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 2020

Reference is made to the announcement of International Alliance Financial Leasing Co., Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") dated 26 March 2021 (the "**Announcement**"). 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 (the "**Impairment**").

Background information of the lessees which was relevant to the Impairment recorded during the year ended 31 December 2020

In essence, there were eight customers, six of which in the healthcare industry and two of which in the aviation industry, who were unable to repay the relevant rental fees for the financial year ended 31 December 2020 accumulating a comparatively substantial amount of outstanding sum.

The Group made provision for Impairment under 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 2020.

The factors, events and circumstances leading to the Impairment, including why the relevant customers failed to repay principals and/or interests

In 2020, the domestic and global economic slowdown and the negative impact of the COVID-19 epidemic on various industries led to increasing downward pressure on the economy and on continuous industrial transformation and upgrade of the finance leasing industry. As a result, the rate of development of the financial leasing industry continued to slow down.

The domestic and international economic environment is complicated and has been changing and financial deleverage and stringent regulatory policies have been pressing ahead in the PRC, thereby tightening financial environment has become the focus.

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.

In particular, the impact of COVID-19 epidemic on the healthcare industry was catastrophic and hospitals were overwhelmed. Hospitals had to restructure and transform to accommodate the sudden COVID-19 influx of patients and also to prepare for any future outbreak. To illustrate further, as the Group's customers' hospitals are mainly located in county-level cities, finances are tighter than other hospitals located in bigger cities. During 2020, in the midst of COVID-19 epidemic, hospitals are considered to be at high-risk, therefore except for emergencies, non-COVID-19 patients generally avoided visiting hospitals. Wearing of masks by the general population also reduced the number of patients. Furthermore, in order to cope with COVID-19, opening hours of some specialist outpatient services at the hospitals have been shortened. The above reasons led to the decrease in revenue and cash flow of the Group's customers' hospitals. In addition, measures to counter COVID-19 epidemic, including the national testing scheme implemented by the PRC government, medical staff and resources being allocated to COVID-19 treatment zones and patients with fever symptoms are treated free of change, caused additional costs, which further decreases cash flow of the Group's customers' hospitals. As such, finances were tight and certain hospital customers failed to make repayments according to their respective repayment schedules. As such, further provision for impairment loss was made with respect to certain customers from healthcare industry. Further, as disclosed in the announcement of the Company dated 10 March 2020, the Board estimated that it is unlikely the aircraft industry would be recovered in near future and market prices of aircrafts are still largely uncertain in the short- to medium- term future, therefore the time taken for the price of the Aircraft to raise back to pre-COVID-19 level remains uncertain. As such, further provision for impairment loss was made with respect to finance lease receivables from two customers from aviation industry.

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 RMB82.2 million for the year ended 31 December 2020.

Generally speaking, the effect of continuing slowdown in the global economic growth, and the financial deleverage and tightened financial environment emerged 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 annual results for the financial year ended 31 December 2019.

Consistent with practices in 2019, in 2020, the Group has assessed the general ageing of finance lease receivables and took prudent measures to recover the outstanding rental fee. Such measures included, but not limited to demanding repayments by telephone calls and physical visits, as well as instituting legal proceedings, etc. Despite an Impairment amounted to RMB94.1 million was recognised for the six months ended 30 June 2020, through measures mentioned above, out of which RMB11.9 million was reversed as at 31 December 2020, thus Impairment recognised for the financial year ended 31 December 2020 amounted to RMB82.2 million. This reversal is a promising sign on the Group's effective measures in gradually recovering the impaired amounts.

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, Loan Prime Rate ("**LPR**") (貸款市場報價利率), several times;

(c) the outbreak of the COVID-19 epidemic started in late 2019 and was declared as such by the World Health Organisation in January 2020. It resulted in significant global social and economic disruption;

(d) The China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) issued the Interim Measures for the Supervision and Administration of Financial Leasing Companies* (融資租賃公司監督管理暫行辦法) in June 2020;

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

(f) 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 to be once-off or extraordinary.

The methods and basis used in determining the amount of the Impairment

Set out below is the methods 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 recognises the existence of expected credit loss. The assessment of whether the 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 expected credit loss model and the estimation or calculation formula of relevant parameters for the receivable financial lease funds are as follows:

ECL = EAD x PD x LGD x DF

EAD: Lease balance minus security deposit

PD: Probability of Default refers to the possibility that the borrower cannot repay the principal and interest of the financial lease or perform relevant obligations according to the contract requirements within a certain period of time in the future. The probability of default is the base for calculating the expected loss of finance lease receivable. The Group will base on the measurement method of its internal credit rating historical data and consider the rating of the companies according to the credit rating historical data accumulated over a long period of time, including past repayment records, current and previous financial data and leased property value, etc, by taking the average value of historical probability of default as the corresponding default probability of such companies under different credit ratings.

LGD: Loss Given Default is an estimate of loss arising on default, which is obtained by mapping the main scale of external rating. The regulatory reference value and peer practice under the primary credit risk method are adjusted in combination with the Company's business characteristics. The LGD in the Group's impairment model is set based on the regulatory reference value, the LGD of peers, and the fact that the Company's collection strength will be lower than that of banks and financial institutions in combination with expert experience.

DF: $1/(1+\text{EIR})^{t-1}$, 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 annual report of the Company for the financial year ended 31 December 2019; 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 26 March 2021, the Company has already recovered approximately RMB420.9 million, representing approximately 15.6% of the carrying amount of finance lease receivables as at 31 December 2020 (subsequently recovered RMB926.2 million as at 30 June 2021, representing approximately 34.3% of the carrying amount of finance lease receivables as at 31 December 2020). 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.
Jiao Jianbin
Non-Executive Director

Hong Kong, 30 July 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 Xuewei, Mr. Jiao Jian and Mr. Shek Lai Him Abraham.