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)

FURTHER ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of International Alliance Financial Leasing Co., Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") dated 27 March 2020 (the "**Announcement**"), the supplemental announcement dated 1 April 2020 in relation to the unaudited annual results of the Group for the year ended 31 December 2019 and the further announcement of audited annual results for the year ended 31 December 2019 dated 29 April 2020. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as defined in the Announcement.

The Board hereby provides further details with respect to the recorded impairment loss on finance lease receivables of RMB140.8 million (the "**Impairment**").

BACKGROUND INFORMATION OF THE LESSEES WHICH WAS RELEVANT TO THE IMPAIRMENT RECORDED DURING THE YEAR ENDED 31 DECEMBER 2019

In essence, there were ten customers, four of which in the healthcare industry, five of which in the aviation industry and one of which is in the public infrastructure industry, who were unable to repay the relevant rental fees for the financial year ended 31 December 2019 accumulating a comparatively substantial amount of outstanding sum.

The Group made provision for Impairment under International Financial Reporting Standards ("**IFRS**") 9 – Financial Instruments to reflect the above outstanding sum, resulting in significant impact on the annual results of the Company for the year ended 31 December 2019.

THE FACTORS, EVENTS AND CIRCUMSTANCES LEADING TO THE IMPAIRMENT

As disclosed in the announcement of the Company dated 27 March 2020, the global economic growth continued to slow down, and was still at the in-depth adjustment stage following the international financial crisis. China has been under a crucial stage for structural reform, momentum swift and system optimisation, experiencing greater pressure on economic downturn. In 2019, China's gross domestic product ("**GDP**") was RMB99.1 trillion, showing a decline of 0.6% in growth as compared to 2018.

Such changes in macro-economic factors, as well as continuous industrial transformation and upgrade, posed the slowdown of the development of the financial leasing industry. The domestic and international economic environment is complicated and has been changing and financial deleverage and stringent regulatory policies have become the recent theme.

The Company expects that the global economic and financial outlook will be grim. Also, with the further reform of interest rate marketisation and the continuous advancement of exchange rate formation mechanism, competition in the financial leasing industry has become increasingly fierce.

In light of the financial deleverage and tightened financial environment as disclosed above, there is a decrease in liquidity in the market, increase in price, and even higher risks in some regional small and medium-sized banks, resulting in an increased difficulty to obtain external financing. Given the market environment and difficulty in obtaining financing, certain customers may not have sufficient cash flow to repay the principals and/or interests under the finance leasing agreements that they have entered into with the Company.

The Group is of the view that the foregoing factors, events and circumstances likely constitute the rental defaults occurred among the Company's certain lessees. The Group accordingly made provision for impairment loss of finance lease receivables under IFRS 9 – Financial Instruments, resulting an Impairment loss of approximately RMB140.8 million for the year ended 31 December 2019.

In addition, the impairment amount assessed was comparatively low when the Company was preparing its interim report for the six months ended 30 June 2019. However, generally speaking, the effect of continuing slowdown in the global economic growth, and the financial deleverage and tightened financial environment emerged approximately since the second half of 2019 (despite none of which had immediate material adverse impact on the Company initially) and the Company assessed a comparatively higher amount of Impairment when the Company was preparing the results for the financial year ended 31 December 2019.

Since the second half of 2019, the Group considered the general ageing of finance lease receivables on certain customers increased and took prudent measures to recover the outstanding rental fee. Such measures includes, but not limited to, instituting legal proceedings against The Fourth People's Hospital of Shang Qiu Shi* (商丘市第四人民醫院) and The People's Hospital of Ne He* (訥河市人民醫院) for a total sum of approximately RMB63 million and RMB79 million, respectively. For further details of the two litigations, please refer to the announcements of the Company dated 12 July 2019, 4 September 2019 and 1 November 2019. Furthermore, the Company has announced the disposal of aircraft and termination of finance lease agreement with Sincere Property Investments Limited on 26 February 2020.

The Company would not be in a position to anticipate such changes in market conditions at the entry of the relevant finance lease agreements mainly due to the following reasons:

(a) the relevant finance lease agreements were generally entered into with the relevant customers approximately from 2015 to 2017;

(b) at the material time, the Central People's Bank of China lowered the benchmark interest rate several times and the financial environment were relaxing, to the contrary of recent developments;

(c) the changes in market conditions such as above generally occurred only since the second half of year 2019 or beyond; and

(d) notwithstanding that the Group would complete all necessary due diligence exercise and risk assessment as part of its customer in-take procedure, it would be difficult for the Company to predict or foresee such developments, many of which could be considered once-off or extraordinary.

THE METHOD AND BASIS USED IN DETERMINING THE AMOUNT OF THE IMPAIRMENT

Set out below is the method and basis used in determining the amount of the Impairment:

The Group's main business entity is a financial leasing company, which adopts a three-stage model to measure expected credit losses in accordance with the requirements of the new financial instrument standards. The amount of expected credit losses is updated on each reporting date to reflect the changes in credit risk since the initial recognition. The Group calculates the provision of loss based on 12-month expected credit loss, unless the credit risk has increased significantly since the initial recognition, the Group will then recognise the existence of expected credit loss. The assessment of whether the existence of expected credit loss of the duration should be recognised is based on the substantial increase in the probability or risk of default since the initial recognition. The estimation method or calculation formula of the expected credit loss model and the relevant parameters adopted for the finance lease receivables are as follows:

ECL (Estimated Credit Loss) = EAD x PD x LGD x DF

EAD: Exposure at Default, which means the balance of finance lease minus security deposit

PD: Probability of Default refers to the probability of the borrower cannot repay the principal and interest of the financial lease or perform relevant obligations in accordance with the agreement within a certain period of time in the future. The probability of default is the basis for calculating the expected loss of finance lease receivable. The Group will base on the historical internal credit rating, and consider the credit rating provided by the rating companies which base on the historical credit rating data accumulated over a long period of time (including past repayment record, current and previous financial data and value of the leased property), by taking the average value of historical probability of default, to determine the corresponding probability of default of the companies under different credit ratings.

LGD: Loss Given Default is an estimate of loss arising out of default, which is obtained by reflecting the main scale of external rating and adjusted by the regulatory reference value and practice of peer companies under the primary credit risk method, combining with the company's business characteristics. The LGD in the Group's impairment model is determined based on the factors including regulatory reference value, the LGD of peer companies, the fact that the Company's effectiveness on collection of repayment will be lower than that of banks and financial institutions, and combining with expert's experience.

DF: Discount Factor is $1/(1+EIR)^{t-1}$, where EIR is the effective interest rate of the contract, and t is the remaining term.

The Board is of the view that the Impairment is fair and reasonable because (a) it is in line with the relevant accounting policies under IFRS as disclosed in the 2019 annual report of the Company; and (b) the Impairment is in conformity of the market situation and reflecting the Company's situation.

THE COMPANY'S PLAN OF RECOVERING THE IMPAIRED FINANCE LEASE RECEIVABLES

Generally speaking, the Company will classify the overdue repayment cases into three categories and deploy different means (subject to the travel restrictions imposed due to the COVID-19) to recover the impaired finance lease receivables accordingly, details of which are summarised as follows:

1. category 1: 30 days or less past due – the Company will demand repayment by telephone and physically visiting the customers, to negotiate a deadline for the customers to repay all overdue amount;

2. category 2: 30 to 90 days past due – the Company will enhance the recovery method by demanding repayment by telephone and physically visiting the customers frequently, as well as issuing pre-action letter to recover overdue amount; and

3. category 3: 90 days or more past due: the Company will issue pre-action letter and institute legal proceedings against the relevant customers to recover outstanding sums as well as penalty, liquidated damages and other expenses as permitted under the laws of PRC. The Company may also negotiate a new repayment schedule with the relevant customers to recover the outstanding sums abovementioned, and even dispose of the leased assets and demand the difference between the sale proceeds and the outstanding sums from the relevant customers.

To the best knowledge, information and belief of the Directors after making reasonable enquiries, as at 30 April 2020 the Company has already recovered approximately RMB314.8 million, representing approximately 11.7% of the carrying amount of finance lease receivables as at 31 December 2019. As part of the recovery plan, the Company has taken various measures to recover the remaining finance lease receivables, including but not limited to the signing of sale and purchase agreement to dispose of the relevant leased assets to the independent third party of the Company, commencing negotiations with the lessee for a new repayment schedule and instituting legal proceedings.

By Order of the Board
International Alliance Financial Leasing Co., Ltd.
Li Luqiang
Executive Director and Chief Executive Officer

Hong Kong, 27 May 2020

As at the date of this announcement, the executive Directors are Mr. Li Luqiang, Mr. Li Zhixuan and Ms. Xu Juan; and the independent non-executive Directors are Mr. Liu Changxiang, Mr. Liu Xuewei and Mr. Jiao Jian.