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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)

**SUPPLEMENTAL ANNOUNCEMENT FOR
DISCLOSEABLE TRANSACTION IN RELATION TO
THE DISPOSAL OF AIRCRAFT
AND UPDATE ON FINANCE LEASE AGREEMENT**

References are made to the announcements of the Company dated 26 February 2020 and 22 January 2021 (collectively, the “**Announcements**”) in relation to the Sale and Purchase Agreement. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Company would like to supplement further information in relation to the Sale and Purchase Agreement:

ULTIMATE BENEFICIAL OWNERS OF THE BUYER AND SLOAN

The Buyer, Avjet Global Sales, LLC, is a Delaware limited liability company who acts as an agent for Sloan. The beneficial owner of the Buyer is The Marc J. Foulkrod Family Limited, a Nevada limited partnership, which holds as to 90% of the issued share capital of the Buyer, and Mr. Charles H. Foulkrod, who holds as to 10% of the issued share capital of the Buyer.

Sloan is defined as, collectively, Sloan Capital Company, LLC and SMS Trust.

Sloan Capital Company, LLC is a company incorporated in Washington of the United States with limited liability.

SMS Trust is a trust organised and existing under the laws of State of Washington of the United States. The trustee of SMS Trust is Mr. Stuart M. Sloan. The Company was confirmed by the intermediary agent engaged by the Lessor that The Marc J. Foulkrod Family Limited, SMS Trust and their respective ultimate beneficial owners are independent third parties of the Lessor and the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Buyer, Sloan and their respective ultimate beneficial owners are third parties independent of the Company and the connected persons and their respective associates of the Company.

ULTIMATE BENEFICIAL OWNERS OF THE LESSEE

The Lessee, Sincere Property Investment Limited (協信地產投資有限公司), is a company incorporated in the British Virgin Islands with limited liability. The ultimate beneficial owner is Mr. Wu Xu (吳旭), who holds 100% of the issued share capital of the Lessee.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Lessee and its ultimate beneficial owners are third parties independent of the Company and the connected persons and their respective associates of the Company.

THE RELATIONSHIPS AMONG THE BUYER, THE LESSEE AND SLOAN

As mentioned above, the Buyer acts as an agent for Sloan.

Other than that, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Directors are not aware of any further relationship between the Buyer, Sloan, the Lessee, and their ultimate beneficial owners.

DETERMINATION AND OF THE CONSIDERATION

The new Consideration of US\$23.2 million was determined based on:

(a) The market intelligence gathered by the Group from aircraft brokers

By the second half of 2020, under the impact of COVID-19 pandemic, aircraft brokers reported that the global aviation industry has been inactive, and aircraft prices have dropped significantly. The market price of the Aircraft, reported by aircraft brokers, has dropped from approximately US\$30 million to a range of approximately US\$20 million to US\$25 million, representing a discount from 17% to 33% of the previous consideration.

(b) The Group's own analysis of sale and purchase transaction concluded at the time

The Company believes that the short- to medium-term future of the aviation industry remains grim and the market prices of aircrafts in general will continue to be under pressure. In the second half of 2020, the Lessor received quotations from four potential buyers, which ranged from US\$19 million to US\$25 million (US\$19 million, US\$22.8 million, US\$24.5 million, US\$25 million). The average quotation was US\$22.8 million. They were consistent with the intelligence gathered from the aircraft brokers.

(c) Any Overdue Rental Fee

The Overdue Rental Fee amounted to US\$11.4 million (RMB74.4 million) as at the date of the Announcement. Notwithstanding the Company believes that there is reasonable chance to recover the Overdue Rental Fee, the Lessee's ability to repay its overdue and future rental fees remained uncertain in view of its repayment status and its failure to propose any solid repayment schedule. It will be in the interest of the Company to sell the Aircraft as soon as possible, even at lower Consideration compared to US\$30 million in February 2020.

(d) The terms and conditions of the Disposal as a whole

Terms and conditions of the Disposal are commensurate with the generally accepted market terms and conditions.

(e) Changes in the market conditions

Slowdown of domestic and global economy and the negative impact on the aviation industry casted by the COVID-19 pandemic, including the significant drop of airline traffic in December 2020 by approximately 70% below the same month in 2019, staff redundancy and close down of airlines, all of which have continued for a long period of time and serve as indicators of the market conditions. The Company believes that the short- to medium-term future of the aviation industry remains grim and the market prices of aircrafts in general will continue to decline.

During the negotiation with potential buyers, through the intermediary agents which the Lessor had arranged, the Buyer was considered to be the one with the highest possibility to close the deal without further delay and the Consideration was agreed at US\$23.2 million as offered by the Buyer.

The Board assessed the fairness and reasonableness of the Consideration based on the factors above. Further, the Company has obtained quotation through independent third-party intermediary agencies, showing that the Consideration was commensurate with acceptable market price quotation.

In addition, sale price of an aircraft is highly affected by the market supply and demand, and value of aircraft is affected by its depreciation and usage, recent changes in market conditions, and the uncertainty caused by the COVID-19 outbreak from 2019 through 2020. The Board believes that despite the discount of 22.7%, as compared to the original consideration, the new Consideration fairly reflected the price and value of the Aircraft at the relevant time. The Board considered that (i) the price would still be largely uncertain in the short- to medium- term future, in particular the Board estimated that it is unlikely the aircraft industry would be recovered in near future, therefore the time taken for the price of the Aircraft to raise back to pre-COVID-19 level remains uncertain; and (ii) the Aircraft depreciates over times. In addition to the above and other factors as set out under the heading "Recoverability of Shortfall", the Board considered that the new Consideration was fair and reasonable.

SUPPLEMENTAL INFORMATION ON THE TERMINATION

In accordance with the relevant provisions of Aircraft Sale and Purchase Agreement dated 26 February 2020, Sloan was entitled to terminate the Aircraft Sale and Purchase Agreement by way of rejection of the Aircraft.

After Sloan's request for lowering of Consideration was refused, on 7 April 2020, Sloan terminated the original Aircraft Sale and Purchase Agreement dated 26 February 2020 by way of rejection of the Aircraft pursuant to the relevant provisions in the original Aircraft Sale and Purchase Agreement. As advised by our legal adviser as to laws of the State of New York, the United States, as the Aircraft was rejected, being a ground of termination, Sloan was entitled to terminate the original Aircraft Sale and Purchase Agreement, and the Company was not entitled to receive any compensation, penalty or default interest from Sloan due to the Termination. Nevertheless, the Company received from the escrow agent approximately US\$0.1 million as compensation for the expenses the Company has incurred, namely ferrying costs and inspection fees of the Aircraft, under the relevant provisions.

Notice of termination of the Finance Lease Agreement was delivered and served on 22 January 2021, which was before the delivery of the Aircraft which was taken place on 28 January 2021.

FINANCIALS OF THE FINANCE LEASE AGREEMENT

The total rental fee under the Finance Lease Agreement is approximately US\$45 million (equivalent to approximately RMB300 million), inclusive of principal. For the period from the 12th instalment which was due in June 2019 to the 18th instalment which was due in December 2020 respectively, there were seven overdue instalments amounting to a total of US\$11.4 million rental fee being overdue and payable by the Lessee as at 22 January 2021.

Despite the termination by Sloan, there was no change to the terms on the Finance Lease Agreement.

Set out below are the breakdowns of the Outstanding Sum as disclosed in the announcement dated 26 February 2020 and as at 22 January 2021, respectively:

	As disclosed in the announcement dated 26 Feb 2020 equivalent to approximately		As at 22 Jan 2021 equivalent to approximately	
	US\$ (million)	RMB (million)	US\$ (million)	RMB (million)
(i) Overdue rental fee	6.6	46.2	11.4	74.4
(ii) Penalty for the Overdue Rental Fee	0.5	3.8	2	12.8
(iii) Principal of the rental fee for the remaining term	17.3	121.3	13.5	87.7
(iv) Purchase price of the Aircraft under Finance Lease Agreement*	0	0	0	0
(v) Fees of the aircraft broker and escrow agent regarding the Disposal	0.5	3.5	0.3	2.0
(vi) Other expenses incurred by the Lessor as a result of the Disposal	0	0	2.1	12.4
	<u>24.9</u>	<u>174.8</u>	<u>29.3</u>	<u>189.3</u>
Outstanding sum	<u>24.9</u>	<u>174.8</u>	<u>29.3</u>	<u>189.3</u>

* The purchase price of the Aircraft under Finance Lease Agreement was US\$10, the amount was insignificant and hence it was presented as zero in the table.

Outstanding Sum increased from US\$24.9 million (equivalent to approximately RMB 174.8 million) as disclosed in the announcement dated 26 February 2020 to US\$29.3 million (equivalent to approximately RMB 189.3 million) as at 22 January 2021, represented an increase of US\$4.4 million (equivalent to approximately RMB 28.6 million).

Overdue Rental Fee, which includes overdue principal and interests, increased from US\$6.6 million (equivalent to approximately RMB 46.2 million) as disclosed in the announcement dated 26 February 2020 to US\$11.4 million (equivalent to approximately RMB 74.4 million) as at 22 January 2021, represented an increase of US\$4.8 million (equivalent to approximately RMB 31.2 million). As at 22 January 2021, overdue principal and interest amounted to approximately US\$9.3 million (equivalent to approximately RMB60.8 million) and US\$2.1 million (equivalent to approximately RMB13.6 million), respectively.

Total overdue payable by the Lessee (aggregate of Overdue Rental Fee and Penalty for the Overdue Rental Fee) increased from US\$7.1 million (equivalent to approximately RMB 50.0 million) as disclosed in the announcement dated 26 February 2020 to US\$13.4 million (equivalent to approximately RMB 87.2 million) as at 22 January 2021, represented an increase of US\$6.3 million (equivalent to approximately RMB 41.0 million).

RECOVERABILITY OF SHORTFALL

In accordance with the Finance Lease Agreement, upon the Disposal of the Aircraft, the Company will be able to recover from the Lessee any shortfall arising from the difference between the consideration and the outstanding sum.

As advised by the Company's PRC legal advisers, the Shortfall, according to the Finance Lease Agreement, is recoverable in full from the Lessee and its guarantor. As a matter of prudent practice, this amount was disclosed in the Announcement dated 22 January 2021 as a pre-tax loss, which will be subject to the audit of the financial year ending 31 December 2021.

As disclosed above, the Lessee's outstanding liability under the Finance Lease Agreement was the Outstanding Sum of US\$29.3 million (equivalent to approximately RMB 189.3 million). Part of the Lessee's liability was discharged at Closing on 28 January 2021, when the escrow agent, on behalf of the Company, received from the Buyer the new Consideration of US\$23.2 million (equivalent to approximately RMB 150.8 million).

After the Closing, the Lessee remains liable for the Shortfall of approximately US\$6.1 million (equivalent to approximately RMB39.5 million), being the difference between the Outstanding Sum and the Consideration (the "**Shortfall**"). Such liability of the Lessee will only be discharged through repayment of the Shortfall to the Company, which the Company is entitled to according to the Finance Lease Agreement. In accordance with the Finance Lease Agreement, there is no restriction in the timing in recovering the Shortfall. As advised by the Company's PRC legal advisers, in accordance with the Finance Lease Agreement, the termination of the Finance Lease Agreement does not affect the Company's recoverability of the Shortfall.

As at the date of this announcement, the Lessee has not yet repaid the Shortfall. Since the Disposal, the Company held conference calls with the Lessee for the purpose of recovering the Shortfall.

Should the Shortfall continue to remain outstanding, the Company shall escalate its actions to recover the Shortfall from the Lessee and its guarantors by means of on-site reminder of payments, service of demand letters, arbitration, and freezing of assets of the Lessee and its guarantors as appropriate in accordance with the procedures set out in the Finance Lease Agreement.

After consultation with the Company's PRC legal advisers, the Board considered that the above-mentioned means are in accordance with the Financial Lease Agreement and have sufficient legal grounds. Also, the Company employed similar means to other customers and successfully recovered the bad debts of such customers in the past. Hence, the Board considers there is a reasonable chance that the relevant amount can be recovered.

Furthermore, in accordance with the Finance Lease Agreement, the obligation of the Lessee, Sincere Property Investments Limited (協信地產投資有限公司), is guaranteed by two guarantors, namely HCP Chongqing Property Development (HK) Co. Limited (漢威重慶房地產開發(香港)有限公司) and Mr. Wu Xu (吳旭). The Board considers that the guarantors are in good financial position to settle the Shortfall due by the Lessee, in particular:

HCP Chongqing Property Development (HK) Co. Limited (漢威重慶房地產開發(香港)有限公司), holds 80.01% in Chongqing Sincere Industrial Co., Ltd. (重慶協信遠創實業有限公司), which has unaudited total assets, net assets and cash amounted to RMB89.8 billion, RMB17.6 billion and RMB2.6 billion as at 30 June 2020, respectively.

Mr. Wu Xu (吳旭), is the ultimate beneficial owner of Sincere Property Investment Limited (協信地產投資有限公司) and he holds as to 36.25% equity interest in HCP Chongqing Property Development (HK) Co. Limited (漢威重慶房地產開發(香港)有限公司).

Hence, the Board considers that the likelihood of recovering the Shortfall of US\$6.1 million in full from the Lessee and its guarantors in accordance with the Finance Lease Agreement to be reasonable.

IMPAIRMENT PROVISION

Subject to the audit for the financial year ending 31 December 2021, the Company has made a provision of approximately US\$0.3 million in respect of the Overdue Rental Fee payable by the Lessee.

Set out below is the basis for the impairment provision:

Impairment provision

= ECL (Estimated Credit Loss)

= EAD x (PD x LGD x DF)

= US\$22.8 million x (0.2377% x 69% x 9)

= US\$22.8 million x (1.48%)

= US\$0.3 million

EAD: Exposure at Default (違約風險 or 風險敞口), which means the balance of finance lease minus any security deposit. It represented overdue principal (excluding any interest or penalty) and remaining principal that has not fall due, amounted to approximately US\$9.3 million and US\$13.5 million respectively. No security deposit was required under the Finance Lease Agreement. Hence, the EAD is approximately US\$22.8 million.

PD: Probability of Default (違約概率) 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. The applicable PD is approximately 0.2377%.

LGD: Loss Given Default (違約虧損率) 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. The applicable PD is approximately 69%.

DF: Discount Factor (貼現率) is $1/(1+EIR)^{t-1}$, where EIR is the effective interest rate of the contract, and t is the remaining term. The effective interest rate applicable to the Finance Lease Agreement, based on 3-month LIBOR ranged from approximately 4.9% to 6.8%. The applicable DF is approximately 9.

The above basis is consistent with the method and basis used in determining the amount of impairment, as disclosed in the Company's announcement dated 27 May 2020.

The Board believes the impairment provision is sufficient, as the Board believes there is a reasonable chance that the shortfall between Consideration and Outstanding Sum will be recovered.

Further, the Board is of the view that the Impairment is fair and reasonable because it is in line with the relevant accounting policies under IFRS as disclosed in the latest annual report of the Company.

In the event that the difference in the sum of US\$6.1 million (RMB39.5 million) became unrecoverable, the same would be recognised as write-off of receivables, partially or in full, depending on the actual recoverability, in the financial year ending 31 December 2021. This is in line with the current provision policy adopted by the Company.

UPDATE ON THE BANK BORROWINGS

The bank borrowing was a loan made to the Lessor by Credit Suisse AG to part-finance the Aircraft pursuant to a loan agreement made on 26 September 2016 (the “**Loan Agreement**”). The bank borrowing was secured by, among others, the Aircraft by way of a mortgage and security agreement made on 26 September 2016 (the “**Mortgage**”). As at 26 February 2020, the outstanding bank borrowing was US\$ 13.1 million. The maturity date of the loan granted by Credit Suisse AG will be 30 September 2023, and the Company’s repayment of such loan constituted early repayment.

The Company made an early repayment of loan after consultation with its legal advisers as to the laws of the State of New York, the United States. An early repayment fee of approximately US\$99,000 (equivalent to approximately RMB644,000) was charged according to a loan agreement signed between the Lessor and Credit Suisse AG. The Board considers the said early repayment to be necessary and reasonable.

Since the Company intended to recover the Outstanding Sum under the Finance Lease Agreement through the Disposal, after consultation with the legal adviser as to laws of the State of New York, the United States, the Lessor maintained communication with Credit Suisse AG with respect to the Disposal at all times and Credit Suisse AG was co-operative towards the Disposal.

Part of the Consideration in the sum of US\$10.1 million (equivalent to approximately RMB65.5 million), being the outstanding bank borrowing in the sum of approximately US\$9.9 million as at the date of Closing and, among other expenses, early repayment fee in the sum of approximately US\$99,000 (equivalent to approximately RMB644,000), has been applied to settle the outstanding bank borrowings. The Loan Agreement and the Mortgage were terminated by way of a termination deed entered into, among others, between the Lessor and Credit Suisse AG on 28 January 2021 after the repayment of the bank borrowing.

LISTING RULES IMPLICATIONS AND REMEDIAL ACTIONS

Pursuant to Rule 14.36 of the Listing Rules, where there is any material variation of the terms of a transaction previously announced pursuant to Chapter 14, the listed issuer must as soon as practicable announce this fact by means of an announcement published in accordance with Rule 2.07C. The Termination constitute a material variation to the terms of the Aircraft Sale and Purchase Agreement previously announced in the Announcement dated 26 February 2020 and the Company has inadvertently overlooked requirement to make announcement on the Termination accordingly. As such, the failure by the Company to comply with the aforesaid requirement constituted breach of Rule 14.36 of the Listing Rules.

The breach was due to, among other things, the changes in market conditions, especially in view of the outbreak of COVID-19 pandemic, which has adversely affected the general market conditions. In particular, the Group’s normal operations were disrupted by the reduction of manpower and lockdown for transportation from January to April 2020. Work efficiency decreased as our staff could not reach our customers on site, particularly in terms of chasing repayments during the said period. Even the

operations of the Group had gradually resumed since April 2020, staff of the Group had to manage with catching up on the overdue work and tasks, which included re-establishing customer relationships, chasing overdue amounts as mentioned above, in the midst of completing of the final audit of the financial results for the year ended 31 December 2019, preparing protocol and emergency materials in relation to the COVID-19 pandemic, etc. Further, given the economic outlook, a number of our customers became reluctant to repay on schedule, which had further diverted the Company's management focus to the supervision of the progress of timely repayment of customers, and recovery of overdue amounts, and therefore the requirement to make announcement has been inadvertently overlooked. Up to the date of this supplemental announcement, no other instance which may lead to breach(es) or potential breach(es) of the Listing Rules was identified.

As soon as the Company realised its breach of Rule 14.36 with respect to the Termination, it has immediately included an update on the Aircraft Sale and Purchase Agreement in the Announcements. The following actions have been carried out and procedures have been put in place to prevent future occurrence of the breach:

- (a) the Company has discussed and reviewed its internal control and compliance system with the risk management department of the Company (the "**Risk Management Department**");
- (b) the audit committee of the Company has conducted a review on the Company's internal controls regarding the disclosure requirements and the relevant internal controls;
- (c) all staff have been reminded that all contracts, regardless of contract size, will need to be reviewed by the Risk Management Department in the future from the perspective of the Listing Rules;
- (d) the Company's legal adviser as to Hong Kong laws and Company's compliance adviser were consulted on the breach of Rule 14.36 with respect to the Termination and other professional parties will be consulted on a timely basis to avoid future occurrence of similar situations;
- (e) all relevant directors, management and staff who were involved in the Transactions will attend training sessions focusing on compliance, corporate governance matters, requirements and updates on the Listing Rules. Case studies of breaches by other listed companies will also be arranged to maintain awareness and sensitivity;
- (f) all directors, management and relevant staff have been reminded that should there be any information that requires or potentially requires to be disclosed under the Listing Rules in the future, they should notify the company secretary of the Company, the chief executive officer of the Company and/or the person designated by the Board as the compliance desk (with details in paragraph (g) below) immediately;
- (g) a designated compliance desk has been set up by the Risk Management Department to enhance the communication between various departments, the legal adviser as to Hong Kong laws and the compliance adviser of the Company in this regard;

- (h) all directors and staff have been asked to report any major changes in progress, terms, or personnel from various departments immediately to the designated compliance desk of the Risk Management Department, and the report will also be sent to the senior management of the Company and executive Directors to ensure that similar incidents will not occur in the future; and
- (i) monthly updates on the progress of all projects will be made by the Risk Management Department to senior management of the Company and the executive Directors.

By order of the Board
International Alliance Financial Leasing Co., Ltd.
Jiao Jianbin
Non-Executive Director

Hong Kong, 10 March 2021

As at the date of this announcement, the executive Directors are Mr. Li Luqiang and Mr. Li Zhixuan; the non-executive Director is Mr. Jiao Jianbin; and the independent non-executive Directors are Mr. Liu Changxiang, Mr. Liu Xuwei and Mr. Jiao Jian.