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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2020, the revenue amounted to approximately RMB128.0 million, representing a decrease of approximately 10.1% as compared with that of approximately RMB142.4 million for the six months ended 30 June 2019.
- For the six months ended 30 June 2020, the loss before income tax amounted to approximately RMB44.1 million, representing an increase of loss approximately 902.3% as compared with the loss before income tax of approximately RMB4.4 million for the six months ended 30 June 2019.
- For the six months ended 30 June 2020, the loss for the period amounted to approximately RMB35.5 million, representing an increase of loss approximately 975.8% as compared with the loss of approximately RMB3.3 million for the six months ended 30 June 2019.
- As at 30 June 2020, the total assets amounted to approximately RMB3,457.1 million, representing a decrease of approximately 8.8% as compared with that of approximately RMB3,791.1 million as at 30 June 2019.
- As at 30 June 2020, the total shareholders' equity amounted to approximately RMB1,146.8 million, representing a decrease of approximately 9.1% as compared with that of approximately RMB1,262.0 million as at 30 June 2019.
- For the six months ended 30 June 2020, the return on equity was approximately -6.1%.
- For the six months ended 30 June 2020, the return on total assets was approximately -2.2%.

The board (the “**Board**”) of Directors (the “**Directors**”) of International Alliance Financial Leasing Co., Ltd. (the “**Company**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	127,967	142,395
Other income, gains or losses	6	<u>2,259</u>	<u>890</u>
Total revenue and other income, gains or losses		130,226	143,285
Finance cost	7	(71,185)	(108,445)
Net exchange gain		4,217	2,216
Staff costs		(4,346)	(6,734)
Listing expenses		–	(10,057)
Other operating expenses		(8,924)	(9,958)
Impairment losses on financial assets, net of reversal	8	<u>(94,135)</u>	<u>(14,686)</u>
Loss before income tax	9	(44,147)	(4,379)
Income tax credit	10	<u>8,619</u>	<u>1,129</u>
Loss for the period		<u><u>(35,528)</u></u>	<u><u>(3,250)</u></u>
Other comprehensive expense for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		<u>(774)</u>	<u>(15)</u>
Total comprehensive expense for the period		<u><u>(36,302)</u></u>	<u><u>(3,265)</u></u>
Loss per share (Expressed in RMB Yuan per share)	12		
Basic and diluted		<u><u>(0.0237)</u></u>	<u><u>(0.0025)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
	Notes		
Non-current assets			
Plant and equipment	13	41	47
Right-of-use assets	13	5,014	6,833
Intangible assets		1,970	2,146
Finance lease receivables	14	1,662,258	1,696,039
Prepayment and other receivables		3,500	3,500
Deferred tax assets		117,199	72,360
		<u>1,789,982</u>	<u>1,780,925</u>
Current assets			
Finance lease receivables	14	1,277,939	990,541
Prepayment and other receivables		32,394	24,242
Bank balances and cash		356,741	288,252
		<u>1,667,074</u>	<u>1,303,035</u>
Current liabilities			
Other payables and accrued expenses		5,623	2,430
Deposits from finance lease customers		45,497	37,730
Income tax payables		32,871	26,998
Lease liabilities		3,542	3,670
Deferred income		7,717	9,658
Borrowings	15	717,280	23,723
Bonds issued	15	92,580	91,201
		<u>905,110</u>	<u>195,410</u>
Net current assets		<u>761,964</u>	<u>1,107,625</u>
Total assets less current liabilities		<u>2,551,946</u>	<u>2,888,550</u>
Capital and reserves			
Share capital	16	10	10
Reserves		1,146,760	1,183,062
Total equity		<u>1,146,770</u>	<u>1,183,072</u>
Non-current liabilities			
Deposits from finance lease customers		149,825	130,701
Lease liabilities		1,680	3,238
Deferred income		13,022	8,563
Borrowings	15	1,096,649	1,373,976
Bonds issued	15	144,000	189,000
		<u>1,405,176</u>	<u>1,705,478</u>
		<u>2,551,946</u>	<u>2,888,550</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Reserves						Subtotal	Total
	Share capital	Share premium	Capital reserve	Surplus reserve	Translation reserve	Retained profits/ (accumulated loss)		
	RMB'000	RMB'000 (Note (i))	RMB'000 (Note (ii))	RMB'000 (Note (iii))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019 (audited)	1	880,839	(42,520)	14,335	(270)	89,611	941,995	941,996
Loss for the period	–	–	–	–	–	(3,250)	(3,250)	(3,250)
Other comprehensive expense for the period:								
Exchange difference arising on translation	–	–	–	–	(15)	–	(15)	(15)
Total comprehensive expense for the period	–	–	–	–	(15)	(3,250)	(3,265)	(3,265)
Capitalisation issue of new shares	6	(6)	–	–	–	–	(6)	–
Issuance of new shares upon listing	3	360,031	–	–	–	–	360,031	360,034
Transaction costs attributable to issue of shares	–	(36,744)	–	–	–	–	(36,744)	(36,744)
At 30 June 2019 (unaudited)	<u>10</u>	<u>1,204,120</u>	<u>(42,520)</u>	<u>14,335</u>	<u>(285)</u>	<u>86,361</u>	<u>1,262,011</u>	<u>1,262,021</u>
At 1 January 2020 (audited)	10	1,204,120	(42,520)	14,335	2,208	4,919	1,183,062	1,183,072
Loss for the period	–	–	–	–	–	(35,528)	(35,528)	(35,528)
Other comprehensive expense for the period:								
Exchange difference arising on translation	–	–	–	–	(774)	–	(774)	(774)
Total comprehensive expense for the period	–	–	–	–	(774)	(35,528)	(36,302)	(36,302)
At 30 June 2020 (unaudited)	<u>10</u>	<u>1,204,120</u>	<u>(42,520)</u>	<u>14,335</u>	<u>1,434</u>	<u>(30,609)</u>	<u>1,146,760</u>	<u>1,146,770</u>

Notes:

- (i) Share premium represented the difference between the shareholders' contribution and issued capital.
- (ii) Capital reserve represented the difference between the nominal value of the issued share capital of the Company and its subsidiaries and the net assets value of the subsidiaries of the Group, upon completion of the group reorganisation.
- (iii) Under the People's Republic of China (the "PRC") Law, subsidiaries of the Group established in the PRC are required to transfer 10% of their net profit determined under the generally accepted accounting principles in the PRC to a non-distributable statutory reserve. Statutory surplus reserve can be used to make up for previous year's losses or converted into additional capital. When the balance of such reserve reaches 50% of the capital, any further appropriation is optional.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	<u>(237,733)</u>	<u>753,604</u>
Investing activities		
Withdrawal from restricted bank balances	63,715	70,771
Placement of restricted bank balances	(52,899)	(71,403)
Interests income received from restricted bank balances	24	43
Purchases of plant and equipment	–	(6)
Processed on disposal of plant and equipment	4	–
Repayment from related companies	<u>–</u>	<u>107</u>
Net cash from (used in) investing activities	<u>10,844</u>	<u>(488)</u>
Financing activities		
Issue of ordinary shares	–	360,034
Repayment of bonds issued	(43,000)	(307,193)
Proceeds from borrowings	586,000	350,000
Repayment of borrowings	(183,371)	(795,700)
Repayment of lease liabilities	(1,677)	(2,550)
Cash paid for issue costs	–	(28,673)
Interest paid for bonds issued	(10,353)	(24,566)
Interest paid for borrowings	(39,512)	(58,190)
Interest paid for lease liabilities	<u>(273)</u>	<u>–</u>
Net cash from (used in) financing activities	<u>307,814</u>	<u>(506,838)</u>
Net increase in cash and cash equivalents	80,925	246,278
Cash and cash equivalents at beginning of the period	257,608	391,270
Effects of foreign exchange rate changes	<u>(1,620)</u>	<u>1,653</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>336,913</u></u>	<u><u>639,201</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. GENERAL INFORMATION

International Alliance Financial Leasing Co., Limited (the “**Company**”) is an exempted company with limited liability incorporated in the Cayman Islands on 19 January 2015, with a registered share capital of United States Dollar (“**USD**”) 50,000. The registered address of the Company is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its controlling shareholder is Union Capital Pte. Ltd. (“**Union Capital**”), a company incorporated in Singapore. Union Capital is solely owned by Ms. Sui Yongqing. On 15 March 2019, the Company was listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with the stock code of 1563.

The Company and its subsidiaries (together, the “**Group**”) are principally engaged in offering finance lease service. The Company is an investment holding company.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

All the companies of the Group have adopted 31 December as their financial year end date.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard 34 (“**IAS**”) Interim Financial Reporting, issued by the International Accounting Standards Board (the “**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial information have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019 except as described below.

In the current interim period, the Group has applied, for the first time, the following interpretation, new and amendments to International Financial Reporting Standards (“**IFRSs**”) issued by the IASB which are effective for the Group’s financial year beginning 1 January 2020.

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

In addition, the Group has applied amendments to IFRS 16, COVID-19-Related Rent Concessions, which are effective for annual periods beginning on or after 1 June 2020.

The application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION

The executive directors of the Company, being the chief operating decision maker (“**CODM**”), considered that there was only one reportable operating segment, being the finance leasing business of the Group. Since the Group mainly provides finance lease services in the PRC, the operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform with IFRSs and CODM regularly reviews the overall results, assets and liabilities of the Group as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

Geographical information

- (a) The revenues from external customers of the Group are mainly generated in the PRC.
- (b) The non-current assets are located in the PRC.

Information about major customers

There was no single customer who contributed 10% or more of the total revenue to the Group for the six months ended 30 June 2020 and 2019.

5. REVENUE

For the six months ended 30 June
2020 **2019**
RMB'000 ***RMB'000***
(Unaudited) **(Unaudited)**

Finance lease income	127,967	142,395
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6. OTHER INCOME, GAINS OR LOSSES

For the six months ended 30 June
2020 **2019**
RMB'000 ***RMB'000***
(Unaudited) **(Unaudited)**

Interest income from restricted bank balances	24	43
Bank interest income	1,355	842
Others	880	5
 Total	2,259	890

7. FINANCE COST

For the six months ended 30 June
2020 **2019**
RMB'000 ***RMB'000***
(Unaudited) **(Unaudited)**

Interest expense on:		
– Borrowings	54,524	77,612
– Bonds payable	9,731	23,126
– Lease liabilities	273	205
– Imputed interest on deposits from finance lease customers	6,657	7,502
 Total	71,185	108,445

8. IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET OF REVERSAL

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised in respect of		
Finance lease receivables	94,135	8,052
Other receivables	–	6,620
Amounts due from related parties	–	14
	<u> </u>	<u> </u>
Total	<u><u>94,135</u></u>	<u><u>14,686</u></u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

During the current interim period, the Group provided approximately RMB94.1 million (2019: RMB14.7 million) impairment allowance, primarily derived from provision for impairment loss of finance lease receivables amounting to RMB94.1 million (2019: RMB8.1 million), due to the increase in credit risk for certain finance lease receivables.

9. LOSS BEFORE TAX

Loss before tax has been arrived at after charging (crediting):

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors' remuneration		
– Salaries and bonus	1,268	1,154
– Social welfare	117	200
Salaries, bonus, allowances, social welfare and other employee benefits	<u>2,961</u>	<u>5,380</u>
Total staff costs	<u>4,346</u>	<u>6,734</u>
Depreciation of plant and equipment	2	18
Depreciation of right-of-use assets	1,891	2,330
Less: amount included in staff costs	<u>–</u>	<u>(71)</u>
	<u>1,891</u>	<u>2,259</u>
Amortisation of intangible assets	176	176
Lease payments under operating leases:		
– Short-term leases	<u><u>–</u></u>	<u><u>395</u></u>

10. INCOME TAX CREDIT

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
– Current period	18,516	6,120
Deferred tax – current period (<i>note (i)</i>)	(27,135)	(7,249)
	<u>(8,619)</u>	<u>(1,129)</u>

Note:

- (i) During the current interim period, the deferred income tax was mainly recognised as deductible temporary differences arising from the impairment losses under expected credit loss (“ECL”) model.

11. DIVIDENDS

No dividend has been paid or proposed by the Company for the six months ended 30 June 2020 and 2019 nor has any dividend been proposed since the end of Reporting Period.

12. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<u>Loss</u>		
Loss for the purpose of basic and diluted earnings per share	<u>(35,528)</u>	<u>(3,250)</u>

	For the six months ended 30 June	
	2020	2019
	'000	'000
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,500,000</u>	<u>1,300,359</u>

The calculation of basic loss per share during the six months ended 30 June 2019 are based on the assumption that the Capitalisation Issue (as defined in Note 16) had been effective throughout both years.

The dilutive loss per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2020 and 2019.

13. MOVEMENTS IN PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group disposed of certain plant and equipment with an aggregate carrying amount of approximately RMB 4,000 (six months ended 30 June 2019: nil).

During the six months ended 30 June 2020, the Group did not acquired any plant and equipment (six months ended 30 June 2019: nil).

During the six months ended 30 June 2020, the Group did not extend any lease agreement that should be recognised as right-of-use asset and lease liability. (2019: nil).

14. FINANCE LEASE RECEIVABLES

The minimum lease receivables are set out below:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Amounts receivable under finance leases		
Within 1 year	1,637,586	1,313,932
After 1 year but within 2 years	1,226,669	967,382
After 2 years but within 3 years	715,087	709,761
After 3 years but within 4 years	108,537	279,046
After 4 years but within 5 years	41,761	101,459
	<hr/>	<hr/>
Undiscounted lease payments	3,729,640	3,371,580
Less: unearned finance income	(486,379)	(476,244)
	<hr/>	<hr/>
Gross investment in leases	3,243,261	2,895,336
Less: Allowance for impairment losses	(303,064)	(208,756)
	<hr/>	<hr/>
Present value of minimum lease payment receivables	2,940,197	2,686,580
	<hr/>	<hr/>
Analysed for reporting purposes as:		
Current assets	1,277,939	990,541
Non-current assets	1,662,258	1,696,039
	<hr/>	<hr/>
	2,940,197	2,686,580
	<hr/>	<hr/>

The following is the present value of the past due finance lease receivables:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 30 days	199,410	23,636
Over 30 days and within 90 days (<i>note (i)</i>)	236,732	111,280
Over 90 days (<i>note (ii)</i>)	798,618	724,206
	<u>1,234,760</u>	<u>859,122</u>

Notes:

- (i) The Group presumes that the credit risk on a finance lease receivable has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Group has transferred the 12m ECL of finance lease receivables into lifetime ECL not credit-impaired when contractual payments are past due more than 30 days and within 90 days.
- (ii) When contractual payments are past due more than 90 days, the Group comprehensively considers the value of underlying assets, current and forecasts of general economic conditions of the industry in which the lessees operate and assessment of the ability of the lessees to fulfill their contractual cash flow obligations, to determine whether the finance lease receivables are credit-impaired. The Group has transferred the lifetime ECL not credit-impaired finance lease receivables into lifetime ECL credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that finance lease receivables have occurred.

15. BORROWINGS AND BONDS ISSUED

During the six months ended 30 June 2020, the Group obtained new borrowings amounting to RMB 586.0 million (six months ended 30 June 2019: new bank loans amounting to RMB 350.0 million). The loans carry interest at fixed market rates of 3.85% to 8% and are repayable instalments over a period of 3 years. The proceeds were used to finance the operation of the Group.

During the six months ended 30 June 2020, the Group repaid bonds issued amounting to RMB 43.0 million (six months ended 30 June 2019: RMB 307.2 million).

16. SHARE CAPITAL OF THE COMPANY

Authorised

	Number of shares				USD
	Ordinary	Series A	Series B	Total	
Total shares of USD0.000001 each at 1 January 2019	<u>49,972,491,009</u>	<u>18,777,078</u>	<u>8,731,913</u>	<u>50,000,000,000</u>	<u>50,000</u>
Represented by:					
Ordinary shares of USD0.000001 each at 1 January 2019	49,972,491,009	–	–	49,972,491,009	49,972
Series A shares of USD0.000001 each at 1 January 2019	–	18,777,078	–	18,777,078	19
Series B shares of USD0.000001 each at 1 January 2019	–	–	8,731,913	8,731,913	9
Reclassification Series A shares into ordinary shares on 15 March 2019 (<i>note (i)</i>)	18,777,078	(18,777,078)	–	–	–
Reclassification Series B shares into ordinary shares on 15 March 2019 (<i>note (i)</i>)	<u>8,731,913</u>	<u>–</u>	<u>(8,731,913)</u>	<u>–</u>	<u>–</u>
Total shares of USD0.000001 each at 31 December 2019 and 30 June 2020	<u>50,000,000,000</u>	<u>–</u>	<u>–</u>	<u>50,000,000,000</u>	<u>50,000</u>

Issued

	Ordinary	Series A	Series B	Total	USD	RMB
At 1 January 2019	100,000,000	18,777,078	8,731,913	127,508,991	128	823
Reclassified Series A shares into ordinary shares (<i>note (i)</i>)	18,777,078	(18,777,078)	–	–	–	–
Reclassified Series B shares into ordinary shares (<i>note (i)</i>)	8,731,913	–	(8,731,913)	–	–	–
Issue of shares pursuant to Capitalisation Issue (<i>note (ii)</i>)	877,491,009	–	–	877,491,009	877	5,891
Issue of shares pursuant to Global Offering (<i>note (iii)</i>)	<u>495,000,000</u>	<u>–</u>	<u>–</u>	<u>495,000,000</u>	<u>495</u>	<u>3,325</u>
At 31 December 2019 and 30 June 2020	<u>1,500,000,000</u>	<u>–</u>	<u>–</u>	<u>1,500,000,000</u>	<u>1,500</u>	<u>10,039</u>

Notes:

- (i) Pursuant to a written resolution of the shareholders of the Company passed on 20 February 2019, all of the Company's issued Series A and B shares were re-designated and re-classified into ordinary shares on an one-to-one basis immediately upon completion of the Hong Kong Public Offering and the International Offering ("**Global Offering**") on 15 March 2019.
- (ii) On 15 March 2019, a total of 877,491,009 shares were allotted and issued, credited as fully paid at par, by the way of capitalisation of a sum of USD877.491009 (equivalent to RMB5,891) standing to the credit of the share premium account of the Company, and such shares were allotted and issued to the shareholders whose names appeared on the register of members of the Company on the business day immediately before 15 March 2019 in proportion (the "**Capitalisation Issue**").
- (iii) On 15 March 2019, 495,000,000 ordinary shares with a par value of USD0.000001 each of the Company were issued at the offer price of HKD0.85 per share by way of Global Offering. On the same day, the Company's shares were listed on the Stock Exchange. The respective share capital amount was USD495 (equivalent to RMB3,325) and share premium arising from the issuance was approximately RMB323.3 million, net of the share issuance costs.

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

The valuation techniques used by the Group include the discounted cash flow model for finance lease receivables, lease liabilities, financial assets and financial liabilities measured at amortised cost. The main parameters used in discounted cash flow model include recent transaction prices, relevant interest yield curves, foreign exchange rates, prepayment rates and counterparty credit spreads.

The fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

None of the Group's financial instruments are measured at fair value on a recurring basis as at 30 June 2020 and 31 December 2019.

18 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The name and the relationship of other related parties

Name of related parties	Relationship
Union Capital	Ultimate Shareholder
Nanshan Group and its subsidiaries	<i>Note i</i>
JinChuang	<i>Note ii</i>
RongJin	<i>Note ii</i>

Notes:

- (i) Union Capital was solely owned by Ms. Sui Yongqing, whose husband is Mr. Song Jianbo, who is the key management of Nanshan Group.
- (ii) JinChuang Enterprise Management & Consulting Co., Ltd (“**JinChuang**”) and Rongjin Enterprise Management & Consulting Co., Ltd (“**RongJin**”) are controlled by certain directors of the Company.

Transaction with related parties

During the six months ended 30 June 2020, the Group entered into the following transactions with related parties that are not members of the Group:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Finance lease income generated from related parties:		
– Nanshan Group and its subsidiaries	30,506	155
– Union Capital	–	7,145

The finance lease income was charged at rates ranging from 6.75% to 8.50% per annum for the six months ended 30 June 2020 (six months ended 30 June 2019: from 6.08% to 7.09% per annum).

Finance lease receivables from related parties

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Nanshan Group and its subsidiaries	<u>947,324</u>	<u>275,622</u>

Guarantee from related parties

Nanshan Group and its subsidiaries provided guarantees in respect of certain borrowings during the six months ended 30 June 2020, of which RMB84.7 million remained outstanding at 30 June 2020 (31 December 2019: RMB95.3 million).

Compensation to key management personnel

The remuneration of key management personnel of the Group during the six months ended 30 June 2020 were as follows:

	For the six months ended	
	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Basic salary and allowances	1,632	2,060
Employer's contribution to pension schemes	42	100
Other social welfare	<u>123</u>	<u>172</u>
Total	<u>1,797</u>	<u>2,332</u>

The remuneration of key management is determined with reference to the performance of the Group and the individuals.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

In the first half of 2020, the outbreak of the COVID-19 epidemic brought severe challenges to the economic environment both in China and abroad, and domestic and overseas environment becomes more complex and ever-changing. China still suffers the aftermath of the economic shutdown in the first quarter, and certain economic indicators remains in decline. The overseas epidemic continues, causing the world's international economic situation to get worse.

According to the report issued by China Leasing Union (中國租賃聯盟), the Joint Leasing Research and Development Center (租賃聯合研發中心), and Tianjin Binhai Financial Leasing Research Institute (天津濱海融資租賃研究院), the balance of finance leasing contracts as at the end of the 2020 first quarter in China is approximately RMB6.5 trillion in total, representing a approximately decrease of approximately 2.8% as compared to the balances as at the end of last year, recording negative growth in balance of contracts for the first time since 2006.

The customers served by the Group, which are mostly in healthcare industry and aviation industry, received a great impact from the COVID-19 pandemic, resulting in certain lessees' delay in repaying the principal and/or interest to the Group. The diagnosis and treatment procedures of medical institutions have not returned to normal. The global aviation industry is facing unprecedented challenges and slowing down.

In the first half of the year, the Group's management has already deployed different means, including but not limited to instituting legal proceedings, in order to protect its rights and entitlements under the relevant finance lease agreements.

FINANCIAL REVIEW

Revenue

The Group's revenue mainly derived from (i) finance lease income; and (ii) advisory fee income arising from advisory services provided to its finance leasing customers. The Group's finance leasing offerings included sale-leaseback and direct finance leasing.

Revenue decreased by approximately 10.1% from approximately RMB142.4 million for the six months ended 30 June 2019 to approximately RMB128.0 million for the six months ended 30 June 2020.

Such decrease was mainly due to certain lessees' delay in repaying the principal and/or interest for relatively long time. After due and prudent consideration by the management of the Group, finance lease income from such projects were not recognised.

Other income, gains or losses

Other income, gains or losses which primarily derived from (i) bank interest income; and (ii) compensation for disposal of aircraft, increased by approximately RMB1.4 million from approximately RMB0.9 million for the six months ended 30 June 2019 to approximately RMB2.3 million for the six months ended 30 June 2020.

In particular, (i) the bank interest income increased by approximately RMB0.6 million from approximately RMB0.8 million for the six months ended 30 June 2019 to approximately RMB1.4 million for the six months ended 30 June 2020; and (ii) the compensation for disposal of aircraft increased by approximately RMB0.9 million from approximately RMB0 for the six months ended 30 June 2019 to approximately RMB0.9 million for the six months ended 30 June 2020.

Staff costs

Staff costs primarily included employee salaries and related costs of other benefits. The staff costs decreased by approximately RMB2.4 million from approximately RMB6.7 million for the six months ended 30 June 2019 to approximately RMB4.3 million for the six months ended 30 June 2020, which was resulted from the decrease in the number of employees.

Other operating expenses

Other operating expenses primarily included rental expenses, entertainment expenses, legal and professional fees and travelling expenses. For the six months ended 30 June 2020, the other operating expenses amounted to approximately RMB8.9 million (for the six months ended 30 June 2019: approximately RMB10.0 million), representing approximately 6.9% of the total revenue of the Group (for the six months ended 30 June 2018: approximately 7.0%).

Finance cost

Finance cost primarily derived from interest expenses on (i) borrowings; (ii) bonds payable; (iii) imputed interest on deposits from finance lease customers; and (iv) lease liabilities. The finance cost decreased by approximately 34.4% from approximately RMB108.4 million for the six months ended 30 June 2019 to approximately RMB71.2 million for the six months ended 30 June 2020.

In particular, (i) the borrowing costs decreased by approximately 29.7% from approximately RMB77.6 million for the six months ended 30 June 2019 to approximately RMB54.5 million for the six months ended 30 June 2020, which was due to the decrease in borrowings balance; (ii) the costs of bonds payable decreased by approximately 57.9% from approximately RMB23.1 million for the six months ended 30 June 2019 to approximately RMB9.7 million for the six months ended 30 June 2020, which was due to the maturity of a bond payable; (iii) the Group incurred imputed interest on deposits from finance lease customers of RMB6.7 million for the six months ended 30 June 2020, representing an decrease of approximately 11.3% from approximately RMB7.5 million for the six months ended 30 June 2019, which was due to the reduction in the scale of business, causing decrease in daily average amortised cost of deposits from finance lease customers; and (iv) the Group has applied IFRS 16 – Leases since 1 January 2019, pursuant to which the Group incurred interest expenses on lease liabilities recognised of RMB0.3 million.

Loss for the period

Loss for the period increased by approximately RMB32.2 million or 975.8% from the loss of approximately RMB3.3 million for the six months ended 30 June 2019 to the loss approximately RMB35.5 million for the six months ended 30 June 2020. The net profit margin for the six months ended 30 June 2020 was -27.3%, representing a significant drop as compared to that of -2.3% for the six months ended 30 June 2018, which was due to the sizable impairment allowance provided for the finance lease receivables and the decrease of finance lease income.

Dividend

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

Liquidity, financial resources and capital resources

As at 30 June 2020, the cash and cash equivalents amounted to approximately RMB336.9 million (30 June 2019: approximately RMB639.2 million). Working capital (current assets less current liabilities) and the total equity of the Group amounted to approximately RMB762.0 million (30 June 2019: approximately RMB1,016.0 million) and approximately RMB1,146.8 million (30 June 2019: approximately RMB1,262.0 million).

As at 30 June 2020, 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 2020, was approximately 64.1% (30 June 2019: approximately 64.9%), which is comparable to the same period last year.

Finance lease receivables

Finance lease receivables consisted of (i) gross amount of finance lease receivables, (ii) unearned finance income; and (iii) allowances for impairment losses. The carrying amounts of each of the above amounted to (i) approximately RMB3,730.0 million, (ii) approximately RMB486.4 million; and (iii) approximately RMB303.1 million, respectively. The Finance lease receivables decreased by approximately 1.5% from approximately RMB2,985.1 million for the six months ended 30 June 2019 to approximately RMB2,940.2 million for the six months ended 30 June 2020.

The allowances for impairment losses increased by approximately 298.8% from approximately RMB76.0 million for the six months ended 30 June 2019 to approximately RMB303.1 million for the six months ended 30 June 2020.

Employees and remuneration policy

As at 30 June 2020 the Group employed 22 full time employees (30 June 2019: 40) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB4.3 million for the six months ended 30 June 2020 (for the six months ended 30 June 2019: approximately RMB6.7 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.

RISK MANAGEMENT

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 the Group 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 Regulatory Commission (中國銀行業監督管理委員會) 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 that 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.

At the same time, the Group assesses its provisions using an appropriate expected credit loss model based on the relevant requirements of IFRS and its internal provision 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. The Group will regularly assess the expected credit loss model in accordance to actual loss of financial assets and adjust when necessary.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities (30 June 2019: Nil).

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The actual net proceeds (the “**Net Proceeds**”) raised from the Global Offering was approximately HK\$354.3 million (RMB323.5 million). As disclosed in the section headed “Future Plans and Use of Proceeds – Use of Proceeds” in the Prospectus, the Company intended to use the Net Proceeds as follows:

1. approximately 50% to apply towards the Group’s business operation expansion in healthcare industry;
2. approximately 40% to apply towards the Group’s business operation expansion in aviation and public infrastructure industries; and
3. approximately 10% to apply towards the Group’s general working capital.

The details of the use of Net Proceeds and the expected timeline for utilising its remaining balance are set out as follows:

Use of Net Proceeds	Planned amount use of the Net Proceeds (RMB’ million) (Note 1)	Utilised amount as at 30 June 2020 (RMB’ million)	Unutilised amount as at 30 June 2020 (RMB’ million)	Expected timeline for utilising the unutilised Net Proceeds (Note 2)
The Group’s business operation expansion in healthcare industry	161.8	128.0	33.8	Expected to be fully utilised in or before the end of 2021
The Group’s business operation expansion in aviation and public infrastructure industries	129.4	124.5	4.9	Expected to be fully utilised in or before the end of 2021
The Group’s general working capital	32.3	13.3	19.0	Expected to be fully utilised in or before the end of 2021
Total	<u>323.5</u>	<u>265.8</u>	<u>57.7</u>	

Notes:

1. The translation of Renminbi into Hong Kong dollars was based on the rate of HK\$1 to RMB0.91311.
2. The expected timeline for utilising the remaining Net Proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of the market conditions.

As at 30 June 2020, the Group has not fully utilised the planned Net Proceeds mainly due to the global economic growth continued to slow down as well as the recent changes in the economic environment, the market and the relevant industries. Such changes posed the slowdown of the development of the financial leasing industry, the pace of business development of the Company and thus the utilisation of its general working capital. The Company will continue to actively look for prospective projects to participate and invest in order to utilise the Net Proceeds in accordance with the manner disclosed above.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Share Option Scheme**”) on 20 February 2019 which became effective on 15 March 2019 (the “**Listing Date**”). A summary of the principal terms of the Share Option Scheme was set out in Appendix V to the prospectus of the Company dated 28 February 2019.

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and service providers of the Group and to promote the success of the business of the Group.

The basis of eligibility of any participant to the grant of any share option (the “**Share Option**”) shall be determined by the Board (or as the case may be, including, where required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the independent non-executive Directors) from time to time on the basis of the participant’s contribution or potential contribution to the development and growth of the Group.

On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules (in particular as to grant of Share Option to Directors, chief executives and substantial shareholders of the Company or their respective associates), the Board shall be entitled at any time within 10 years after the date of adoption of the Share Option Scheme to make an offer for the grant of a Share Option to any participant as the Board may determine. The number of Shares which may be issued pursuant to the exercise of the Share Option to be granted under the Share Option Scheme is 150,000,000 in total.

There was no Share Option outstanding under the Share Option Scheme nor was any Share Option granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme for the period from the beginning of the Reporting Period up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, the Group does not have any material subsequent event after 30 June 2020 up to the date of this announcement.

OUTLOOK AND PLANS

In the second half of 2020, China's economy starts to recover gradually, but the impact of the epidemic has not been completely eliminated. At the same time, the trend of global politics and Sino-US trade friction remains unclear. The current economic situation is still complicated and severe, with relatively high level of uncertainties and instability.

Amid this backdrop, the Group will implement various measures to apply effective identification and assessment on risk assets, to enhance risk management and overdue assets collection, 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, continue to improve the risk management and internal control procedures, and reasonably control financing costs so as to minimize the impact of the epidemic as much as possible, to ensure the long-standing and stable development of the Company and to create optimal return for shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to promoting good corporate governance and has set up procedures on corporate governance that comply with the principles in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. From the beginning of the Reporting Period up to the date of this announcement, the Company had complied with all code provisions in the CG Code and had adopted most of the recommend best practices set out in the CG Code.

Mr Song Jianpeng, the late Chairman and non-executive Director, passed away on 9 October 2019. The Board will use its best endeavours to continue on its business and will consider its composition.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

From the beginning of the Reporting Period up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) which was established by the Board in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors. The members of the Audit Committee are Mr. Liu Xuewei, Mr. Liu Changxiang and Mr. Jiao Jian. Mr. Liu Xuewei has been appointed as the chairman of the Audit Committee, and has the appropriate professional qualifications required under the Listing Rules. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a securities dealing code (the “**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 for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. The Company will periodically issue notices to its Directors reminding them of the general prohibition on dealing in the Company’s listed securities during the blackout periods before the publication of announcements of financial results. The Company has made specific enquiry of the Directors and all the Directors confirmed that they have complied with the Securities Dealing Code throughout the period from the beginning of the Reporting Period up to the date of this announcement.

PUBLICATION OF INFORMATION

This announcement is published on the websites of the Company (www.iaf-leasing.com) and the Stock Exchange (www.hkexnews.hk), respectively. The 2020 interim report of the Company for the six months ended 30 June 2020 will be despatched to shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 28 August 2020

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