease Service;

(4) the quotations for similar finance leasing services offered to at least two (2) Independent Third Parties act as a reference to market rate. The Nanshan Interest Rate shall be higher than such quotations in order to ensure that it is no less favourable than to Independent Third Parties; and

(5) the risk premium of Nanshan Group, which includes evaluation of the business and financial performance of Nanshan Group at the material time.

The Directors are of the view that the Nanshan Interest Rate so determined based on the above will be on normal commercial terms and fair and reasonable, and such determination basis is in the interests of the Company and the Shareholders as a whole.

In addition, the Company will also consider the above non-exhaustive factors to ensure that the overall terms and conditions for providing the Finance Leasing Service, including the Nanshan Interest Rate as well as payment conditions and other material terms, are no less favourable to the Group than the same offered by the Group to the Independent Third Parties for comparable finance leasing service.

Leased Assets

Under both sale-leaseback service and direct finance leasing service, the ownership of the Leased Assets will be vested in the Group throughout the lease period. Generally speaking, upon expiry of the lease period, the ownership of the Leased Assets will be vested in Nanshan Group.

As long as the type of proposed Leased Asset falls under the category set out above, the Group would have the discretion to decide whether the proposed Leased Asset is acceptable. When considering whether the proposed Leased Asset is acceptable, the Group would take into account the proposed terms of the Finance Leasing Service as a whole. The key procedures and mechanisms in making such decisions are set out in the section below headed “INTERNAL CONTROL MEASURES AND RISK MANAGEMENT”.

ANNUAL CAPS AND BASIS OF DETERMINATION

The table below sets out the Annual Caps for the Effective Period under the Finance Leasing Framework Agreement:

	For the year ending 31 December 2019 (1) *(RMB'000)*	For the year ending 31 December 2020 *(RMB'000)*	For the year ending 31 December 2021 *(RMB'000)*	For the year ending 31 December 2022 (2) *(RMB'000)*
Annual Caps	381,000	855,000	855,000	977,000

Notes:

1. Determined on a pro-rata basis, i.e. from the date of obtaining the Independent Shareholders' approval of the Finance Leasing Framework Agreement at the EGM to 31 December 2019.

2. Determined on a pro-rata basis, i.e. from 1 January 2022 to the date being the three-year anniversary of the Independent Shareholders' approval mentioned in note 1 above.

Set out below is the breakdown of the Annual Caps which is comprised of the principal amounts and the expected interest income. The refundable security deposit (where applicable) is not included as it is refundable upon expiry of the relevant Individual Agreement.

	For the year ending 31 December 2019 (1) *(RMB'000)*	For the year ending 31 December 2020 *(RMB'000)*	For the year ending 31 December 2021 *(RMB'000)*	For the year ending 31 December 2022 (2) *(RMB'000)*
Principal amounts	300,000	700,000	700,000	800,000
Interest income	81,000	155,000	155,000	177,000
Total	381,000	855,000	855,000	977,000

Notes:

1. Estimated on a pro-rata basis, i.e. from the date of obtaining the Independent Shareholders' approval of the Finance Leasing Framework Agreement at the EGM to 31 December 2019.

2. Estimated on a pro-rata basis, i.e. from 1 January 2022 to the date being the three-year anniversary of the Independent Shareholders' approval mentioned in note 1 above.

The relevant funds under the Finance Leasing Framework Agreement shall only be applied for the actual needs for operation of Nanshan Group.

The above Annual Cap(s) for the Finance Leasing Framework Agreement are determined principally by reference to the following factors:

(1) the principal amounts expected to be provided to and utilised by Nanshan Group pursuant to the Individual Agreement to be entered into during the Effective Period, together with the Nanshan Interest Rate;

(2) the development plan of Nanshan Group and the demand for Finance Leasing Service;

(3) the nature, estimated value and expected lifespan of the Leased Assets;

(4) the ability of the Group to provide Finance Leasing Service to Nanshan Group at the material time; and

(5) the overall economic environment and market condition when entering into the Finance Leasing Framework Agreement.

The management team of the Company, together with the relevant departments of the Company including the finance department, has reviewed the above factors, taken into account the effect of provision of Finance Leasing Service on the liquidity position, working capital of the Company and the repayment ability of the Company with respect to the financing from bank borrowings as a whole, before determining the Annual Caps.

Each of the Annual Caps is the aggregate sum of (i) the principal amounts for the entire lease period of finance lease expected to be provided to Nanshan Group in each respective year; (ii) the expected interest income from potential transactions with the Nanshan Group for finance lease of existing types of assets within the healthcare, aviation and public infrastructure industries currently engaged by the Group for the respective years; and (iii) the expected interest income from potential transactions with the Nanshan Group with respect to finance lease of vessels and related equipment, being a new type of carriers targeted by the Group within the public infrastructure industry which is expected to commence in 2020. The expected interest income from finance lease transaction with Nanshan Group is derived based on (a) the entire lease term of the respective Leased Assets; (b) the principal amounts of loans offered or to be offered by the Group to the Nanshan Group; and (c) the Nanshan Interest Rate.

In particular, with respect to the Annual Caps for the years ending 31 December 2019 and 31 December 2020, the Group has approached and discussed with Nanshan Group regarding its future development plan and has formulated and presented finance leasing draft proposals and quotations to Nanshan Group in relation to finance lease of healthcare equipment, engineering vehicles and vessels for transport of goods. Such draft proposals and quotations set out, among others, the proposed amounts, lease term, proposed interest rate and the underlying leased assets, as well as the schedule of repayment of the potential lease. The Annual Caps for the years ending 2019 and 2020 are determined based on the expected aggregate principal amounts to be provided by the Company to Nanshan Group under the proposals and quotations aforesaid.

With respect to the Annual Caps for the years ended 31 December 2020 and 31 December 2021, notwithstanding the expected market growth of finance leasing market in the PRC, considering that it may take time for the Company to initiate potential finance lease transactions with its Independent Third Party customers in order to control the expected revenue contribution from Nanshan Group to be within the threshold of 30% of the Group's total expected revenue in the future years, the Company has determined the Annual Cap for the year ending 31 December 2021 to be equivalent to that for the year ending 31 December 2020.

The Annual Cap for the year ending 31 December 2022 represents an increase of approximately 14.27% from the Annual Cap for the year ending 31 December 2021, of which the interest income components of the Annual Cap for the year ending 31 December 2022 represents an increase of approximately 14.19% from the year ending 31 December 2021. The Company expects that the market size of finance leasing service with respect to medical instruments in the PRC (in which health care industry is one of the industries that the Company has been targeting to provide finance leasing service with since the commencement of its business operations in 2014) will continue to increase in the coming years. The Annual Cap for the year ending 31 December 2022 is determined based on (a) the expected revenue contribution from Nanshan Group to be within the threshold of 30% of the Group's total expected revenue in the future years, as well as (b) the expected continuing increase of the expected revenue from provision of finance leasing service to Independent Third Party customers as a result of the Group's active sales, marketing and exposure efforts as well as the expected market growth in the relevant industry(ies).

Considering that:

(1) the aggregate principal amounts to be granted to Nanshan Group are estimated based on arm's length commercial discussions and negotiations the Group had with Nanshan Group with respect to the provision of Finance Leasing Service;

(2) the Company is informed by the Nanshan Group that they are in the process of exploring several projects and other strategic business development involving the Leased Assets, and is expected to request financing through provision of Finance Leasing Service by the Company;

(3) the Company has already considered its liquidity position and repayment ability with respect to external borrowings when contemplating the Annual Caps; and

(4) it is expected that there may be an overall downward trend in terms of the economic growth in the PRC,

the Board is of the view that the Annual Caps so determined are fair and reasonable and in the interests of the Company and its shareholders as a whole.

For the avoidance of doubt, the drawdown or utilisation period for each Individual Agreement will not be limited by the Effective Period, provided that the Company shall have the right to approve each drawdown in terms of its use and fund flow, and the drawdown and transaction contemplated thereunder will not cause the aggregated annual transaction amounts under all Individual Agreements to exceed the Annual Caps.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASING FRAMEWORK AGREEMENT

The Company is an investment holding company. The Group is principally engaged in the finance leasing and advisory services to customers in the healthcare, aviation and public infrastructure industries.

Nanshan Group is a company established in the PRC with limited liability. Nanshan Group, together with its subsidiaries, are a conglomerate with principal businesses encompassing aluminium, textile apparel, finance, aviation, real estate, healthcare, education and tourism.

The Company strategically focuses its business on industries that it believes to have sustainable growth potential. The Group had established previous business relationships with Nanshan Group and its subsidiaries which have substantial assets with reliable repayment capability and is a trusted business partner. The provision of Finance Leasing Service by the Group to Nanshan Group under the Finance Leasing Framework Agreement is in the ordinary and usual course of business of the Group while the Group will in return receive a stable revenue and cashflow stream during the Effective Period.

For the years ending 31 December 2019, 2020, 2021 and 2022, the maximum amounts of the principal for the transactions contemplated under the Finance Leasing Framework Agreement expect to be approximately RMB 300 million, RMB 700 million, RMB 700 million and RMB 800 million respectively, representing approximately 7.1%, 16.6%, 16.6%, and 19.9% respectively of the total assets and approximately 9.2%, 21.4%, 21.4% and 24.5% respectively of the total liabilities of the Company as at 31 December 2018.

Considering that (1) Nanshan Group is a trusted business partner of the Company since its incorporation in 2014; (2) Nanshan Group companies are a conglomerate with substantial business operations and positive reputation in the PRC; (3) the excellent credit history with Nanshan Group that there has been no single incident of default payment of interest to the Company for the provision of finance leasing service. The Directors consider that the risk of Nanshan Group ceasing to receive the Company's provision of Finance Leasing Service or default in payment of the relevant interest is low; (4) the maximum amounts of the principal for the transactions contemplated under the Finance Leasing Framework Agreement represents less than 20% of the assets and less than 25% of the liabilities of the Company as at 31 December 2018, respectively, which the Company considers controllable and governable; and (5) the Nanshan Group shall make interest payment to the Group during the Effective Period, the Company is of the view that the risk exposure associated with the maximum amounts of the principal for the transactions contemplated under the Finance Leasing Framework Agreement is justified and acceptable to the Group.

In addition, the Directors consider that, by entering into the Finance Leasing Framework Agreement, the Group is not unduly reliant on the Nanshan Group for the following reasons:

(1) Mutual beneficial and complementary relationship

The Company has established business relationship with Nanshan Group companies since its incorporation in 2014. Nanshan Group was established in the PRC with limited liability on 16 July 1992. The registered capital of Nanshan Group is RMB1,000 million and it had over 30 subsidiaries. Nanshan Group companies are a conglomerate with principal businesses encompassing aluminium, textile apparel, finance, aviation, real estate, healthcare, education and tourism. The Group considers that Nanshan Group is a high-quality customer. As disclosed in the Prospectus, for the years ended 31 December 2015, 2016, 2017, the Company provided finance leasing and related advisory services to six entities of Nanshan Group companies.

The Company has established a stable, long-term and trusted business relationship with Nanshan Group, and believes that such relationship is mutually beneficial to both the Group and Nanshan Group. It is beneficial to the Group in securing stable and long-term interest income from provision of Finance Leasing Service to Nanshan Group, a high-quality customer of the Group. The Company is of the view that it is also strategically important to Nanshan Group to have a stable supply for financing for its business development and projects. Through commercial negotiations and discussions, the Company was informed by Nanshan Group that they considered the relevant terms and conditions under the Finance Leasing Framework Agreement are fair and reasonable and of arm's length, and thus decided to enter into the Finance Leasing Framework Agreement with the Company. The Directors consider that the Group will explore various business opportunities in the best interest of the Group, including businesses with Nanshan Group. With respect to the businesses with Nanshan Group, the Company will comply with the relevant Listing Rules, including obtaining the approval from the Shareholders where necessary, before the commencement of such business.

(2) Solid business relationship with other main customers

Since the Group's establishment, the Group has also established and maintained long-term relationships with other major customers. Other major customer base includes enterprises in the three targeted industries which business of the Company is engaged in, including Class II hospitals (regional hospitals with minimum capacity that provide multiple communities with integrated medical services and undertake certain educational and scientific research missions) and Class III hospitals (multi-regional hospitals with large capacity that provide multiple regions with high-quality professional medical services, undertake higher education and scientific research initiatives), state-owned airline companies, private airline companies, private clients and public infrastructure companies. As at 30 September 2019, the Company had 97 customers, of which 75 customers were in the healthcare industry, eight customers were in the aviation industry, 14 customers were in the public infrastructure industry.

For the year ended 31 December 2018, the revenue generated from the largest customer of the Group, which was an Independent Third Party, represented approximately 5.5% of the total revenue of the Group. The Group communicated with its existing customers regularly to receive feedback on the finance leasing service provided to them and to try to procure more business opportunities.

In the unlikely event that there is a change of relationship with Nanshan Group, the Company believes that the revenue with respect to the provision of finance leasing service to other customers can support its business operation for some period of time, as the other major customers all have stable and long working relationship with the Company for over three (3) years. The Company is of the view that such major customers may have demand in the provision of finance leasing service by the Group and therefore may potentially have the capacity and willingness to take up finance leasing service originally provided to Nanshan Group. As such, the Company believes that in such a scenario, it will not have a material adverse impact on the Group.

(3) The Group's measures in mitigating customer concentration risks

The Company marketed itself as a finance leasing company headquartered in Beijing, mainly has been providing services to customers in the three targeted industries, namely the healthcare, aviation and public infrastructure industries, since the commencement of its business operations in 2014. The Company maintains a dedicated sales team with significant industry understanding and finance expertise to provide customised services to its customers.

As at 30 September 2019, the Company had a total of 10 employees in the Company's business department which was led by the Company's senior management member, Mr. Lu Quanzhong. Mr. Lu has over 17 years of experience in sales and marketing and over six years working in finance leasing industry. The business team leaders (under Mr. Lu's supervisions) of the Company are responsible for sourcing new customers and visiting potential customers' sites at their principal place of business with the Company's business department staff. They contact and visit the Company's existing and potential customers in the PRC regularly to understand their requests and financing needs, and to establish relationships with them. During the Company's site-visits with customers, the Company conducts client review and obtain valuable feedback from customers, so that the Company can further improve the Company's client management.

The Company also maintains a good relationship with suppliers or manufacturers of finance lease assets of customers of the Company in the three targeted industries. As the Company's business department staff have in-depth experience and industry knowledge, the Company is able to analyse customers' asset quality and financing needs, and provide tailored service accordingly. There have been customers that have entered into agreements for provision of finance leasing services with the Company again. The management and business department staff of the Company frequently liaise with industry experts, equipment manufacturers and market players in targeted industries in order to gain first-hand information regarding industry and regulatory trends, as well as constantly attend various air shows, equipment fairs and targeted industry forums to increase the Company's brand awareness, collect latest market information and achieve effective market penetration to potential customers. Active participation in equipment fairs and industry forums are also considered as key sales and marketing activities to help strengthening the Company's industry presence and promoting the services that can be offered by the Company. As part of the Company's cross-selling efforts to maximise revenue from a single customer, the Company also encourage their customers to engage us for advisory services. As a result of these efforts, the Company, from time to time, identifies business opportunities from such cross-selling efforts.

The Group has managed to diversify its customers to a number of other customers who need finance leasing throughout years of the Group's development, and it is the Group's intention to continue to broaden its customer base and gain wider market recognition in the finance leasing industry. In this connection, the Group is in the process of expanding its sales team to actively search for new customers. At the same time, the Group provides briefing or comprehensive sessions to its sales team with a focus on, among others, approaching and drawing in new customers. The sales team has been actively looking for potential new customers regularly.

The Company has established business relationship with different banks and financial institutions. Through these relationships, it will enable the Company to capture different market opportunities and widen the Company's connections to potential customers.

The Group plans to allocate even more resources on the above-mentioned measures to better explore opportunities to cooperate with other finance leasing customers in the future, so the Company can further lower the Company's customer concentration risks. Given the Group's scale of operation and capability in provision of finance leasing service, the Directors believe that it would not be difficult for the Group to continue to cooperate with other new customers.

(4) Level of reliance

Using the highest amount of the Annual Cap, being the Annual Cap for the year ending 31 December 2022 (i.e. RMB977,000,000) to determine the size of the transactions contemplated under the Finance Leasing Framework Agreement, it is expected that the highest percentage ratio (as defined in Rule 14.07 of the Listing Rules), being the revenue ratio, calculated in accordance with the Listing Rules will be approximately 262.4%. Despite the seemingly substantial size of the transaction, the Board is of the view that it will not give rise to undue reliance issue of the Company with the Nanshan Group as the Company has only recognised its interest income as its revenue as disclosed in its financial statements. To assess the reliance issue, the Board has assessed (A) the historical revenue contribution of the transactions with Nanshan Group to the Group's total revenue; (B) the expected revenue contribution of the transactions with Nanshan Group to the Group's expected total revenue; and (C) the principal amounts for the finance leasing transactions to be entered into with the Independent Third Party customers, details of which are disclosed in the following paragraphs.

(A) Historical revenue contributions of the transactions with Nanshan Group to the Group's total revenue

On 25 July 2016, Nanshan Leasing entered into a finance lease agreement with Shandong Nanshan International Flight Co., Ltd.* (山東南山國際飛行有限公司) in relation to the finance leasing of three light aircraft for a term of 60 months (the "**Shandong Nanshan Finance Lease Agreement**"). For further details of the Shandong Nanshan Finance Lease Agreement, please refer to the section headed "Connected Transactions – Continuing Connected Transaction Exempt From Independent Shareholders' Approval – 1. Shandong Nanshan Finance Lease Agreement" of the Prospectus. The transactions contemplated under the Shandong Nanshan Finance Lease Agreement represent the historical transactions between the Group and Nanshan Group.

Set out below is the historical revenue contribution of the transactions with Nanshan Group to the Group's total revenue for the three years ended 31 December 2018 calculated based on (1) the historical transaction amounts inclusive of the principal amounts and interest income; and (2) the historical transaction amounts exclusive of the principal amounts:

	For the year ended 31 December 2016 *(RMB'000)*	**For the year ended 31 December 2017** *(RMB'000)*	**For the year ended 31 December 2018** *(RMB'000)*
Total revenue	307,000	321,000	358,000
Inclusive of the principal amounts and interest income/Revenue contribution	462,000/ 150.5%	690,000/ 215.0%	247,000/ 69.0%
Exclusive of the principal amounts (i.e. interest income only)/Revenue contribution	39,000/ 12.7%	27,000/ 8.4%	2,800/ 0.8%

Based on the above, the Board has evaluated that there was no reliance issue with respect to the historical transactions (interest income only) with Nanshan Group as Nanshan Group only contributed an average of approximately 7.3% to the Group's total revenue for the three years ended 31 December 2018.

(B) Expected revenue contributions of the transactions with Nanshan Group to the Group's expected total revenue

Set out below is the expected revenue contribution of the transactions with Nanshan Group contemplated under the Finance Leasing Framework Agreement and the Shandong Nanshan Finance Lease Agreement to the Group's expected total revenue for the years ending 31 December 2019, 2020, 2021 and 2022 calculated based on (1) the expected transaction amounts inclusive of the principal amounts and interest income; and (2) the expected transaction amounts exclusive of the principal amounts:

	For the year ending 31 December 2019 (1) *(RMB'000)*	**For the year ending 31 December 2020** *(RMB'000)*	**For the year ending 31 December 2021** *(RMB'000)*	**For the year ending 31 December 2022** (2) *(RMB'000)*
Expected total revenue	282,000	314,000	422,000	449,000
Inclusive of the principal amounts and interest income/Expected revenue contribution	5,000/ 1.8%	194,000/ 61.8%	387,000/ 91.7%	552,000/ 122.9%
Exclusive of the principal amounts (i.e. interest income only)/Expected revenue contribution	1,000/ 0.4%	63,000/ 20.1%	115,000/ 27.3%	132,000/ 29.4%

Notes:

1. Estimated on a pro-rata basis, i.e. from the date of obtaining the Independent Shareholders' approval of the Finance Leasing Framework Agreement at the EGM to 31 December 2019.

2. Estimated on a pro-rata basis, i.e. from 1 January 2022 to the date being the three-year anniversary of the Independent Shareholders' approval mentioned in note 1 above.

Based on the above, the Board has evaluated that there will also be no reliance issue with respect to the transactions (interest income only) contemplated under the Finance Leasing Framework Agreement as the expected revenue generated from Nanshan Group will contribute as to approximately 0.4%, 20.1%, 27.3% and 29.4% of the Group's total expected revenue for the years ending 31 December 2019, 2020, 2021 and 2022, respectively, which are all less than 30% with an average of less than 20% of the Group's total expected revenue throughout the Effective Period. Further, the Group will suspend the provision of Finance Lease Service to Nanshan Group in the event that the expected revenue contribution exceeds 30% to ensure that the Company will not be overly relying on Nanshan Group.

(C) The principal amounts for the finance leasing transactions to be entered into with the Independent Third Party customers

While it is expected that the revenue from its connected person and its substantial shareholder (including Nanshan Group) will increase in line with its continuous expansion and growth in the PRC, the Group expects that the revenue from provision of finance leasing service to Independent Third Party customers will likely have a higher rate of increase or portion over the years in the coming future as a result of the Group's active sales, marketing and exposure efforts as described in the paragraph head "The Group's measures in mitigating customer concentration risks" in this circular in order to prevent undue reliance on the transactions with its connected person and its substantial shareholder (including Nanshan Group).

Set out below is the maximum amounts of the principal for (1) the transactions contemplated under the Finance Leasing Framework Agreement; and (2) all the transactions contemplated under the finance leasing business of the Company for the three years ending 31 December 2020, 2021 and 2022:

	For the year ending 31 December 2020 *(RMB'000)*	**For the year ending 31 December 2021** *(RMB'000)*	**For the year ending 31 December 2022** *(RMB'000)*
Maximum amounts of the principal for transactions contemplated under Finance Leasing Framework Agreement	700,000	700,000	800,000
Maximum amounts of the principal for all the transactions contemplated under finance leasing business	2,000,000	2,500,000	2,700,000
Percentage	35.0%	28.0%	29.6%

Considering the above, the Company has assessed that there is an overall decreasing trend in the Company's reliance on Nanshan Group as the Company expects to invest higher principal amounts for the finance leasing transactions to be entered into with the Independent Third Party customers.

The transactions contemplated under the Finance Leasing Framework Agreement will be funded by internal resources and bank borrowings of the Group.

The Directors consider that the terms under the Finance Leasing Framework Agreement are fair and reasonable, and the transactions contemplated under the Finance Leasing Framework Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES AND RISK MANAGEMENT

The Group has adopted the following risk management measures and policies in relation to its finance leasing businesses to maintain the fairness of the terms and price of the transactions which shall be applied to the transactions contemplated under the Finance Leasing Framework Agreement:

1. Five-category classification

As a finance leasing company serving different industries, the Group assumes various risks in its business operations, including credit, liquidity, market, compliance, legal, operational and reputational risks, among which credit risk is its primary exposure. The Group has developed a comprehensive risk management system and controls risks through measures including due diligence on customers, independent information review and a multi-level approval process.

The Group strives to balance business development, risk management and operation efficiency. The Group has established comprehensive risk management and internal control processes to deal with various risks relating to its business. Its risk management processes are tailored to the characteristics of its business operations, with a focus on managing risks through comprehensive customer due diligence, independent information review and multi-level approval process. Its risk management processes also include a continuous review process after the finance leasing is approved. The asset management team reviews the leased assets on a regular basis, including performing on-site visits to inspect the status of the leased asset. This continuous review process enables the Group to identify any potential default of its customers and take remedial actions to enhance the security of its assets at an early stage.

The Group measures and monitors the asset quality of its finance lease receivables by voluntarily adopting a five-category classification with reference to guidelines promulgated by the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) relating to asset quality for financial institutions under its regulation as follows:

Pass. There is no sufficient reason to doubt that the lease payments will not be paid by the lessee in full on a timely basis. Pass asset has certain characteristics, for example, the lease payments have always been repaid in full on a timely manner or overdue for less than or equal to 90 days.

Special Mention. Even though the lessee has been able to pay the lease payments in a timely manner, there are some factors that could adversely affect its ability to pay, such as the financial position of the lessee has worsened or its net cash flow has become negative, but there are sufficient guarantees or collaterals underlying the finance lease agreement. Special Mention asset has certain characteristics, for example, the payments have been overdue for more than 90 days but less than or equal to 150 days.

Substandard. The lessee's ability to pay is in obvious question as it is unable to make its payments in full with its operating revenue, and the Group is likely to incur losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Substandard asset has certain characteristics, for example, the lease payments have been overdue for more than 150 days but less than or equal to 210 days.

Doubtful. The lessee's ability to pay is in absolute question as it is unable to make lease payments in full, and the Group is likely to incur significant losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Doubtful asset has certain characteristics, for example, the lease payments have been overdue for more than 210 days but less than or equal to 270 days.

Loss. After taking all possible steps or going through all necessary legal procedures, lease payments remain overdue or only a very limited portion has been recovered. Loss asset has certain characteristics, for example, the lease payments have been overdue for more than 270 days.

The Group assesses its provisions based on the relevant requirements of IFRS and its internal provisioning procedures and guidelines upon consideration of factors such as the nature and characteristics of its industry-specific customers, credit record, economic conditions and trends, history of write-offs, payment delinquencies, the value of the assets underlying the leases and the availability of collateral or guarantees.

2. Determination of principal, interest rate and refundable security deposit

In general, the principal amount to be adopted under individual finance leasing agreements shall be, in the case of sale-leaseback service, not higher than the net book value of the leased assets and, in the case of direct finance leasing service, the market price of the leased assets. The source of such market price is based on the amount stated on the invoices for the purchase of such assets and an agreed percentage of such purchase price.

For sale-leaseback service under the Finance Leasing Service, the purchase price shall be reasonable and shall not be higher than the net book value of the Leased Assets. Nanshan Group may also be required to pay a refundable security deposit, which typically ranges from approximately 1% to 5% of the negotiated purchase price at the time of purchase. The amount of the refundable security deposit payable by Nanshan Group is comparable to that payable by Independent Third Party customers to the Group.

For direct finance leasing service under the Finance Leasing Service, the Company typically pays 60% to 90% of the purchase prices directly to the equipment supplier who is Independent Third Party and the Nanshan Group will be responsible for the balance. Nanshan Group may also be required to pay the

Company a refundable security deposit at the time of the purchase, which typically ranges from approximately 1% to 5% of the purchase price. The amount of the refundable security deposit payable by Nanshan Group is comparable to that payable by Independent Third Party customers to the Group.

The interest rate and the refundable security deposit of the Finance Leasing Service under any Individual Agreement shall be fair and reasonable and on normal commercial terms or better. In particular, when determining the effective interest rate, the Group shall make reference to the following factors: (1) the benchmark RMB lending rate published by PBOC from time to time; (2) the secured lending rate granted to Nanshan Group by financial institutions; (3) the funding cost of the Company; (4) the quotations made by the Company for similar finance leasing service offered to at least two (2) Independent Third Party customers; and/or (5) the risk premium of Nanshan Group.

3. Monitoring continuing connected transactions

The risk management team and relevant senior management of the Company are responsible for monitoring connected transactions of the Company, including the transactions under the Finance Leasing Framework Agreement.

The risk management team and relevant senior management of the Company will review the actual amount utilised in respect of the Annual Caps every three (3) months. The Board is of the view that the frequency of reviewing every three (3) months is sufficient primarily because: (1) it usually takes one to several months to commence a finance leasing project from initial project negotiations, conducting relevant due diligence and internal review to approval; and (2) generally speaking, the Company monthly or quarterly receives the rental fees under the relevant finance leasing agreements from the lessees. Considering the above as well as the overall operation efficiency of the Company, the Board is of the view that the frequency of three (3) months is reasonable.

The asset management department of the Company will review and evaluate the transaction volume conducted under the Company's finance leasing projects, with a focus on the transactions contemplated under the Finance Leasing Framework Agreement. In the event that there is a comparatively rapid increasing trend of the relevant transaction amount, or it is observed that the total amount is approaching the relevant Annual Cap, the asset management department will promptly inform the management of the Company when 50% of the Annual Caps is utilised. The asset management department will promptly inform again when 75% of the Annual Caps is utilised, and will monitor the utilisation rate of the relevant Annual Cap on a daily basis. Further, when 90% of the Annual Caps is utilised, the asset management department will promptly inform the management again and the Directors will immediately suspend the provision of Finance Leasing Service to Nanshan Group, such that either to ensure that the transaction amounts will not exceed the relevant Annual Cap, or the Company will take applicable steps in order to comply with the relevant requirement of the Listing Rules.

The Company has established integrated internal control and risk management systems to identify various risks, formulate and improve its internal control policies, and implement, monitor and improve various responsive risk control measures throughout the Company's business operations. In particular, being part of the internal control procedures, the Company will identify whether the proposed finance leasing projects involve Nanshan Group. If Nanshan Group is involved, the business department and project vetting committee of the Company, during the project initiation stage, will compare the major terms of the finance leasing projects with the terms and conditions of the Finance Leasing Framework Agreement, in order to make sure that the major terms of such projects during the project initiation stage are consistent with the Finance Leasing Framework Agreement. Further, the Company will, in addition to comply with the established procedures with respect to project evaluation and approval, make reference to the remaining amounts under the relevant Annual Caps before project approval to minimise the risks that the proposed transactions will exceed the relevant Annual Caps.

Under the internal control system of the Company, the Company will make sure that the proposed terms and conditions of the relevant Individual Agreements are consistent with the Framework Agreement, and shall not be less favourable to the Company than the finance leasing service of similar nature if provided to the Independent Third Parties. In particular, with respect to the finance leasing projects with Nanshan Group, when the risk management department and legal department of the Company are respectively preparing the risk assessment opinion and legal opinion after project initiation and due diligence stages, the two departments will (1) refer to and focus on the Finance Leasing Framework Agreement; (2) opine on whether the terms and conditions under Individual Agreements to be entered into under such finance leasing projects are consistent with those under the Finance Leasing Framework Agreement; and (3) submit their respective opinions to the project approval committee of the Company for its further assessment and approval. Under the risk management system of the Company, the asset management department of the Company will closely monitor the transaction volume and promptly inform the management of the Company as disclosed above in order to reduce the risks that the Annual Caps will be exceeded.

The independent non-executive Directors will conduct an annual review of the implementation of the continuing connected transactions in respect of the Individual Agreements. The auditors of the Company will also annually review the transactions contemplated under the Finance Leasing Framework Agreement in accordance with Rule 14A.56 of the Listing Rules.

Therefore, the Company is of the view that the Group has adequate mechanism, internal control procedures and supervision measures to ensure the continuing connected transactions to be complied with and strictly in accordance with the terms of the Finance Leasing Framework Agreement and the Listing Rules.

FINANCIAL EFFECT OF THE FINANCE LEASING SERVICE

Earnings

From the date on which the Individual Agreement becomes effective, the Group will be entitled to recognise interest income from Nanshan Group, which will provide additional income contribution to the Group.

Net assets and gearing

When the Group commences the provision of the Finance Leasing Service contemplated under the Individual Agreement, the Directors consider that there will be no significant immediate change to the Group's net asset value given the assets will increase pursuant to the value of assets acquired under each finance lease while offset by the payment of proceeds to Nanshan Group.

Since the Group will be financing the Finance Leasing Service via its internal resources and bank borrowings, from the date when the Group commences provision of the Finance Leasing Service contemplated under the Individual Agreements, the Group's gearing will increase accordingly.

Liquidity

The Group intended to finance the Finance Leasing Service via its internal resources and bank borrowings. It is expected that the borrowings of the Group will increase and the cash and cash equivalents of the same will decrease. Due to the nature of the business of the Company and its existing business model, the Company has obtained and will obtain necessary financing from the financial institutions to meet its operation needs.

LISTING RULES IMPLICATIONS

The transactions contemplated under the Finance Leasing Framework Agreement will constitute transactions under Chapter 14, in particular Rule 14.04(1)(c) (i.e. entering into or terminating finance leases) of the Listing Rules. The Company will comply with the relevant requirements under Chapter 14 of the Listing Rules when entering into the Individual Agreements under the Finance Leasing Framework Agreement. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) calculated in accordance with the Listing Rules in respect of the transactions contemplated under Finance Leasing Framework Agreement exceed 25%, the transactions contemplated thereunder constitute a major transaction for the Company, subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this circular, Nanshan Group is owned as to 51% by the village member committee of Nanshan Village and 49% by Mr. Song Zuowen. Mr. Song Zuowen is the father-in-law of Ms. Sui Yongqing, one of the Controlling Shareholders Ms. Sui Yongqing is the wife of Mr. Song Jianbo (宋建波), who is the legal representative, chairman and general manager of Nanshan Group. For the purpose of the connected transaction rules under the Listing Rules, the Directors considered Nanshan Group to be deemed connected persons under Rule 14A.21 of the Listing Rules.

Accordingly, the Finance Leasing Framework Agreement will also constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Annual Caps are more than 5%, the transactions contemplated thereunder are subject to announcement, reporting, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Individual Agreement to be entered into pursuant to the Finance Leasing Framework Agreement may exceed three (3) years, the Company has appointed Lego as the Independent Financial Adviser to explain why the Individual Agreement requires a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

CONFIRMATION OF THE BOARD

As at the Latest Practicable Date, none of the Directors has or is considered to have a material interest in the Finance Leasing Framework Agreement and the transactions contemplated thereunder. Except the late Mr. Song Jianpeng, no Director has abstained from voting on the Board resolution approving the Finance Leasing Framework Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprised of all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps. Lego has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

At the EGM, resolutions will be proposed by the Company to seek the Independent Shareholders' approval on the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps. As at the Latest Practicable Date, (1) Union Capital, which is wholly-owned by Ms. Sui Yongqing, altogether are interested in 768,475,221 Shares, representing approximately 51.23% of the total issued share capital of the Company; and (2) JinChuang, which is wholly-owned by the late Mr. Song Jianpeng, holding 6,305,438 Shares, representing approximately 0.42% of the total issued share capital of the Company, are considered to have material interests in the transactions contemplated under the Finance Leasing Framework Agreement and will abstain from voting for the proposed resolutions at the EGM. The proposed resolutions will be passed by way of ordinary resolutions and voted on by way of poll in accordance with the requirement of the Listing Rules.

RECOMMENDATION

The Board believes that the terms of the Finance Leasing Framework Agreement are fair and reasonable and the Finance Leasing Framework Agreement, the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the proposed resolutions in relation to the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

Your attention is drawn to the letters from the Independent Board Committee and Lego which set out their recommendations in respect of the Finance Leasing Framework Agreement, the transactions contemplated thereunder, the Annual Caps, the explanation as to why the Individual Agreement requires a longer period and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
International Alliance Financial Leasing Co., Ltd.
Li Luqiang
Executive Director and chief executive officer

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.
国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

2 December 2019

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION:
FINANCE LEASING FRAMEWORK AGREEMENT

We refer to the circular dated 2 December 2019 (the "**Circular**") issued by the Company of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps and to advise you as to whether, in our opinion, the terms of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Lego has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Finance Leasing Framework Agreements, the transactions contemplated thereunder and the Annual Caps.

We also wish to draw your attention to (i) the letter from the Board; (ii) the letter from Lego; and (iii) the additional information set out in the appendices to the Circular.

Having considered the terms of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, and having taken into account the opinion of Lego and, in particular, the factors, reasons and recommendations as set out in the letter from Lego on pages 29 to 56 of the Circular, we consider that the terms of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps are on normal commercial terms or better, in the Company's ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM to approve the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
For and on behalf of
Mr. Liu Changxiang, Mr. Liu Xuewei and Mr. Jiao Jian
Independent non-executive Directors

The following is the full text of the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, which has been prepared for the purpose of inclusion in this Circular.

Lego Corporate
Finance Limited
力高企業融資有限公司

2 December 2019

To: *The Independent Board Committee and the Independent Shareholders*
of International Alliance Financial Leasing Co., Ltd.

Dear Sirs and Madams,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION: FINANCE LEASING FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 2 December 2019 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 20 September 2019, according to which on 20 September 2019, the Company entered into the Finance Leasing Framework Agreement with Nanshan Group, pursuant to which the Group agreed to provide Finance Leasing Service to Nanshan Group. The Finance Leasing Framework Agreement shall be effective for three years upon the Independent Shareholders' approval of the Finance Leasing Framework Agreement at the EGM.

As at the Latest Practicable Date, Nanshan Group is owned as to 51% by the village member committee of Nanshan Village and 49% by Mr. Song Zuowen. Mr. Song Zuowen is the father-in-law of Ms. Sui Yongqing, one of the Controlling Shareholders. Ms. Sui Yongqing is the wife of Mr. Song Jianbo (宋建波), who is the legal representative, chairman and general manager of Nanshan Group. For the purpose of the connected transaction rules under the Listing Rules, the Directors considered Nanshan Group to be deemed connected persons under Rule 14.21 of the Listing Rules and the transactions contemplated under the Finance Leasing Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Finance Leasing Framework Agreement exceed 25%, the transactions contemplated thereunder also constitute a major transaction of the Company under Chapter 14, in particular Rule 14.04(1)(c) (i.e. entering into or terminating finance leases) of the Listing Rules. The Company will comply with the relevant requirements under Chapter 14 of the Listing Rules when entering into the

Individual Agreements under the Finance Leasing Framework Agreement. The Finance Leasing Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirement under the Listing Rules. In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Individual Agreement to be entered into pursuant to the Finance Leasing Framework Agreement may exceed three years, the Company has appointed us to explain why the Individual Agreement requires a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, pass the ordinary resolutions by way of poll to approve, among others, the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps. According to the Letter from the Board, Union Capital, JinChuang and their respective associates, are regarded as having a material interest in the transactions contemplated under the Finance Leasing Framework Agreement, and will therefore be required to abstain from voting on the relevant resolutions at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the three independent non-executive Directors, namely Mr. Liu Changxiang, Mr. Liu Xuewei and Mr. Jiao Jian, has been established to advise the Independent Shareholders as regards the terms of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with the requirements of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders as regards the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

During the past two years, save for the engagement in connection with the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, we had not been engaged by the Company for the provision of other services that would affect our independence. Apart from the normal professional fees for our services to the Company in connection with the engagement to act as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group and Nanshan Group or any of their respective substantial shareholders, directors or chief executives, or of their respective associates that could reasonably be regarded as relevant to our independence. We are independent under Rule 13.80 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, among others, the Finance Leasing Framework Agreement, the announcement of the Company dated 20 September 2019 (the "**Announcement**"), the annual report of the Company for the financial year ended 31 December 2018 (the "**2018 Annual Report**"), the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"), the prospectus of the Group dated 28 February 2019 (the "**Prospectus**"), the internal control policies governing the Finance Leasing Framework Agreement and the management accounts in relation to the unaudited results of the Group for the eight months ended 31 August 2019 (the "**Management Accounts**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the Management regarding the terms of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, the businesses and future outlook of the Group. We have taken reasonable steps to ensure that such information and statements, and any representation made to us, which we have relied upon in formulating our opinions, are true, accurate and complete in all material respects as of the Latest Practicable Date and the Shareholders shall be notified of any material changes, if any, as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of and reasons for entering into the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps. Except for its inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions in respect of the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, we have taken into consideration the following principal factors and reasons:

1 Background to, reasons for and benefits of entering into the Finance Leasing Framework Agreement and the transactions contemplated thereunder

1.1 Financial information of the Group

The Company is an investment holding company and the Group is principally engaged in provision of finance leasing and advisory services to customers in the healthcare, aviation and public infrastructure industries.

Set out below in Table 1 is certain financial information of the Group for the two financial years ended 31 December 2018 as extracted from the 2018 Annual Report, and for the six months ended 30 June 2019 as extracted from the 2019 Interim Report, respectively.

Table 1: Financial highlights of the Group

	For the six months ended 30 June		For the year ended 31 December	
	2019	**2018**	**2018**	**2017**
	(unaudited)	(unaudited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	142,395	175,134	358,061	308,747
(Loss)/profit for the period/year	(3,250)	19,128	40,598	36,576

	As at 30 June	As at 31 December	
	2019	**2018**	**2017**
	(unaudited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	1,951,664	2,643,744	3,113,653
Finance lease receivables	1,905,226	2,608,169	3,080,912
Current assets	1,839,417	1,568,526	1,649,837
Finance lease receivables	1,079,917	1,106,050	1,035,272
Bank balances	639,201	418,043	425,847
Total assets	3,791,081	4,212,270	4,763,490
Current liabilities	823,454	1,251,911	2,274,431
Net current assets/(liabilities)	1,015,963	316,615	(624,594)
Non-current liabilities	1,705,606	2,018,363	1,579,563
Net assets	1,262,021	941,996	909,496

For the year ended 31 December 2018

For the year ended 31 December 2018, total revenue of the Group was approximately RMB358.06 million, representing an increase of approximately 15.97% as compared to that of approximately RMB308.75 million for the year ended 31 December 2017. Based on the Annual Report 2018, such increase in revenue was mainly driven by (i) the Group's stable business development in 2018 and (ii) the increase in yield of finance lease segment brought by the new finance lease business entered into between the Group and its customers.

For the year ended 31 December 2018, the Group recognised profit for the year of approximately RMB40.60 million, representing an increase of approximately 10.99% as compared to that of approximately RMB36.58 million for the year ended 31 December 2017. Based on the Annual Report 2018, such improving performance was mainly due to the combined effects of the aforesaid increase of revenue of the Group as well as recognition of gain on foreign exchange against the recognition of loss on foreign exchange for the preceding year.

As at 31 December 2018, the Group recorded net current assets and net assets of approximately RMB316.62 million and approximately RMB942.00 million, respectively. The finance lease receivables of the Group accounted for approximately 88.18% of its total assets.

For the six months ended 30 June 2019

For the six months ended 30 June 2019, total revenue of the Group amounted to approximately RMB142.40 million, representing a decrease of approximately 18.69% from that of RMB175.13 million for the preceding corresponding period. Based on the 2019 Interim Report, the decrease in revenue was primarily due to lack of finance leasing business in the first half of 2019 and no advisory fee income was generated in the first half of 2019. As further advised by the Management, in the first half of 2019, through closely monitoring the market changes of the industry engaged, the Group timely adjusted its business strategy, proactively slowed down the pace of business development while giving priority to risk prevention and control, and strengthened the function of the project vetting committee of the Company in project selection so as to improve the level of asset management and reduce overall risk of assets, which led to the lack of finance leasing business in the first half of 2019.

For the six months ended 30 June 2019, the Group recognised loss for the period of approximately RMB3.25 million against profit for the period of approximately RMB19.13 million for the preceding corresponding period. Based on the 2019 Interim Report, such turnaround was mainly due to the combined effects of the aforesaid decrease in revenue, increase in one-off listing expense incurred and the sizable impairment allowance provided. If the non-recurring nature listing expenses for both periods was excluded, the Group would have recorded a profit for the period of approximately RMB6.85 million, representing a decrease of approximately 74.08% as compared to that of approximately RMB26.43 million for the preceding corresponding period.

As at 30 June 2019, the Group recorded net current assets and net assets of approximately RMB1,705.61 million and approximately RMB1,262.02 million, respectively. The finance lease receivables of the Group accounted for approximately 78.74% of its total assets. The decrease in portion as compared to that as at 31 December 2018 was mainly due to settlement of finance lease receivables and increase in allowance for impairment losses of finance lease receivables for the period.

1.2 Prospect of the Group

According to ("**The Guiding Opinions on Accelerating the Development of Finance Leasing Industry***")《國務院辦公廳關於加快融資租賃業發展的指導意見》promulgated in August 2015, it is one of the major objectives to speed up the development of finance leasing and actively promote the transformation and upgrading of the industry, as well as to enlarge the coverage of the business sectors and increase the penetration rate of finance leasing. According to ("**the Opinions on Simulating Healthy Development of Medical and Medicine Industry***") 《關於促進醫藥產業健康發展的指導意見》 issued in 2016, hospitals are encouraged to explore innovative financing methods including finance leasing to receive financial support. In response to ("**the Outline of Healthy China 2030***")《「健康中國2030」規劃綱要》issued by the State Council of the PRC in October 2016, which aims to increase healthcare service delivery capacity at all levels, hospitals are encouraged to upgrade their medical services. In view of the ongoing supportive policies, it is expected that the medical device finance leasing market in the PRC will further develop. Considering that finance lease of healthcare equipment has been a major contributor of the Group's total finance lease receivables, accounting for 60.36% and 71.32% as at 31 December 2017 and 2018, respectively, it is expected that the Group shall continue to benefit from the growing finance leasing market in the PRC.

1.3 Information of Nanshan Group

Nanshan Group is a company established in the PRC with limited liability, together its subsidiaries are a conglomerate with principal businesses encompassing aluminium, textile apparel, finance, aviation, real estate, healthcare, education and tourism.

The Company strategically focuses on its finance leasing segment in certain industries including but not limited to healthcare equipment, aviation and public infrastructures and had been providing finance leasing service relating to healthcare equipment, aviation and public infrastructures to Nanshan Group and its subsidiaries, which have substantial assets and reliable repayment capability for more than 5 years. The provision of Finance Leasing Service by the Group to Nanshan Group under the Finance Leasing Framework Agreement will provide the Group with a stable revenue and cashflow stream during the Effective Period which is in line with the strategic development of finance leasing business of the Group.

On 25 July 2016, Nanshan Leasing entered into a finance lease agreement with Shandong Nanshan International Flight Co., Ltd.* (山東南山國際飛行有限公司) in relation to the finance leasing of three light aircraft for a term of 60 months (the "**Shandong Nanshan Finance Lease Agreement**"). For further details of the Shandong Nanshan Finance Lease Agreement, please refer to the section headed "Connected Transactions – Continuing Connected Transaction Exempt From Independent Shareholders' Approval – 1. Shandong Nanshan Finance Lease Agreement" of the Prospectus. The transactions contemplated under the Shandong Nanshan Finance Lease Agreement represent the historical transactions between the Group and Nanshan Group.

Set out below is the historical revenue contribution of the transactions with Nanshan Group to the Group's total revenue for the three years ended 31 December 2018 calculated based on (1) the historical transaction amounts inclusive of the principal amounts and interest income; and (2) the historical transaction amounts exclusive of the principal amounts:

Table 2: The historical contribution of the transactions with Nanshan Group

	For the year ended 31 December 2016 *(RMB'000)*	**For the year ended 31 December 2017** *(RMB'000)*	**For the year ended 31 December 2018** *(RMB'000)*
Total revenue	307,000	321,000	358,000
Inclusive of the principal amounts and interest income/ Revenue contribution	462,000/150.5%	690,000/215.0%	247,000/69.0%
Exclusive of the principal amounts (i.e. interest income only)/Revenue contribution	39,000/12.7%	27,000/8.4%	2,800/0.8%

Set out below is the expected revenue contribution of the transactions with Nanshan Group contemplated under the Finance Leasing Framework Agreement and the Shandong Nanshan Finance Lease Agreement to the Group's total expected revenue for the years ending 2019, 2020, 2021 and 2022 calculated based on (1) the historical transaction amounts inclusive of the principal amounts and interest income; and (2) the historical transaction amounts exclusive of the principal amounts:

Table 3: The expected contribution of the transactions with Nanshan Group

	For the year ending 31 December 2019 *(Note 1)* *(RMB'000)*	For the year ending 31 December 2020 *(RMB'000)*	For the year ending 31 December 2021 *(RMB'000)*	For the year ending 31 December 2022 *(Note 2)* *(RMB'000)*
Expected total revenue	282,000	314,000	422,000	449,000
Inclusive of the principal amounts and interest income/Revenue contribution	5,000/1.8%	194,000/61.8%	387,000/91.7%	552,000/122.9%
Exclusive of the principal amounts (i.e. interest income only)/Expected revenue contribution	1,000/0.4%	63,000/20.1%	115,000/27.3%	132,000/29.4%

Notes:

1. Estimated on a pro-rata basis i.e., from the date of obtaining the Independent Shareholders' approval of the Finance Lease Framework Agreement at the EGM to 31 December 2019.

2. Estimated on a pro-rata basis i.e., from 1 January 2022 to the date being the three-year anniversary of such Independent Shareholders' approval mentioned in note 1 above.

As seen from the above and with reference to the section headed "**REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASING FRAMEWORK AGREEMNT**" in the Letter from the Board, we noted that (i) the Company has established a stable, long-term and trusted relationship with Nanshan Group, which is mutually beneficial and complementary to both the Group and Nanshan Group; (ii) the Group has also established and maintained long-term relationships with other independent major customers and it is expected that revenue generated from Independent Third Party customers will have a higher rate of increase or portion of contribution in the future as compared to the expected revenue generated from Nanshan Group, as seen from the overall decreasing investment amount for transactions with Nanshan Group (being the estimated principal amounts for transactions contemplated under Finance Leasing Framework Agreement of RMB700,000,000, RMB700,000,000 and RMB800,000,000 for each of the years ending 31 December 2020, 2021 and 2022, respectively) which accounted for approximately 35.0%, 28.0% and 29.6% of the total expected investment amount for finance leasing business of the Group (being the estimated principal amounts for all the transactions contemplated under finance leasing business of RMB2,000,000,000, RMB2,500,000,000 and RMB2,700,000,000) for each of the years ending 31 December 2020, 2021 and 2022, respectively; (iii) the Group has adopted various measures (including internal control procedures) in mitigating customer concentration risks including the plan to actively expand its sales team to source new customers and diversify its customer base, as well as the continuous marketing and exposure efforts of the Group; (iv) in view that only the portion of interest income would be recognised as revenue of the Group but not the principal amounts of the lease, the expected revenue generated from Nanshan Group are expected to contribute as to approximately 0.4%, 20.1%, 27.3% and 29.4% of the Group's total expected revenue for the year ending 31 December 2019, 2020, 2021 and 2022, respectively, which are all less than 30% with an average of less than 20% of the Group's total expected revenue throughout the Effective Period; and (v) the Group will suspend the provision of Finance Leasing Service to Nanshan Group in the event that the expected revenue contribution of Nanshan Group exceeds 30% to ensure that the Company will not have overly reliance on Nanshan Group, we are of the view that the Company have sufficient and effective internal control procedures adopted to prevent undue reliance and would not be unduly reliant on Nanshan Group under the Finance Leasing Framework Agreement.

Taking into account, (i) macro policies and measures adopted by the PRC government which are in favour to the development of finance leasing business and in particular the medical care industries; (ii) the provision of Finance Leasing Service is in the ordinary and usual course of business of the Group; (iii) the Group will receive a stable revenue stream from the provision of Finance Leasing Service which is in line with strategic development plan of the Group; and (iv) it is unlikely that the Group would be unduly reliant on Nanshan Group in view of the expansion plan of the Group and market growth of the finance lease industry, we are of the view that the entering into of the Finance Leasing Framework Agreement and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole.

2. Principal terms of the Finance Leasing Framework Agreement and the transactions contemplated thereunder

On 20 September 2019, the Company entered into the Finance Leasing Framework Agreement with Nanshan Group, pursuant to which the Group agreed to provide Finance Leasing Service to Nanshan Group. Set out below is a summary of principal terms of the Finance Leasing Framework Agreement.

Subject of the transaction	:	The Company will provide Finance Leasing Service in relation to the Leased Assets by way of, including but not limited to,

(i) sale-leaseback service, the Group will purchase the Leased Assets from Nanshan Group, and then the Group will lease such Leased Assets back to Nanshan Group for an agreed term and will receive the rental fees on a periodic basis and the refundable security deposit (if applicable); and

(ii) direct finance leasing service, the Group will purchase the Leased Assets from the relevant supplier upon the instructions of Nanshan Group, and then the Group will lease such Leased Assets to Nanshan Group for an agreed term and will receive the rental fees on a periodic basis and the refundable security deposit (if applicable).

The rental fees to be received by the Group for the leasing of the Leased Assets to Nanshan Group represent the principal amount and the interest income.

Leased Assets	:	Under both sale-leaseback service and direct finance leasing service, the ownership of the Leased Assets will be vested in the Group throughout the lease period. Generally speaking, upon expiry of the lease period, the ownership of the Leased Assets will be vested in Nanshan Group.
Duration	:	Three years
Separate Individual Agreements	:	With respect to the provision of Finance Leasing Service, the Group and the relevant companies of Nanshan Group will enter into separate Individual Agreements pursuant to the Finance Leasing Framework Agreement and the major terms and conditions contemplated thereunder shall be no less favourable to the Group than the same offered to Independent Third Parties for comparable finance leasing service.
Contract period	:	The contract periods of the Individual Agreements with respect to Finance Leasing Service are expected to range from three to eight years, depending on the type of Leased Assets involved. The Individual Agreements may have contract periods longer than the Effective Period. The Individual Agreements duly executed shall remain to have full force and effect for their respective contract periods even if the Finance Leasing Framework Agreement is expired or terminated and is not renewed.

Interests and refundable security deposit	:	The interest rate and refundable security deposit to be agreed for the Finance Leasing Service shall be fair and reasonable and on normal commercial terms or better. The refundable security deposit may be required based on the size of the finance lease, lessee's credit history and financial conditions, and normally accounts for approximately 1% to 5% of the investment amount of the purchase price of the relevant Leased Assets, subject to the parties' negotiations. The refundable security deposit is refundable to Nanshan Group upon the expiry of the relevant Individual Agreement. In particular, when determining the effective interest rate, the Group shall make reference to the following non-exhaustive factors: (i) the benchmark lending rates published by PBOC. The finance department of the Company will obtain such benchmark lending rates every time before entering into the Individual Agreements;

(ii) the secured lending rate for the borrowings granted to Nanshan Group by financial institutions. Such secured lending rates will be obtained by the finance department of the Company through verbal and written communications with Nanshan Group during business negotiations and discussions. The Company will use its best endeavours to obtain such secured lending rates every time before entering into the Individual Agreements;

(iii) in the event that the Group is unable to reasonably obtain the relevant information in relation to the secured lending rate mentioned in (ii) above, the funding costs, the funding costs (i.e. the costs of borrowing of the Group) incurred by the Group at the time of entering into of the relevant Individual Agreement;

(iv) the quotations (which will be obtained by the finance department of the Company every time before entering into the Individual Agreements) for similar finance leasing services offered by the Company to at least two Independent Third Party customers, so as to ensure that the relevant effective interest rate of the Finance Leasing Service provided by the Company to Nanshan Group shall not be lower than the average effective interest rates offered to its other Independent Third Party customers at the prevailing time; and/or

(v) the risk premium of Nanshan Group contemplated within the range from approximately 1% to 4%, which is dependent on the financial conditions, credit history, size of finance lease, industry and scale of business of the lessee

Further, when coming up with the Nanshan Interest Rate, the management team of the Company, together with the relevant departments of the Company including the finance department and the asset management department will discuss and deliberate the above non-exhaustive factors in an integrated way with the following considerations:

(1) the benchmark lending rates published by PBOC is a representative indicator of the applicable interest rates given the economic and market condition in the PRC at the material time, and the Nanshan Interest Rate shall be higher than the PBOC benchmark lending rates in order for the Company to reasonably profit from the provision of the Finance Leasing Service;

(2) the secured lending rate for the borrowings granted to Nanshan Group by financial institutions is a useful information for the Directors to negotiate a competitive Nanshan Interest Rate, and the Nanshan Interest Rate shall be higher than such secured lending rate in order for the Company to ensure that the former is not undervalued;

(3) the funding costs shall not be higher than the Nanshan Interest Rate in order to ensure that the Company will not incur loss out of the provision of the Finance Lease Service;

(4) the quotations for similar finance leasing services offered to at least two Independent Third Parties act as a reference to market rate. The Nanshan Interest Rate shall be higher than such quotations in order to ensure that it is no less favourable than to Independent Third Parties; and

(5) the risk premium of Nanshan Group, which includes evaluation of the business and financial performance of Nanshan Group at the material time.

2.1 Assessment on the principal terms of the Finance Leasing Framework Agreement

In assessing the fairness and reasonableness of the principal terms of the Finance Leasing Framework Agreement, we have obtained and reviewed the historical transactions entered into between the Group as finance lease service provider and (i) Nanshan Group and/or its subsidiaries; and (ii) Independent Third Parties. However, among the historical agreements provided by the Company, we noticed that the transactions contemplated thereunder with Nanshan Group and/or its subsidiaries and Independent Third Parties differ in terms of (i) usage and/or quality and/or scale of the underlying leased assets; and (ii) transaction periods which reflect the then market conditions, which may not be directly comparable to each other. Accordingly, we consider that there are no historical transactions of the Group that allow apples-to-apples comparisons of effective interest rates under the transactions entered between (i) the Group and Nanshan Group; and (ii) the Group and Independent Third Parties. Notwithstanding the aforesaid, we have alternatively assessed the pricing basis of the effective interest rate by reviewing 10 sets of historical agreements of the Group ("**Historical Agreements**") which covered leased assets within the healthcare, aviation and public infrastructure industries for the three years ended 31 December 2014, 2015 and 2016, of which 5 out of 10 Historical Agreements were entered into with connected persons and the remaining 5 with Independent Third Parties. Details of the principal terms under the Historical Agreements are set out below:

Table 4: Summary of the Historical Agreements

Lessee	Date of agreement	Type of leased assets	Requirement of refundable security deposit	Lease term
Nanshan Group	2014/06/04	Public infrastructure	No	1 year
Nanshan Group	2014/06/26	Public infrastructure	No	1 year
Independent Third Party	2014/12/29	Public infrastructure	5% of the lease principal	3 years
Independent Third Party	2015/06/01	Public infrastructure	2% of the lease principal	3 years
Independent Third Party	2016/02/01	Aviation	3% of the lease principal	5 years
Independent Third Party	2016/04/13	Healthcare equipments	4% of the lease principal	4 years
Nanshan Group	2016/05/24	Public infrastructure	5% of the lease principal	5 years
Independent Third Party	2016/05/30	Healthcare equipments	5% of the lease principal	5 years
Nanshan Group	2016/06/06	Public infrastructure	No	3 years
Nanshan Group	2016/06/06	Public infrastructure	No	3 years

Based on our review, we noted that the determination basis of the effective interest rate under the Historical Agreements are not explicitly disclosed. Upon enquiry with the Management, we understand that the effective interest rate under each of the Historical Agreements were negotiated on a case-by-case basis with reference to (i) the prevailing market rate as reflected by the benchmark lending rate published by PBOC; (ii) a variable risk premium which is determined on a case-by-case basis depending on certain factors including the industry and scale of business in which the individual lessee operates, as well as their financial condition and credit history and the size of the finance lease and (iii) the funding cost of the Company. We noted that the determination basis of the prevailing market interest rate as respectively disclosed under the Historical Agreements, being with reference to the benchmark lending rates published by PBOC, are consistent with that under the Finance Leasing Framework Agreement. Also, we noted that the requirement for security deposits are not uncommon among the Historical Agreements, which were required having considered the risk premium of the individual lease. In this connection, it is noted that the determination basis of the effective interest rate of the Individual Agreements is substantially similar to that of the Historical Agreements. Accordingly, we are of the view that the determination basis of the effective interest rate pursuant to the Finance Leasing Framework Agreement is fair and reasonable.

Further, we understand that the principal amounts of the Leased Assets under the Finance Leasing Framework Agreement, being the negotiated purchase price for the Leased Assets, shall be determined with reference to the market value of the Leased Assets at the time of entering into the respective finance leases according to the amount stated on the invoices for the purchase of such assets and an agreed percentage of such purchase price. For sale-leaseback service under the Finance Leasing Service, the purchase price shall be reasonable and shall not be higher than the net book value of the Leased Assets, while for direct finance leasing service under the Finance Leasing Service, the Company typically pays 60% to 90% of the purchase prices directly to the equipment supplier who is Independent Third Party and Nanshan Group will be responsible for the outstanding balance. Based on our review of the Historical Agreements, we noted that the principal amounts of the leased assets with respect to direct finance leasing are determined based on an agreed percentage of the aggregate market value or amount stipulated under the purchase invoices of the underlying leased assets in the range of approximately 65.29% to 74.75% and the proportion of which fall within the range that the Company typically pays to the independent equipment suppliers. Upon enquiry with the Management, we understand that such agreed percentage of the market value of the underlying leased assets under the Historical Agreements as the lease principal were determined taking into consideration the purchase price, liquidity and physical conditions of the leased equipment and the estimated value when reselling to third party, which is in line with the market practice. We understand that under a typical finance lease transaction, it is a normal industry practice that the lessor would pay a majority portion of the leased equipment price as the principal amounts of the finance lease. Given that the determination basis of the principal amounts of the leased assets under the Finance Leasing Framework Agreement, including the determination basis of agreed percentage based on market value of the leased assets, are consistent with the Group's practice and in line with market practice, we are of the view that the determination of principal amounts of leased assets are fair and reasonable.

Notwithstanding the absence of directly comparable finance lease transactions between the Group and Independent Third Parties in the past, the finance department of the Company shall, at the time of entering into the Individual Agreements, obtain quotations then offered by the Company to Independent Third Parties for similar leasing services in terms of the type and industry of the underlying leased assets, in order to ensure that the terms offered to Nanshan Group are no less favourable to the Group than those offered to Independent Third Parties for comparable finance leases.

In light of that (i) the benchmark lending rate published by PBOC, being a representative indicator of the applicable interest rate, reflects the economic and market condition in the PRC at the material time; (ii) the secured lending rate for the borrowings granted to Nanshan Group by financial institutions is a useful reference for the Directors to negotiate a competitive but not undervalued interest rates to be offered to Nanshan Group; (iii) quotations for similar finance leasing services will be obtained by the finance department of the Company from at least two Independent Third Parties which serves as a reference to ensure that the same terms to be offered to Nanshan Group will be no less favourable to the Group than to Independent Third Parties; and (iv) it is reasonable to take into consideration the risk premium of the Nanshan Group given its financial condition and other factors, and request the payment of refundable security deposits (if applicable), we are of the view that the determination of the final effective interest rate pursuant to the Finance Leasing Framework Agreement is fair and reasonable.

Having considered that (i) the determination basis of principal amounts, interest rate and final effective interest rate to be charged to Nanshan Group and/or its subsidiaries and other principal terms is consistent with the Group's normal practice with respect to provision of finance lease; (ii) the Directors confirmed that the terms to be offered to Nanshan Group and/or its subsidiaries shall be no less favourable to the Group than those to be offered to Independent Third Parties for comparable finance leasing services in terms of the type and industry of the underlying leased assets; and (iii) various internal control measures would be put in place to ensure compliance with the terms and conditions under the Finance Leasing Framework Agreement, details of which are set out in the section headed "**INTERNAL CONTROL MEASURES AND RISK MANAGEMENT**" in the Letter from the Board, we consider that the terms of the Finance Leasing Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2.2 Duration of the Individual Agreements

The contract periods of the Individual Agreements with respect to Finance Leasing Service are expected to range from three to eight years, depending on the type of Leased Assets involved. We have discussed with the Board the rationale for such duration. As advised by the Board, the Leased Assets included healthcare equipment, engineering vehicles or equipment, equipment used in power stations as well as carriers such as aircraft and vessels for transport of goods and/or passengers, which generally have useful lives ranging from 5 to 20 years and it is the normal practice to set the lease term with reference to useful lives of the leased assets. Also, the Individual Agreements for the Leased Assets, in particular carriers for transport of goods and/or passengers, typically involve a relatively larger financing amount with relatively longer repayment term of approximately eight years. As such, it is considered reasonable to set the finance lease with a longer lease term. We have also reviewed the Prospectus and noted that majority of the then outstanding and newly signed finance lease agreements entered into by the Group, being in aggregate of 77 out of 89, 88 out of 91, 126 out of 127 and 118 out of 118, respectively, for the three years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018 ranged from three years to ten years. Accordingly, it has been a normal practice of the Group to engage in provision of finance leasing service for duration of more than three years.

We have also made an assessment over the contract periods in respect of the Finance Leasing Service provided by the Group to Nanshan Group, by conducting a search from the public domain to identify and review the announcements of all finance lease arrangements entered into by companies listed on the Stock Exchange in the past three months before the date of the Finance Leasing Framework Agreement (i) with principal amounts of more than RMB60 million, being the average principal amounts of finance leases entered between the Group and Nanshan Group and its subsidiaries as well as Independent Third Parties from 2014 to 2018; (ii) with contract periods of more than three years; and (iii) with types of leased assets comparable to the Leased Assets, being healthcare equipment, engineering equipment, equipment used for wind power, thermal power, hydraulic power, photovoltaic power and waste power generation, etc (the "**Selection Criteria**"). On a best-effort basis, we have identified an exhaustive list of 7 comparable transactions which fall within the Selection Criteria (the "**Comparables**"). We are of the view that such review period provides us an adequate information of the recent terms agreed under finance leases with size comparable to that of the Group. Details of the Comparables are set out below:

Table 5: Summary of the Comparables

Company Name (Stock Code)	**Announcement date**	**Assets subject to finance lease**	**Principal amount** (Approximate) *(RMB)*	**Contract periods** (Approximate) *(Years)*
Concord New Energy Group Limited (182)	2019/08/26	Wind power equipment	250.00 million	12.00
China Investments Holdings Limited (132)	2019/08/19	Hydraulic mechanical domestic water incinerator, electricity generation unit and other equipment for waste power generation	100.00 million	3.00
Concord New Energy Group Limited (182)	2019/07/10	Wind power equipment	383.49 million	12.00
China Development Bank Financial Leasing Co., Ltd (1606)	2019/06/26	Photovoltaic and wind power generation equipment	1,120.00 million	4.83
Concord New Energy Group Limited (182)	2019/06/18	Wind power equipment	216.49 million	9.00
China Nuclear Energy Technology Corporation Limited (611)	2019/06/14	Photovoltaic power generation station	90.30 million	5.00

Company Name (Stock Code)	Announcement date	Assets subject to finance lease	Principal amount (Approximate) *(RMB)*	Contract periods (Approximate) *(Years)*
Beijing Enterprises Clean Energy Group Limited (1250)	2019/06/13	Photovoltaic power generation Equipment	70.54 million	8.00
Maximum				12.00
Minimum				3.00
Average				7.69
The Company				3 to 8

As illustrated in the Table 5, during the period under review, contract periods of the finance leases ranged from approximately 3 years to 12 years (the "**Comparable Range**"), with an average contract periods of approximately 7.69 years. Taking into account that (i) the range of the contract periods in respect of the Finance Leasing Service are within the Comparable Range; and (ii) majority of finance lease agreement entered into by the Group in the past ranged from three to ten years, and (iii) the Leased Assets are expected to have useful lives ranging from 5 to 20 years, we consider that it is reasonable for duration of Individual Agreement to require a longer period and it is a normal business practice for agreements of this type to be of such duration.

3. The proposed Annual Caps for the Finance Leasing Framework Agreement

Set out below is the breakdown of the proposed Annual Caps (being the sum of the principal amount and the interest income for the entire lease period of the finance leases entered into during the year) for the Effective Period under the Finance Leasing Framework Agreement. The refundable security deposit (where applicable) is not included as it is refundable upon expiry of the relevant Individual Agreement.

	Principal amounts *(RMB'000)*	Interest income *(RMB'000)*	Annual Caps *(RMB'000)*
During the period from the date of obtaining the Independent Shareholders' approval of the Finance Leasing Framework Agreement to 31 December 2019	300,000	81,000	381,000
For the year ending 31 December 2020	700,000	155,000	855,000
For the year ending 31 December 2021	700,000	155,000	855,000
During the period from 1 January 2022 to the date being the third-year anniversary of the Independent Shareholders' approval of the Finance Leasing Framework Agreement	800,000	177,000	977,000

As stated in the Letter from the Board, in arriving at the proposed Annual Caps, the Directors have considered the following factors:

(i) the principal amounts expected to be provided to and utilised by Nanshan Group pursuant to the Individual Agreement to be entered into during the Effective Period, together with the Nanshan Interest Rate;

(ii) the development plan of Nanshan Group and the demand for Finance Leasing Service;

(iii) the nature, estimated value and expected lifespan of the Leased Assets;

(iv) the ability of the Group to provide Finance Leasing Service to Nanshan Group at the material time; and

(v) the overall economic environment and market condition when entering into the Finance Leasing Framework Agreement.

The management team of the Company, together with the relevant departments of the Company including the finance department, has reviewed the above factors, taken into account the effect of provision of Finance Leasing Service on the liquidity position, working capital of the Company and the repayment ability of the Company with respect to the financing from bank borrowings as a whole, before determining the Annual Caps.

When assessing the reasonableness of the proposed Annual Caps, we have discussed with the Management on the basis and assumption underlying the projection thereof. The Annual Cap for the year ending 31 December 2019 has been prepared based on the assumption that Independent Shareholders' approval of the Finance Leasing Framework Agreement would be obtained late this year, which represents the expected transaction amounts for the month of December 2019, thereby resulted in a relatively smaller amount. We have reviewed the computation breakdown of the Annual Caps provided by the Management and noted that each of the Annual Caps is the aggregate sum of (i) the principal amounts for the entire lease period of finance lease expected to be provided to Nanshan Group in each of the respective years; (ii) the expected interest income from potential transactions with Nanshan Group for finance lease of existing types of assets within the healthcare, aviation and public infrastructure industries currently engaged by the Group; and (iii) the expected interest income from potential transactions with Nanshan Group with respect to finance lease of vessels and related equipment, being a new type of carriers targeted by the Group within the public infrastructure industry which is expected to commence in 2020, where the expected interest income from finance lease transaction is derived based on (a) the entire lease term of the respective Leased Assets; (b) the principal amounts of loans to be offered by the Group to Nanshan Group; and (c) the expected Nanshan Interest Rate. With respect to the principal amount component of the Annual Caps, having reviewed the breakdown of the Annual Caps, we noted that such principal amount components are the principal amounts of the finance leases expected to be provided by the Group to Nanshan Group for each of the years ending 31 December 2019, 2020, 2021 and 2022, respectively.

In assessing the fairness and reasonableness of the Annual Caps, we have taken into account the following factors:

3.1 The finance leasing to be provided to Nanshan Group for the two years ending 31 December 2019 and 2020

We noted that the expected income from the provision of finance leasing to Nanshan Group is the aggregate of the principal amounts and the interest payments to be received by the Group throughout the entire lease term of the finance lease expected to be entered in that particular year. In respect of the expected income from the finance leasing, we have primarily reviewed (i) the principal amounts of loans expected to be provided by the Group to Nanshan Group; (ii) the expected effective interest rate to be charged to Nanshan Group; and (iii) the expected leased term of the Leased Assets, our analysis of which is set out as follows.

3.1.1 Principal amounts of loans expected to be provided by the Group to Nanshan Group

In assessing the fairness and reasonableness of the expected amounts of loans to be provided by the Group to Nanshan Group under the Finance Leasing Framework Agreement for the Effective Period, we have primarily taken into consideration of (i) the expected funding requirement of Nanshan Group; and (ii) the financial capability of the Group for provision of the Finance Leasing Service.

Expected funding requirement of Nanshan Group

According to the Management, when estimating the capital expenditure funding requirement of Nanshan Group, the Group, being currently the only internal finance leasing service provider of Nanshan Group, has approached and discussed with Nanshan Group regarding its future development plan and has formulated and provided finance leasing proposals/quotations to Nanshan Group in relation to finance lease of healthcare equipment, engineering vehicles and vessels for transport of goods for the period from 2 December 2019 to 31 December 2019 and the year ending December 2020 (each the "**Relevant Period**"). We have reviewed the relevant proposals and quotations and noted that the expected amounts of loans to be provided to Nanshan Group under the Annual Caps for each of the Relevant Period fall within the total expected capital requirement of Nanshan Group for each of the respective Relevant Period.

On the other hand, in evaluating the future capital requirement of Nanshan Group, we have performed public research on the official website of Nanshan (*http://www.nanshan.com.cn*) and noted that Nanshan Group has been investing in a wide range of industries across aluminum production, textile apparel, financial service, aviation, real estate development, healthcare, education and tourism. Moreover, we understand from the Management that a substantial capital expenditure will be invested by Nanshan Group with respect to the ("Alumina Project in Indonesia*")《印尼氧化鋁項目》, which is an industrial park in Indonesia with respect to the manufacturing of Alumina (the "**Indonesia Project**"), for building the basic infrastructure and ancillary equipment including but not limited to vessels for the transport of goods, thermal power plants, electricity generation units and ancillary equipment for waste water recycling and fumes treatment. The Indonesia Project is expected to commence construction in 2020. With reference to the interim report of Shandong Nanshan Aluminum Co., Ltd ("**Nanshan Aluminum**") (stock code: 600219.SHA), a subsidiary of Nanshan Group, for the six months ended 30 June 2019, the total capital requirement of the Indonesia Project will be approximately RMB5,685.39 million and Nanshan Aluminum is seeking for external financing, which implied a potential huge demand of finance leasing service for the Indonesia Project. Also, with reference to the official website of Nanshan Group, Nanshan Group announced on 7 September 2019 that it has strategically cooperated with CNOOC Gas & Power Co., Ltd in another project "Longkou Nanshan LNG Receiving Station Phase I Project*"《龍口南山LNG接收站一期工程項目》in relation to the construction of tanks for liquified natural gas, wharf for parking vessels and ancillary equipment for liquefaction and delivery of natural gas. The expected capital investment of the project will be approximately RMB11 billion. Further, as advised by the Management, the Group was the only internal finance leasing service provider of Nanshan Group as at the Latest Practicable Date. In view of the aforesaid proposals and projects of the Nanshan Group, it is expected that the funding requirement of the Nanshan Group would be significant. Moreover, we understand that the Company and Nanshan Group have been negotiating and contemplating potential finance lease transactions to be entered during the year of 2020 in support of Nanshan Group's development plan. In this regard, we have obtained and reviewed the draft proposal and quotation sheets which have been presented to Nanshan Group setting out the proposed principal amounts, lease term, proposed interest rate and the underlying leased assets, as well as the schedule of repayment of the potential lease, among others. We noted that the aggregate principal amounts as stipulated under such proposal and quotations are consistent with the expected principal amounts to be provided by the Company to Nanshan Group in determination of the Annual Cap for the year ending 31 December 2020. Given that the expected demand of the Finance Leasing Service of Nanshan Group in determination of the Annual Caps for the Effective Period is well within the expected capital investment of the projects as mentioned above, and that the expected principal amounts to be provided to Nanshan Group are consistent with those being negotiated between Nanshan Group and the Company, we are of the view that the expected funding requirement of Nanshan Group in determination of the Annual Caps are justified, fair and reasonable.

Financial capability of the Group for provision of Finance Leasing Service

We have enquired into the Management regarding the financial capability of the Group and noted that as at the Latest Practicable Date, the Group has secured three banking facilities in the aggregate amount of approximately RMB2 billion which are all revolving in nature, with the respective maturity in January 2020, December 2020 and May 2022. As advised by the Management, the banking facilities are expected to be renewed at maturity. Based on previous experience and the credit history of the Group, the Company does not expect any difficulties arising in renewing the banking facilities. As confirmed by the Management, the interest rates to be charged under the Finance Leasing Framework Agreement will be higher than the interest rates under the aforesaid banking facilities of the Group. In addition, we have obtained and reviewed the Management Accounts of the Group and noted that the bank balances, together with the aggregate credit limits under the banking facilities offered to the Group, are higher than the total principal amount of loan expected to be offered to Nanshan Group and Independent Third Parties for the two years ending 31 December 2019 and 2020.

Accordingly, taking into consideration (i) the expected financing requirement of Nanshan Group for its projects which are capital intensive; (ii) the Group's measures on monitoring the level of reliance on Nanshan Group where the revenue contribution from Nanshan Group to the Group shall not exceed 30%; and (iii) that the Group is capable to provide the loan amount to Nanshan Group as estimated under the Annual Caps and its Independent Third Party customers based on its current bank balances and existing credit lines, we are of the view that the estimated loan amount to be offered by the Group to Nanshan Group for the determination of the Annual Caps for the two years ending 31 December 2019 and 2020 are fair and reasonable.

3.1.2 Expected effective interest rate under Individual Agreements

Based on the computation breakdown of the Annual Caps, we noted that an expected effective interest rate based on a duration of five-year term, being the estimated average lease term to be entered by the Group with Nanshan Group and/or its subsidiaries with reference to duration of historical finance lease transactions, under the Individual Agreement has been applied throughout the Effective Period. Pursuant to the estimation of the Annual Caps, the interest rate to be charged under the Individual Agreements may vary but on average is expected to achieve, respectively, an effective interest rate of approximately 11.50% for Finance Leasing Service in relation to existing businesses, being the healthcare equipment, aviation and public infrastructure finance leasing service (the "**Existing Leasing Service**") and approximately 11.00% for Finance Leasing Service in relation to vessels and related equipment finance leasing service (the "**Vessels Leasing Service**"), being a new industry targeted by the Group, during the Effective Period. We have reviewed the historical effective interest rates with respect to the provision of Existing Leasing Service to the Group's Independent Third Party customers from 2014 to 2018, and noted that the effective interest rate adopted by the Company for its Existing Leasing Service in determination of the Proposed Annual Caps is generally in line with the historical annual average effective interest rate, which ranged from approximately 9.67% to 11.39%. On the other hand, we noted that the Company has estimated the effective interest rate to its Vessels Leasing Service having considered the asset quality and expected risks associated to the provision of Vessels Leasing Service, as well as the lack of experience of the Group in provision of the Vessels Leasing Service to Nanshan Group and Independent Third Party customers. As advised by the Management, since the provision of Vessels Leasing Service is a new finance leasing service of the Group, in order to penetrate the new market, it is part of the Group's strategy to set a competitive effective interest rate for its Vessels Leasing Service to secure customers, taking into account all relevant factors including the prevailing market interest rate, the risk premium associated with the industry and the financial conditions of the individual lessees and the Company's borrowing costs. In this regard, we are of the view that the estimated effective interest rate in respect of Vessels Leasing Service is fair and reasonable.

3.2 Increment of Annual Caps for the two years ending 31 December 2021 and 2022

The Annual Cap for the year ending 31 December 2021 is equivalent to the Annual Cap for the year ending 31 December 2020, while the Annual Cap for the year ending 31 December 2022 represents an increase of approximately 14.27% from the Annual Cap for the preceding year, of which the interest income components of the Annual Cap for each of the years ending 31 December 2021 and 2022 represents an increase of nil and approximately 14.19% from the respective previous years. In respect of the determination of the Annual Caps for the two years ending 31 December 2021 and 2022, we have performed a search on the public domain on the future prospects of the finance leasing market in the PRC. We have reviewed a research report "Analysis on the prospect of finance leasing industry with respect to medical instruments in the coming 5 years*"《未來5年醫療器械融資租賃業發展前景探析》issued on the website of Shenzhen Financial Leasing Association on 19 March 2018. Shenzhen Financial Leasing Association is one of the renowned associations in relation to finance leasing industry and has cooperated with the state institution, Shenzhen Municipal Financial Regulatory Bureau, formulating "Shenzhen financial leasing industry self-discipline convention*"《深圳市融資租賃行業自律公約》on 30 August 2019, to coordinate the finance leasing industry. According to the research report, the expected market size of finance leasing service with respect to medical instruments in the PRC will reach approximately RMB232.2 billion while the expected CAGR of which will be approximately 15.92% throughout the five years ending 2022. Notwithstanding the expected market growth of finance leasing market in the PRC, considering that it may take time for the Company to initiate potential finance lease transactions with its Independent Third Party customers in order to control the expected revenue contribution from Nanshan Group to be within the threshold of 30% of the Group's total expected revenue in the future years, the Company has determined the Annual Cap for the year ending 31 December 2021 to be equivalent to that for the year ending 31 December 2020, which we consider fair and reasonable. In view of the expected continual increase of expected revenue from provision of finance leasing service to Independent Third Party customers as a result of the Group's active sales, marketing and exposure efforts as well as the expected market growth, we are of the view that the increment of Annual Cap for the year ending 31 December 2022 is fair and reasonable.

Having considered the above factors and analysis, we are of the view that the determination of the Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

4. Internal control measures within the Group

As detailed in the Letter from the Board, various internal control measures will be adopted in connection with the Finance Leasing Framework Agreement including but not limited to the followings:

(i) The risk management team and relevant senior management of the Company will review the actual amount utilised in respect of the Annual Cap every three months;

(ii) The asset management department of the Company will review and evaluate the transaction volume conducted under the Company's finance leasing projects, with a focus on the transactions contemplated under the Finance Leasing Framework Agreement. In the event that there is a comparatively rapid increasing trend of the relevant transaction amount, or it is observed that the total amount is approaching the relevant Annual Cap, the asset management department will promptly inform the Management when 50% of the Annual Caps is utilised. The asset management department will promptly inform again when 75% of the Annual Caps is utilised and will monitor the utilisation rate of the relevant Annual Cap on a daily basis. Further, when 90% of the Annual Caps is utilised, the asset management department will promptly inform the Management again and the Directors will immediately suspend the provision of Finance Leasing Service to Nanshan Group, such that either to ensure that the transaction amounts will not exceed the relevant Annual Cap, or the Company will take applicable steps in order to comply with the relevant requirement of the Listing Rules;

(iii) The Company has established integrated internal control and risk management systems to identify various risks, formulate and improve its internal control policies, and implement, monitor and improve various responsive risk control measures throughout the Company's business operations. Under the Company's internal control procedures, the Company will be able to identify whether the proposed finance leasing projects involve Nanshan Group and if so, will require compliance with the established procedures with respect to project evaluation and approval by referencing to the remaining amount under the relevant Annual Caps before project approval to minimise the risks that the proposed transactions will exceed the relevant Annual Caps.

(iv) Under the internal control system of the Company, the Company will make sure that the proposed terms and conditions of the relevant Individual Agreements are consistent with the Finance Leasing Framework Agreement and shall not be less favourable to the Company than the finance leasing service of similar nature if provided to Independent Third Parties for comparable finance leases. Under the risk management system of the Company, the asset management department of the Company will closely monitor the transaction volume and promptly inform the Management as disclosed above in order to reduce the risks that the Annual Caps will be exceeded.

Further, pursuant to the Rules 14A.55 to 14A.59 of the Listing Rules, the implementation of the continuing connected transactions contemplated under the Finance Leasing Framework Agreement are subject to, among others, the following annual review requirements:

(a) the Independent Board Committee must review the continuing connected transactions every year and confirm in the annual report whether the transactions that have been entered into are in the ordinary and usual course of business of the Group; were on normal commercial terms or better; and were according to the Finance Leasing Framework Agreement and the Individual Agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole;

(b) the auditors of the Company must provide a letter to the Board of the Company confirming whether anything has come to their attention that causes them to believe the continuing connected transactions have not received the approval from the Board of the Company; were not entered into, in all material respects, in accordance with the Finance Leasing Framework Agreement and the Individual Agreements governing the transactions; and have exceeded the Annual Cap(s); and

(c) the Company must promptly notify the Stock Exchange and publish an announcement if the Independent Board Committee and/or auditors of the Company cannot confirm the matters set out in paragraph (a) and/or (b) respectively.

In view of the frequency of reviewing the actual amount utilised in respect of the Annual Caps every three months, considering that (i) it is a normal practice to take one to several months to commence a finance leasing project from initial project negotiations, conducting relevant due diligence and internal review to approval; and (ii) the Company receives rental fees under the relevant finance leasing agreements from the lessees on a monthly or quarterly basis, which are consistent with the terms of the Historical Agreements, we concurred with the Board and are of the view that the frequency of every three months is sufficient and reasonable.

Taking into account the above internal control measures, in particular, (i) the ongoing monitoring of the Finance Leasing Framework Agreement to ensure the terms offered to Nanshan Group and/or its subsidiaries thereunder are no less favourable to the Group than those offered to Independent Third Parties; and (ii) the respective annual reviews by external auditors of the Company and the independent non-executive Directors regarding compliance of the terms under the Finance Leasing Framework Agreement, we are of the view that the internal control procedures are sufficient and effective to ensure the Finance Leasing Framework Agreement are on normal commercial terms and no less favourable than the terms to be offered by the Group to Independent Third Parties, and there are adequate measures imposed by the Company to monitor the continuing connected transactions contemplated under Finance Lease Framework Agreement and the Annual Caps and thus are in the interests of the Company and Independent Shareholders as a whole.

5. Financial effects of the Finance Leasing Service

5.1 Earnings

From the date on which the Individual Agreement becomes effective, the Group will be entitled to recognise interest income from Nanshan Group, which will provide additional income contribution to the Group.

5.2 Net assets and gearing

When the Group commences the provision of the Finance Leasing Service contemplated under the Individual Agreement, the Directors consider that there will be no significant immediate change to the Group's net asset value given the assets will increase pursuant to the value of assets acquired under each finance lease while offset by the payment of proceeds to Nanshan Group.

Since the Group will be financing the Finance Leasing Service via its internal resources and bank borrowings, from the date when the Group commences provision of the Finance Leasing Service contemplated under the Individual Agreements, the Group's gearing will increase accordingly.

5.3 Liquidity

The Group intended to finance the Finance Leasing Service via its internal resources and bank borrowings. As a result, the cash and cash equivalents will decrease and while financing through bank borrowings, the level of borrowings and liabilities of the Group would increase and will have an impact on its liquidity. Due to the nature of the business of the Company and its existing business model, the Company has obtained and will obtain the necessary financing from financial institutions to meet its operation needs.

Shareholders should note that the above analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon the provision of the Finance Leasing Service contemplated under the Individual Agreement.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps, which are implemented in the ordinary and usual course of business of the Company, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed for approving the Finance Leasing Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the SFC and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the corporate finance advisory profession.

1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2018

Financial information of the Group (a) for the two years ended 31 December 2016 and 2017 are disclosed in Appendix I – Accountants' Report to the Prospectus; (b) for the year ended 31 December 2018 is disclosed on pages 44 to 128 of the annual report of the Company for the year ended 2018; and (c) financial information of the Group for the six months ended 30 June 2019 is disclosed on pages 15 to 48 of the Interim Report, all of which are published on the website of the Stock exchange at http://www.hkexnews.hk, and the website of the Company at http://www.iaf-leasing.com. Quick links to the Prospectus, the relevant annual report of the Company and the Interim Report are set out below:

(a) the Prospectus:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0228/ltn20190228033.pdf

(b) annual report of the Company for the year ended 31 December 2018:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0430/ltn20190430171.pdf

(c) Interim Report:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0830/ltn20190830039.pdf

2. INDEBTEDNESS

Debt securities

At the close of business on 16 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had no debt securities.

Borrowings

At the close of business on 16 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding unguaranteed bank borrowings of approximately RMB1,852,910,000, none of which were secured bank borrowings.

Mortgages and charges

At the close of business on 16 October 2019, the Group had no mortgage and charges on its assets.

Contingent liabilities

The Group did not have any material contingent liabilities as at the close of business on 16 October 2019.

Disclaimer

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not have any other loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding on 16 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the year ended 31 December 2018, the Group realised revenue from the continuing operations of approximately RMB358.1 million, representing a year-on-year increase of approximately 16.0%. For the year ended 31 December 2018, profit attributable to equity holders of the Company was approximately RMB40.6 million, representing a year-on-year increase of approximately 10.9%. For the year ended 31 December 2018, the Group's gross profit margin from the continuing operations was approximately 32.5%, representing an increase of 1.4 percentage points over the same period of 2017. As at 31 December 2018, total assets and total equity of the Group amounted to approximately RMB4.21 billion and approximately RMB940 million, representing a year-on-year decrease of approximately 11.6% and increase of approximately 3.3% respectively.

The Group will, in addition to steadily developing the existing business of the Company, strategically explore new business opportunities for the Group and step up its efforts to expand the finance leasing business of the Group to a larger scale. Further, the Group will through participating in domestic and overseas capital markets and leveraging applicable financial products, to obtain sufficient financing and bring new impetuses to the business development of the Group.

4. WORKING CAPITAL

After taking into account the Group's internal resources, the cash flows from the Finance Leasing Framework Agreement (including the cash outflow for the purchase of the Leased Assets), the presently available banking facilities, the Directors are of the opinion that the Group will have sufficient working capital to meet its present requirements for the next twelve (12) months from the date of this circular.

5. LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

The Group aimed to maintain stable funding sources and financing is arranged to match business requirements and cash flows. The financial leverage of the Group as at 31 December 2018 as compared to 31 December 2017 is summarised below:

	31 December 2018	**31 December 2017**
	RMB'000	*RMB'000*
Total indebtedness		
Current borrowings	724,377	1,547,269
Non-current borrowings	1,568,270	997,962
Current bonds issued	500,933	668,190
Non-current bonds issued	276,000	413,106
Sub-total	3,069,580	3,626,527
Total cash		
Bank balances and cash	391,270	425,827
Restricted bank deposits	26,773	20
Sub-total	418,043	425,847
Net debt	2,651,537	3,200,680
Total equity	941,996	909,496
Total assets	4,212,270	4,763,490
Financial leverage		
Net debt to total equity	2.8	3.5
Net debt to total assets	0.6	0.7
Current ratio	1.3	0.7

As at 31 December 2018, the Group had bank balances and cash of approximately RMB391 million (31 December 2017: approximately RMB426 million) and restricted bank deposits of approximately RMB27 million (31 December 2017: approximately RMB0.02 million) which were mainly denominated in US dollars and Renminbi. The decrease was mainly due to repayment of matured borrowings and bonds.

As at 31 December 2018, the Group's total indebtedness (being borrowings and bonds issued) amounted to approximately RMB3,070 million, of which approximately RMB1,225 million were repayable within twelve months from 31 December 2018 and approximately RMB1,845 million were repayable after twelve months from 31 December 2018. From 1 January up to the date of this circular, the Group obtained new bank borrowings amounted to approximately RMB350 million, of which approximately RMB350 million were repayable after twelve months from the date of this circular. All loans bore interest at market rates.

As at 30 June 2019, the gearing ratio, calculated based on dividing the total indebtedness by total equity and indebtedness as at the end of the six months ended 30 June 2019, was approximately 64.9% (30 June 2018: approximately 80.5%). Such decrease was mainly due to the decrease in the borrowings and bonds issued based on the scale of business.

As at the Latest Practicable Date, the Company has no financial instruments for hedging purposes, and has no foreign currency net investments that are hedged by currency borrowings and other hedging instruments.

6. CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to approximately RMB1,262 million as at 30 June 2019 (31 December 2018: RMB942 million). The increase was mainly due to the increase in share premium arising from the issue of new Shares during the global offering of the Shares which took place on the Listing Date. The Company did not issue any new Shares during the year. The issued share capital of the Company was approximately US$1,500 (represented by 1,500,000,000 ordinary shares).

7. CURRENCIES

The ongoing projects and daily operations of the Company are financed from various channels including but not limited to financing from financial institutions, bank factoring and overseas financings. The numerous and diversified type of financing, including both long-term and short-term financings, allows the Company to satisfy its long-term and short-term financing needs. With respect to overseas financing, the Company will try to avoid or reduce the currency risks in order to lower the funding costs of the Company. The Company's domestic financings are mainly denominated in Renminbi and bear fixed interest rate, and overseas financings are mainly denominated in US dollars and bear interest at floating rates.

8. SEGMENT INFORMATION

The Group mainly provides finance leasing and advisory services to three targeted industries in the PRC, including the health care, aviation and public infrastructure industries. The Group has strategically focused its businesses on these industries as it believes that they have tremendous growth potential.

(a) Health care

The health care industry is closely related to people's life. With the acceleration of the aging of population in the PRC, the increased demand for medical services and the allocation of resources guided by the government, the health care coverage under the new health care reform policy will expand, and the increasing affordability of the PRC citizens to pay for medical service will all stimulate the demand for medical services. Therefore, the Company expects that the health care industry will maintain rapid growth for a fairly long period of time.

The Group will use its endeavours to obtain the latest market information of the health industry, study and consider applicable investment strategies, actively seek the opportunities to conduct direct finance leasing business or sale-leaseback business in certain market segments of the health industry (including but not limited to equipment, consumables, medicines, manufacturing enterprises for health care products, as well as institutions for the provision of medical health management service such as high-end specialised hospitals, health clubs and elderly health centres).

(b) Aviation

The second largest aviation market in the world is in the PRC. As it is expected that the income of the PRC citizens will continuously increase, the consumption capacity of the PRC citizens will increase, the progress of urbanisation will speed up and cross-regional economic liaisons will get closer in the coming five years, it is possible that the PRC is able to replace the United States to contain the world's largest aviation market.

In addition, it is reported that the number of commercial carriers operated by airline companies in the PRC will increase with a compound annual growth rate (CAGR) of approximately 6.9% from 2013 to 2021, and expected to be approximately 5.7% from 2013 to 2031. The aircraft finance leasing market is considerably huge. Therefore, the Group treats the aircraft finance leasing market in the PRC as its major business expansion segment, and will continuously look for potential new clients through, among others, provision of high quality customer service to them.

(c) Public infrastructure

Urban infrastructure is the material basis for the normal operation and healthy development of cities. It plays a significant role in improving the living environment, enhancing the integrated carrying capacity of cities and increasing the efficiency of cities. It is clearly stated in the Opinions on Strengthening Urban infrastructure Construction《關於加強城市基礎設施建設的意見》issued by the State Council that the transformation and upgrade of urban infrastructure should be accelerated, and the standard of the urban infrastructure should be comprehensively upgraded, including strengthening the construction and transformation of urban pipeline networks and accelerating the construction of sewage and garbage disposal facilities.

Accordingly, it is not hard to find that there is a relatively large developing space of the public infrastructure market in the PRC. In the medium to long term business development, the Group will continue to develop the public infrastructure service projects (including but not limited to water supply, power supply, gas supply, heating, sewage treatment and smart city), for pursuit of economic gains and bringing social benefits at the same time.

The Directors believe that, leveraging on the rich social networking, knowledge and experience that the Company possesses in the health care, aviation and public infrastructure industries, these industries will provide the Group with great opportunities for its business expansion.

9. EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group employed 40 full time employees (30 June 2018: 43) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB6.7 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately RMB6.0 million). The Group recognises the importance of retaining high calibre and competent staff and continuing to provide remuneration packages to employees with reference to the performance of the Group, the performance of individual employees and prevailing market rates. Other type of benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

10. OUTLOOK AND PROSPECTS

In the second half of 2019, the gathering of uncertainties on global trading condition and geopolitics has raised the expectation on economic and money easing, which may lead to the opening of a cycle of rate cuts around the globe and an expected reasonable improvement in market liquidity.

The Group will implement various measures to apply effective identification and assessment on risk assets, to enhance the collectability on rentals, and to develop responsive measures and solutions in line with specific circumstances, aiming to safeguard the interests of the assets of the Company. The Company will make prudential analysis on the market environment and focus on projects within industries which are counter-cyclical or less cyclical. Meanwhile, the Company will keep running the project review process strictly as always, and continue to improve the risk management and internal control procedures, so as to ensure the long-standing and stable development of the Company.

11. FOREIGN EXCHANGE RISK

The Group receives majority of payments from customers in Renminbi and majority of the Group's revenue and costs are also denominated in Renminbi. The Group may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to holders of shares of the Company. The Group assets and liabilities are mainly denominated in Renminbi, US dollar and Hong Kong dollar. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests or short positions in the Shares, underlying Shares and debentures of the Company or associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered into the register referred to in that section, or which will be required, pursuant to Securities Dealing Code, to be notified to the Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange; were as follows:

Long positions in Shares/underlying Shares

Name of Director/ chief executive	Capacity/nature of interest	Number and class of Shares[1]	Percentage of interest in the Company
Mr. Li Luqiang (李璐強)	Interested in controlled corporation[2]	7,881,797 Shares (L)	0.52%
	Beneficial owner	501,000 Shares (L)	0.03%

Notes:

(1) The letter "L" denotes the person's long positions in the Shares.

(2) The Company is owned as to approximately 0.52% by RongJin Enterprise Management & Consulting Co., Ltd. RongJin is wholly-owned by Beijing Xinlian Rongjin Enterprise Management & Consulting Co., Ltd.* (北京信聯融金企業管理諮詢有限公司), which is in turn wholly-owned by Mr. Li Luqiang. Mr. Li Luqiang is also the sole director of RongJin. Mr. Li Luqiang is therefore deemed to be interested in the Shares in which RongJin is interested pursuant to the SFO.

Save as disclosed above, as at the date of this circular, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest and short position in the Shares, underlying Shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or to the Model Code of the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in Shares/underlying Shares

Name of Director/ chief executive	Capacity/nature of interest	Number and class of Shares(1)	Percentage of interest in the Company
Union Capital Pte. Ltd.	Beneficial owner	768,475,221 Shares (L)	51.23%
Ms. Sui Yongqing (2)	Interest in controlled corporation	768,475,221 Shares (L)	51.23%
Mr. Song Jianbo (3)	Interest of spouse	768,475,221 Shares (L)	51.23%
PA Investor (4)	Beneficial owner	147,997,120 Shares (L)	9.87%
Ping An of China Securities (Hong Kong) Company Limited(4)	Interest in controlled corporation	147,997,120 Shares (L)	9.87%
Ping An Securities Co., Ltd. (4)	Interest in controlled corporation	147,997,120 Shares (L)	9.87%
China Ping An Trust Co., Ltd. (4)	Interest in controlled corporation	147,997,120 Shares (L)	9.87%
Ping An Insurance (Group) Company of China, Ltd. (4)	Interest in controlled corporation	147,997,120 Shares (L)	9.87%

Notes:

(1) The letter "L" denotes the person's long positions in the Shares.

(2) Union Capital is wholly-owned by Ms. Sui Yongqing. Ms. Sui Yongqing is therefore deemed to be interested in the Shares in which Union Capital is interested pursuant to the SFO.

(3) Mr. Song Jianbo is the spouse of Ms. Sui Yongqing. Mr. Song Jianbo is therefore deemed to be interested in the Shares in which Ms. Sui Yongqing is interested pursuant to the SFO.

(4) PA Investor was established as a segregated portfolio company and 100% of the management shares in PA Investor are owned by Ping An of China Securities (Hong Kong) Company Limited (中國平安證券(香港)有限公司) which was, in turn wholly-owned by Ping An Securities Co., Ltd.* (平安證券股份有限公司), which was then owned by Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司) ("**Ping An Insurance**") as to approximately 40.96% and owned by China Ping An Trust Co., Ltd. (平安信託有限責任公司) as to approximately 55.7%, which was owned by Ping An Insurance as to approximately 99.9%. Ping An of China Securities (Hong Kong) Company Limited (中國平安證券(香港)有限公司), Ping An Securities Co., Ltd., China Ping An Trust Co., Ltd. and Ping An Insurance are therefore be deemed, or taken to be interested in the Shares in which PA Investor is interested pursuant to the SFO.

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective close associates has any interest in any business which competes or is likely to compete with the businesses of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group which was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. INTEREST IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the businesses of the Group.

7. MATERIAL ADVERSE CHANGE

On 30 August 2019, the Company published the Interim Report. As disclosed in the Interim Report, the Group recorded an unaudited loss of approximately RMB3,250,000 for the six months ended 30 June 2019 as compared to the unaudited profit of approximately RMB19,128,000 for the six months ended 30 June 2018.

As disclosed in the Interim Report, in the first half of 2019, against the backdrop of a complex and changing domestic and international economic environment as well as the continually deep propel of financial deleveraging across the country and more strict regulatory policy, the increasingly tightening financing environment had become a growing concern. Affected by the above situation, rental defaults occurred among its certain lessees, for which the Group prudently made provision for impairment loss of finance lease receivables under IFRS 9, Financial Instruments, resulting in significant impact on the interim results of the Group for the six months ended 30 June 2019.

Save as aforesaid, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up).

8. EXPERT AND CONSENT

The qualifications of the expert who has been named in this circular or has given opinions or advice which are contained herein are set out below:

Name	Qualification
Lego	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Lego did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Lego has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter or references to its name in the form and context in which they are included.

Lego did not have any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) a subscription and shareholders' agreement entered into between PA Investor, the Company, Union Capital, Beijing Baoxinlianjin, JinChuang, FuJin and RongJin dated 30 December 2015, pursuant to which PA Investor has subscribed for Series A Shares at a subscription price of US$ equivalent of RMB8.098532 per share;

(b) a subscription and shareholders' agreement entered into between CCB Investor, the Company, Union Capital, Beijing Baoxinlianjin, JinChuang, FuJin, RongJin and PA Investor dated 7 March 2017, pursuant to which CCB Investor agreed to subscribe for 8,731,913 Series B Shares at a total subscription consideration of US$9,999,998.98;

(c) a supplemental agreement to the PA Subscription and Shareholders' Agreement entered into between PA Investor, the Company, Union Capital, Beijing Baoxinlianjin, JinChuang, FuJin, RongJin and CCB Investor dated 13 April 2017, pursuant to which PA Investor has further subscribed for 1,130,020 Series A Shares at a subscription price of US$0.000001 per share;

(d) a supplemental agreement to the PA Subscription and Shareholders' Agreement dated 13 April 2017 entered into between PA Investor, the Company, Union Capital, Beijing Baoxinlianjin, JinChuang, FuJin, RongJin and CCB Investor, pursuant to which, among others, certain rights given to the PA Investor shall terminate immediately prior to an IPO (as defined therein);

(e) a supplemental agreement to the CCB Subscription and Shareholders' Agreement dated 4 December 2017 entered into between CCB Investor, the Company, Union Capital, JinChuang, FuJin, RongJin and PA Investor, pursuant to which the long stop date of the completion of a Qualified IPO (as defined therein) has been extended;

(f) a supplemental agreement to the PA Subscription and Shareholders' Agreement dated 20 December 2017 entered into between PA Investor, the Company, Union Capital, JinChuang, FuJin, RongJin and CCB Investor, pursuant to which the long stop date of the completion of a Qualified IPO (as defined therein) has been extended;

(g) a supplemental agreement to the PA Subscription and Shareholders' Agreement dated 31 December 2018 entered into between PA Investor, the Company, Union Capital, JinChuang, FuJin, RongJin and CCB Investor, pursuant to which the long stop date of the completion of a Qualified IPO (as defined therein) has been extended;

(h) a supplemental agreement to the CCB Subscription and Shareholders' Agreement dated 31 December 2018 entered into between CCB Investor, the Company, Union Capital, JinChuang, FuJin, RongJin and PA Investor, pursuant to which the long stop date of the completion of a Qualified IPO (as defined therein) has been extended;

(i) the Deed of Non-competition;

(j) the Deed of Indemnity; and

(k) the Hong Kong Underwriting Agreement.

10. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Group.

As disclosed in the voluntary announcement of the Company dated 12 July 2019, Nanshan Leasing filed a lawsuit against The Fourth People's Hospital of Shang Qiu Shi (商丘市第四人民醫院) ("**Shang Qiu Hospital**") for a total sum of RMB62,725,087.69, being, among others, the unpaid rental fee owed by Shang Qiu Hospital, the outstanding rental fee for the remaining term and other expenses incurred by Nanshan Leasing under the relevant finance leasing agreement (the "**Agreement with Shang Qiu Hospital**"). As at the Latest Practicable Date, the Company has received RMB14,096,991.30 from Shang Qiu Hospital.

In addition, as further disclosed in the voluntary announcement of the Company dated 1 November 2019, after negotiations and mediation among the parties, the Court endorsed and issued the civil mediation document (民事調解書) (the "**Mediation Document**") on 28 October 2019, which was served on Shang Qiu Hospital on 28 October 2019 as well (the "**Effective Date**"). Pursuant to the Mediation Document:

(1) within three (3) days from the Effective Date, Shang Qiu Hospital shall pay Nanshan Leasing the following:

(a) RMB3,068,913, being the unpaid rental fee;

(b) RMB874,714, being the overdue fine;

(c) RMB200,000, being the relevant fees and expenses incurred due to the realisation of creditor's right (實現債權); and

(d) RMB177,712.5, being the reimbursement of the case application fee already paid by Nanshan Leasing.

(2) Shang Qiu Hospital shall pay Nanshan Leasing the outstanding rental fee for the remaining term by quarterly instalment of RMB3,068,913 from 20 November 2019, which shall be fully paid by 20 November 2022; and

(3) in case of default, Nanshan Leasing shall be entitled to demand Shang Qiu Hospital for the immediate payment of the entire outstanding rental fee plus penalty.

Further, as disclosed in the voluntary announcement of the Company dated 4 September 2019, Nanshan Leasing filed a lawsuit against The People's Hospital of Ne He (訥河市人民醫院) ("**Ne He Hospital**") for a total sum of RMB78,896,862.82, and Nehe City Investment Co., Ltd. ("**Ne He Investment**") for holding joint liability for the above outstanding total sum, being, among others, the unpaid rental fee owed by Ne He Hospital, the outstanding rental fee for the remaining term and other expenses incurred by Nanshan Leasing under the relevant finance leasing agreement (the "**Agreement with Ne He Hospital**") and the relevant guarantee agreement entered into between Nanshan Leasing and Ne He Investment.

11. GENERAL

(a) The company secretary of the Company is Ms. Li Sin Ching, who is a chartered secretary and an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(b) The Company's registered office is at Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands. The principal place of business in Hong Kong is at Unit 2602, 26th Floor, One Hennessy, No. 1 Hennessy Road, Wan Chai, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) Except for the names in Chinese, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours except on Saturday, Sunday and public holidays at the office of the Company in Hong Kong at Unit 2602, 26th Floor, One Hennessy, No. 1 Hennessy Road, Wan Chai, Hong Kong, for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the Prospectus;

(c) the annual report of the Company for the year ended 31 December 2018;

(d) the Interim Report;

(e) the written consent as referred to under the section headed "Expert and Consent" in this Appendix;

(f) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(g) the Finance Leasing Framework Agreement; and

(h) this circular.

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.
国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of International Alliance Financial Leasing Co., Ltd. (the "**Company**") will be held at Unit 4902, 49th Floor, Block C of Beijing Yintai Office Tower, No. 2 Jianguomenwai Street, Chaoyang District, Beijing, The People's Republic of China on Tuesday, 17 December 2019 at 10 a.m. or any adjournment of such meeting for the purposes of considering and, if thought fit, passing the following resolutions, with or without modifications, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

"THAT

(1) the finance leasing framework agreement entered into between the Company and Nanshan Group Co., Ltd.* (南山集團有限公司) ("**Nanshan Group**") dated 20 September 2019 (the "**Financial Leasing Framework Agreement**") in relation to the provision of the relevant finance leasing service by the Company to Nanshan Group for a term of three (3) years from the date of passing of this resolution (a copy of which has been produced to the EGM marked "A" and initialed by the Chairman of the EGM for the purpose of identification), the transactions contemplated thereunder as well as the relevant annual caps be and are hereby approved, confirmed and ratified; and

(2) each of the directors of the Company be and is hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents and take all steps which may be in their opinion necessary, desirable or expedient to implement and/or give effect to the terms of the Finance Leasing Framework Agreement and the transactions contemplated thereunder."

By order of the Board
International Alliance Financial Leasing Co., Ltd.
Li Luqiang
Executive Director and chief executive officer

Hong Kong, 2 December 2019

* *For identification purpose only*

Principal place of business in Hong Kong:
Unit 2602, 26th Floor
One Hennessy
No. 1 Hennessy Road
Wan Chai
Hong Kong

Notes:

1. Any shareholder of the Company (the "**Shareholder**") entitled to attend and vote at the EGM convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. The Shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be the Shareholder. A form of proxy for use at the EGM is enclosed herewith.

2. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. The register of members of the Company will be closed from Thursday, 12 December 2019 to Tuesday, 17 December 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of the meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 11 December 2019.

5. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.

6. Delivery of the form of proxy will not preclude the Shareholder from attending and voting in person at the EGM or any adjourned meeting or upon the poll concerned and, in such event, the instrument appointing a proxy will be deemed to be revoked.

7. A circular containing, among others things, details of the Finance Leasing Framework Agreement, the transactions contemplated thereunder as well as the relevant annual caps has been despatched to the Shareholders.

8. As at the date of this notice of EGM, the executive directors of the Company are Mr. Li Luqiang, Mr. Li Zhixuan and Ms. Xu Juan, and the independent non-executive directors of the Company are Mr. Liu Changxiang, Mr. Liu Xuewei and Mr. Jiao Jian.