# 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

MIX
Paper from responsible sources
FSC™ C008061
FSC
www.fsc.org

# ANNUAL REPORT 2018

# CONTENTS

# CORPORATE INFORMATION

## COMPANY NAME

International Alliance Financial Leasing Co., Ltd.

## STOCK CODE

1563

## BOARD OF DIRECTORS

### Executive Directors

Mr. LI Luqiang *(Chief Executive Officer)*
Mr. LI Zhixuan
Ms. XU Juan

### Non-Executive Directors

Mr. SONG Jianpeng *(Chairman)*
Mr. CHEN Chih Yung
Mr. GAO Guiwei

### Independent Non-Executive Directors

Mr. LIU Changxiang
Mr. LIU Xuewei
Mr. JIAO Jian

## AUDIT COMMITTEE

Mr. LIU Xuewei *(Chairman)*
Mr. LIU Changxiang
Mr. JIAO Jian

## REMUNERATION COMMITTEE

Mr. LIU Changxiang *(Chairman)*
Mr. LIU Xuewei
Mr. JIAO Jian

## NOMINATION COMMITTEE

Mr. LIU Xuewei *(Chairman)*
Mr. LIU Changxiang
Mr. JIAO Jian

## COMPANY SECRETARY

Mr. Lau Kwok Fai Patrick

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1621, Nexxus Building
No. 41, Connaught Road Central
Central
Hong Kong

## COMPANY WEBSITE

www.iaf-leasing.com

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

## COMPLIANCE ADVISOR

Cinda International Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

## HONG KONG LEGAL ADVISOR

Stevenson, Wong & Co. in association with AllBright Law Offices
Solicitors, Hong Kong
Hong Kong 39/F, Gloucester Tower
The Landmark
15 Queens's Road Centre
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East Hong Kong

## PRINCIPAL BANKS

Industrial Bank Co., Ltd, Longkou Branch
No. 35-41, Nanshan Road
Longkou City, Yantai
Shandong Province, PRC

Shanghai Pudong Development Bank Co., Ltd., Tianjin Branch
Block D, Bohai Development Centre
No. 9 Binshui Road
Hexi District
Tianjin City, the PRC

# CHAIRMAN'S STATEMENT

I am hereby on behalf of the board (the "Board") of directors (the "Directors") of International Alliance Financial Leasing Co., Ltd. (the "Company") to present to the shareholders of the Company the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Reporting Period").

During 2018, the Group remains principally engaged in the provision of finance leasing and advisory services to customers in the healthcare, aviation and public infrastructure industries. We keep on gathering quality resources domestically and internationally to satisfy the specific financing needs of our customers, accumulating experience from working practices, enhancing service quality and achieving new breakthroughs in the development of projects in different regions, driving our business as a whole develop on steady growth track. Meanwhile, we noted that the changes in economic trend and regulatory environment and the frequent occurrence of risks in real economy force us to maintain a prudent and careful attitude towards the selection of customers, always prioritise on controlling our overall operational risks, and keep on enhancing our risk control level and asset management capacity.

Looking into 2019, as the macro policies and measures introduced by the Central Economic Work Conference form positive and favourable factors to the leasing industry, together with the commencement of a new round of opening-up, enterprises in the finance leasing industry will have more development opportunities with such further reinforced support arising from the industrial upgrade of the country. We will further build a professional and high-caliber talent team, grasp development opportunities and attract new customers while focusing on maintaining the business relationships with existing customers and exploring further in-depth cooperation with quality customers in order to achieve steady and long-term development of the Group.

Finally, on behalf of all members of the Board and the management, I would like to express our sincere gratitude towards all shareholders, business partners, customers and all staff for their continuous support and encouragement.

**Mr. Song Jianpeng**
*Chairman*
23 April 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 March 2019 (the "Listing"). During the year ended 31 December 2018, the Group's operating results recorded a stable growth and the Group's revenue was mainly attributable to the finance lease income and advisory fee income, which accounted for approximately 99.0% and 1.0% of the total revenue of the Group, respectively.

The finance leasing industry in the People's Republic of China (the "PRC") has experienced tremendous growth for the past few years. Finance lease receivables of the finance leasing market increased from approximately RMB2.1 trillion by the end of 2013 to approximately RMB6.1 trillion by the end of 2017, with a compound annual growth rate of approximately 30.6%. It is estimated that the finance lease receivables of the finance leasing market in 2018 would also increase as compared with that of 2017. As more financial support is required for the development of the healthcare, aviation and public infrastructure industries in the future, the Directors expected that the Group's business of these areas will maintain a continuous and stable growth. The Group's major customers of finance leasing services and advisory services consist of public hospitals, airline companies and companies providing public infrastructure services.

Since its establishment, the Group has provided finance leasing services to more than 110 customers, covering 17 provinces, two autonomous regions and one municipality in the PRC, and some of its customers were incorporated in Singapore and the British Virgin Islands. The Directors believe that, based on the connections, knowledge and experience the Group has accumulated in the healthcare, aviation and public infrastructure industries, these industries could provide significant expansion opportunities to the Group's business.

In the past, the Group funded its business operations through a combination of internal capital and different external funding channels. The Directors believe that access to diversified and low-cost financing channel is vitally important for a company's success in the finance leasing industry.

## 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 lease customers. The Group's finance lease offerings included sale-leaseback and direct finance leasing.

Revenue increased by approximately 16.0% from approximately RMB308.7 million for the year ended 31 December 2017 to approximately RMB358.1 million for the year ended 31 December 2018. Such increase was mainly due to the Group's stable business development in 2018 and the increase in the yield brought by the new finance lease business entered into between the Group and its customers. For the year ended 31 December 2018, its finance lease income amounted to approximately RMB354.6 million (2017: approximately RMB300.6 million). The Group's advisory services primarily consist of finance lease advisory services. For the year ended 31 December 2018, the advisory fee income amounted to approximately RMB3.5 million (2017: approximately RMB8.1 million).

### Other income, gains or losses

Other income, gains or losses which primarily derived from (i) government grants; (ii) bank interest income; (iii) entrusted loan income; and (iv) compensation for early termination of finance lease arrangement, increased by approximately RMB1.6 million from approximately RMB12.6 million for the year ended 31 December 2017 to approximately RMB14.2 million for the year ended 31 December 2018.

In particular, (i) the government grants, which are subject to change depending on the tax payment every year, increased by approximately RMB0.8 million from approximately RMB6.5 million for the year ended 31 December 2017 to approximately RMB7.3 million for the year ended 31 December 2018; (ii) the bank interest income decreased by approximately RMB0.2 million from approximately RMB0.8 million for the year ended 31 December 2017 to approximately RMB0.6 million for the year ended 31 December 2018; (iii) the entrusted loan income decreased by approximately RMB4.3 million from approximately RMB5.1 million for the year ended 31 December 2017 to approximately RMB0.8 million for the year ended 31 December 2018 and such income has been settled; and (iv) the compensation for early termination of finance lease arrangement of approximately RMB5.5 million was received due to an early settlement of finance lease business occurred in the first quarter of 2018.

### Staff costs

Staff costs primarily included employee salaries and related costs of other benefits. The staff costs decreased by approximately RMB1.8 million from approximately RMB14.4 million for the year ended 31 December 2017 to approximately RMB12.6 million for the year ended 31 December 2018, 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 year ended 31 December 2018, the other operating expenses amounted to approximately RMB21.2 million (2017: approximately RMB23.0 million), representing approximately 5.9% of the total revenue of the Group (2017: approximately 7.4%).

### Listing expenses

For the year ended 31 December 2018, the Listing expenses amounted to approximately RMB10.8 million (2017: approximately RMB4.5 million). Such expenses are non-recurring in nature.

### Finance cost

Finance cost primarily derived from (i) borrowings; (ii) amount due to related companies; (iii) bonds payable; and (iv) imputed interest on deposits from finance lease customers. The finance cost increased by approximately 18.4% from approximately RMB204.0 million for the year ended 31 December 2017 to approximately RMB241.6 million for the year ended 31 December 2018.

In particular, (i) the borrowing costs increased by approximately 30.2% from approximately RMB121.5 million for the year ended 31 December 2017 to approximately RMB158.2 million for the year ended 31 December 2018, which was due to the increase in the cost of capital in domestic capital market; (ii) the costs due to related companies decreased from approximately RMB18.4 million for the year ended 31 December 2017 to nil for the year ended 31 December 2018, which was due to the full settlement of all the amounts due to related companies by the Group in the middle of 2017; (iii) the costs of bonds payable increased by approximately 31.1% from approximately RMB54.1 million for the year ended 31 December 2017 to approximately RMB70.9 million for the year ended 31 December 2018, which was due to more debt financing raised by the Group; and (iv) the Group incurred imputed interest on deposits from finance lease customers of approximately RMB12.4 million in 2018, representing an increase of approximately 24.0% from approximately RMB10.0 million in 2017, due to the increase of the Group's finance leasing business in 2018.

### Profit for the year

Profit for the year has increased by approximately RMB4.0 million or 10.9% from approximately RMB36.6 million for the year ended 31 December 2017 to approximately RMB40.6 million for the year ended 31 December 2018. The net profit margin for the year ended 31 December 2018 remained relatively stable at 11.3% as compared to that of 11.8% for the year ended 31 December 2017.

### Liquidity, financial resources and capital resources

As at 31 December 2018, the cash and cash equivalents amounted to approximately RMB391.3 million (31 December 2017: approximately RMB425.8 million). Working capital (current assets less current liabilities) and the total equity of the Group amounted to approximately RMB316.6 million (31 December 2017: net current liability of approximately RMB624.6 million) and approximately RMB942.0 million (31 December 2017: approximately RMB909.5 million), respectively.

As at 31 December 2018, the Group's borrowings due within one year amounted to approximately RMB724.4 million (31 December 2017: approximately RMB1,547.3 million) and the Group's borrowings due after one year amounted to approximately RMB1,568.3 million (31 December 2017: approximately RMB998.0 million).

As at 31 December 2018, the Group's bonds issued due within one year amounted to approximately RMB500.9 million (31 December 2017: approximately RMB668.2 million) and the Group's bonds issued due after one year amounted to approximately RMB276.0 million (31 December 2017: approximately RMB413.1 million).

As at 31 December 2018, the gearing ratio, calculated based on dividing the total indebtedness by total equity and indebtedness as at the end of the Period, was approximately 76.5% (31 December 2017: approximately 79.9%). Such decrease was mainly due to the decrease in the borrowings and bonds issued based on the scale of business.

The Group's risk management department is responsible for managing the Group's credit risk. Policies and details of which are set out on pages 112 to 118 in Note 34 to the Consolidated Financial Statements.

### 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. Their respective carrying amounts of the finance lease receivables amounted to (i) approximately RMB4,425.4 million, (ii) approximately RMB643.2 million and (iii) approximately RMB68.0 million. The carrying amount of finance lease receivables decreased by approximately 9.8% from approximately RMB4,116.2 million for the year ended 31 December 2017 to approximately RMB3,714.2 million for the year ended 31 December 2018, due to the increase of number of settled projects in 2018.

The allowances for impairment losses increased by approximately 102.4% from approximately RMB33.6 million for the year ended 31 December 2017 to approximately RMB68.0 million for the year ended 31 December 2018. The allowances increased in 2018 amounted to approximately RMB34.4 million, representing an increase of approximately 147.5% as compared to that of approximately RMB13.9 million in 2017, which was due to the fact that IFRS 9 applied since 1 January 2018 permitted transition relief not to restate the financial information for 2017 and the application of such new standard significantly increased the allowances for impairment losses of the Group in 2018.

### Finance lease commitments

As at 31 December 2018, the Group had no finance lease commitments (31 December 2017: approximately RMB97.5 million).

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the financial year ended 31 December 2018, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

## CHARGE OF GROUP'S ASSETS

Save as disclosed in the prospectus of the Company dated 28 February 2019, the Group did not have any charges on group assets during the financial year ended 31 December 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2018, saved as disclosed in the Company's prospectus dated 28 February 2019, the Group did not have other plans for material investments and capital assets. The Group may look into business and investment opportunities in different business areas and consider whether any asset acquisitions, business rationalisation, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group.

## FOREIGN EXCHANGE RISK

The Group receives majority of payments from customers in Renminbi and majority of the Group's revenue and costs are also denominated in Renminbi. The Group may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to holders of shares of the Company. The Group assets and liabilities are mainly denominated in Renminbi, US dollar, Hong Kong dollar and Japanese Yen.

The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed 41 full time employees (31 December 2017: 43) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB12.6 million for the year ended 31 December 2018 (2017: approximately RMB14.4 million). The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of individuals and prevailing market rates. Other various 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 controls risks through measures including due diligence on customers, independent information review and a multi-level approval process.

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

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

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

**Special Mention.** Even though the lessee has been able to pay the lease payments in a timely manner, there are some factors that could adversely affect its ability to pay, such as 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.

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

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 15 March 2019. The actual net proceeds from the global offering of the 495,000,000 new shares of the Company (the "Global Offering") were approximately HK$354.3 million. The Group intended to use the net proceeds from the Global Offering to achieve future plans mainly in the following manner: (i) 50%, or approximately HK$177.2 million, to apply towards its business operation expansion in healthcare industry; (ii) 40%, or approximately HK$141.7 million to apply towards its business operation expansion in aviation and public infrastructure industries; and (iii) the remaining balance of 10%, or approximately HK$35.4 million, to apply towards the Group's general working capital.

Since the date of Listing up to the date of this report, the Company has not utilised any of the net proceeds raised from the Global Offering.

## EVENTS AFTER THE REPORTING PERIOD

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 March 2019 by way of Global Offering. Save as disclosed in this report, the Group does not have any material subsequent event after 31 December 2018 up to the date of this report.

## OUTLOOK AND PLANS

In 2018, as turbulence hitting the economic globalisation and the volatility of the global financial markets, the economic growth was under a new round of downward pressure. In response to the changes in external business environment, the Group steadily promoted its business development based on the principle of risk prevention and asset monitoring reinforcement with focus on strengthening internal management and improving various systems.

Looking ahead to 2019, the policy orientation featuring with strict supervision and slack credit, the deepen reform of interest rate liberalisation and the continual development of the exchange rate formation mechanism will have a significant impact on the competitive structure and profitability of the finance leasing industry. The Board will strive for the steady and long-term sustainable development of the Group by continually improving the corporate governance mechanism, increasing the risk control level, enhancing asset management capability and further forging a professional and well-qualified talent team to seize the development opportunity and develop new customers while also paying attention to maintain the relationship with existing customers and exploring deepen cooperation with quality customers.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. LI Luqiang (李璐強)**, aged 50, is an executive Director and chief executive officer. He was appointed to our Board as a Director on 13 January 2016 and was designated as an executive Director on 20 June 2018. He is primarily responsible for strategic planning and overall management of the Group, overseeing the business operations, finance and human resources. Mr. Li Luqiang has been a director and general manager of Nanshan Financial Leasing (Tianjin) Co., Ltd.* (南山融資租賃(天津)有限公司)("Nanshan Leasing") since January 2014. He also served various positions with other members of the Group as follows:

| Company Name | Position | Period of Service |
|---|---|---|
| Nanshan Baotian (Tianjin) Leasing Co., Ltd.* (南山寶田(天津)租賃有限公司) | Executive director and manager | Since January 2015 |
| Nanshan Baozhong (Tianjin) Leasing Co., Ltd.* (南山寶中(天津)租賃有限公司) | Executive director and manager | Since January 2015 |
| Nanshan Baozhao (Tianjin) Leasing Co., Ltd.* (南山寶兆(天津)租賃有限公司) | Executive director and manager | Since January 2015 |
| Nanshan Baochang (Tianjin) Leasing Co., Ltd.* (南山寶昌(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Nanshan Baomin (Tianjin) Leasing Co., Ltd.* (南山寶旻(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Nanshan Baozhi (Tianjin) Leasing Co., Ltd.* (南山寶志(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Nanshan Baofeng (Tianjin) Leasing Co., Ltd.* (南山寶豐(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Nanshan Baokun (Tianjin) Leasing Co., Ltd.* (南山寶昆(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Nanshan Baotong (Tianjin) Leasing Co., Ltd.* (南山寶彤(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Nanshan Baoli (Tianjin) Leasing Co., Ltd.* (南山寶立(天津)租賃有限公司) | Executive director and manager | Since July 2015 |
| Baochun Alliance Limited (友聯寶純有限公司) | Director | Since August 2015 |
| Baoqing Alliance Limited (友聯寶慶有限公司) | Director | Since August 2015 |
| Baoyin Alliance Limited (友聯寶音有限公司) | Director | Since August 2015 |
| Beijing Nanshan Jinchuang Information Consulting Co., Ltd.* (北京南山金創信息諮詢有限公司) | Executive director and manager | Since January 2016 |
| Tianjin Rongjin Enterprise Management & Consulting Co., Ltd.* (天津融金企業管理諮詢有限公司) | Executive director | Since September 2016 |
| Hong Kong Alliance Financial Leasing Co., Limited (香港友聯租賃有限公司) | Director | Since December 2016 |

Mr. Li Luqiang has around 20 years of experience in the finance leasing industry. From July 1995 to July 2001, Mr. Li Luqiang worked at the business department of International Union Leasing Co., Ltd. (友聯國際租賃有限公司), where he was responsible for financial analysis, risk management, business development and collection of lease payments. Between February 2004 and May 2007, Mr. Li Luqiang worked for Guangcai Investment Group* (光彩事業投資集團) (now known as Fanhai Energy Holdings Co., Ltd.* (泛海能源控股股份有限公司)), an investment and asset management company, as the vice president of Investment Department, responsible for investor relationship and corporate governance. Mr. Li Luqiang served as executive president in Fenghui Leasing Co., Ltd. (豐匯租賃有限公司) from December 2008 to December 2009. At that time, he was mainly responsible for management of leasing business. Prior to joining the Group, he worked for Chengtong Financial Leasing Company Limited (誠通融資租賃有限公司), and served as the leasing business director from January 2010 to March 2013. At that time, he was primarily responsible for financing and leasing business.

In July 1991, Mr. Li Luqiang obtained a bachelor degree of Engineering in Mechanical Design and Manufacturing from Beijing Union University (北京聯合大學) in Beijing, PRC. He obtained a master of commerce degree in international professional accounting and a master of commerce degree in finance from the University of New South Wales in Sydney, Australia, in October 2001 and October 2002, respectively. He was admitted as an associate of CPA Australia in October 2001 and became a certified practising accountant of CPA Australia in August 2006.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. LI Zhixuan (李枝選)**, aged 44, is an executive Director and deputy general manager. He was appointed to the Board as a Director on 7 September 2016 and was designated as an executive Director on 20 June 2018. He is primarily responsible for the Group's operation and risk management.

Mr. Li Zhixuan has over 10 years of experience in asset management and risk control. Mr. Li Zhixuan has been a deputy general manager of Nanshan Leasing since March 2015. He served as a business director of the Shanghai business centre of China Industrial International Trust Limited (興業國際信託有限公司) from December 2003 to August 2005, responsible for business development of trust plans. From August 2005 to June 2007, he worked in Shanghai Lianxin, Zhucheng Investment Management Limited (上海聯信築城投資管理有限公司) as business director, where he was responsible for trust business and investment management. From June 2007 to February 2011, he worked in China Fortune International Trust Co., Ltd. (華鑫國際信託有限公司) as a general manager of its trust department, where he was responsible for design of trust strategy and asset management. From September 2011 to December 2013, Mr. Li Zhixuan worked in ABC International (China) Investment Co., Ltd. (農銀國際(中國)投資有限公司), with his last position as a managing director. Prior to joining the Group, he served as a deputy general manager of ABC Energy Investment Fund Management Co., Ltd. (農銀能投(北京)投資基金管理有限公司) from January 2014 to February 2015, responsible for the company's strategic planning and capital market projects.

In July 1998, Mr. Li Zhixuan graduated from Hunan College of Finance and Economics (湖南財經學院) (now being part of Hunan University (湖南大學)) in Changsha, Hunan Province, PRC with a bachelor degree of International Economics in International Finance. In January 2009, he obtained a master degree of Business Administration from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, PRC. Mr. Li Zhixuan passed the securities practice qualification examination in securities transaction and securities investment analysis of the Securities Association of China (中國証券業協會) in April 2000 and June 2001, respectively, and the funds practice qualification examination in basic knowledge on securities and investment funds and Laws and regulations on funds, professional conduct and industry compliance of the Asset Management Association of China (中國証券投資基金業協會) in June 2016.

**Ms. XU Juan (許娟)**, aged 38, is an executive Director. She was appointed to the Board as a Director on 25 May 2018 and was designated as the executive Director on 20 June 2018. She is primarily responsible for our Groups' finance and accounting management. Ms. Xu is the general manager of the finance department of Nanshan Leasing and a director of HK Alliance. She joined the Group in February 2014 as a finance manager and was promoted to finance general manager in May 2014, responsible for financial, tax, foreign exchange, accounting and auditing, and matters related to financial analysis, investor relations and liaison with regulatory authorities.

Ms. Xu has over 10 years of experience in finance and accounting. She was an accountant of Dandong Dongfang Measurement & Control Co., Ltd. (丹東東方測控技術股份有限公司) from July 2006 to October 2008. Between November 2008 and April 2010, Ms. Xu worked for Phillips Jianxing Digital System (Shanghai) Co., Ltd.* (飛利浦建興數字系統(上海)有限公司) as the accountant-in-charge, responsible for financial accounting and auditing functions of the company. Before joining the Group, Ms. Xu served as the senior financial manager of Doosan (China) Financial Leasing Corporation (鬥山(中國)融資租賃有限公司) from May 2010 to February 2014, responsible for financial and tax accounting, auditing and financing.

In July 2006, Ms. Xu graduated from Jilin University (吉林大學) in Changchun, PRC with a bachelor degree of Management in Accounting. She was conferred the Certificate of Accounting Professional by the Liaoning Provisional Department of Finance in October 2006. She was also accredited as a junior accountant in August 2007 by the Liaoning Provisional Department of Personnel.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## NON-EXECUTIVE DIRECTORS

**Mr. SONG Jianpeng (宋建鵬)**, aged 41, is the chairman and a non-executive Director of the Group. He was appointed to the Board as a Director on 19 January 2015 and was designated as a non-executive Director on 20 June 2018. Mr. Song has been the chairman of the board of directors of Nanshan Leasing since January 2014 and became a director of World Alliance and HK Alliance in January 2015 and February 2015, respectively.

Prior to joining Nanshan Leasing, Mr. Song has served various positions with Nanshan Group. From May 2001 to August 2007, he was the general manager of the treasury department of Nanshan Group, responsible for the company's finance and treasury functions. Between September 2007 and July 2012, Mr. Song served as the chief financial officer of Nanshan Group, where he was responsible for the company's financial and accounting matters. From July 2012 to December 2016, he was the deputy general manager of the Nanshan Group, responsible for monitoring the overall performance of the funds department, treasury department and audit department, strategic planning and daily operation of finance department of Nanshan Group.

In June 1999, Mr. Song graduated from China University of Geosciences (中國地質大學) in Beijing, PRC with a diploma in Urban Engineering Geophysical Prospecting. Mr. Song also completed the Executive MBA Programme in Guanghua School of Management of Peking University (北京大學光華管理學院) in Beijing, PRC in January 2012.

Mr. Song is the son-in-law of brother of Mr. Song Zuowen (宋作文).

Mr. Song was a director of the following companies in the PRC immediately prior to their respective dissolutions:

| Name of company | Principal business activity prior to dissolution | Date of dissolution | Means of dissolution | Reason for dissolution |
|---|---|---|---|---|
| Qingdao Ninghai New Materials Co., Ltd* (青島寧海新材料有限公司) | Manufacture of polymer materials, new compound materials | 11 June 2018 | Deregistration | The company applied for deregistration and its deregistration was approved by the relevant authority. |
| Qingdao Zhenghai New Materials Co., Ltd* (青島正海新材料有限公司) | Manufacture of polymer materials, new compound materials, superalloy materials and light density metallic materials, with 80% of the products to be sold overseas | 6 August 2018 | Deregistration | The business licence was once revoked for its failure to attend annual examination; and the company was solvent at the time of its business licence being revoked. The company applied for deregistration and its deregistration was approved by the relevant authority. |
| Qingdao Xuhai Jingmi Mould Co., Ltd* (青島旭海精密模具有限公司) | Manufacture of fine blanking mould, precision cavity mould, mould standard parts, with 80% of the products to be sold overseas | 6 August 2018 | Deregistration | The business licence was once revoked for its failure to attend annual examination; and the company was solvent at the time of its business licence being revoked. Subsequently, the company applied for deregistration and its deregistration was approved by the relevant authority. |

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

| Name of company | Principal business activity prior to dissolution | Date of dissolution | Means of dissolution | Reason for dissolution |
|---|---|---|---|---|
| Qingdao Tuohai Electronic Materials Co., Ltd* (青島拓海電子原器件有限公司) | Manufacture and process of precision electronic materials, with 50% of the products to be sold overseas | 21 April 2010 | Deregistration | The company applied for deregistration and its deregistration was approved by the relevant authority. |
| Longkou City Chenyi Industrial Co., Ltd* (龍口市辰逸實業有限公司) | Development, manufacture and sales of aluminium products; investment and providing management services in the industries permitted by the national policy | 6 November 2013 | Deregistration | The company applied for deregistration and its deregistration was approved by the relevant authority. |
| Longkou New Nanshan West Harbour Industrial Investment Co., Ltd* (龍口新南山西港工業投資有限公司) | Investment in the industries of energy, real property, harbour and industrial which are permitted by national policy | 14 June 2013 | Deregistration | The company applied for deregistration and its deregistration was approved by the relevant authority. |

Mr. Song confirmed that each of the above companies was solvent at the time of their respective dissolution and there is no wrongful act on his part leading to the dissolutions and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolutions, and that his involvement in the above companies was part and parcel of his services as a director of these companies and that no misconduct or misfeasance had been involved in the dissolutions of these companies.

**Mr. CHEN Chih Yung (陳至勇)**, aged 47, is a non-executive Director. He was appointed to the Board on 13 January 2016 and was designated as a non-executive Director on 20 June 2018. Mr. Chen is mainly responsible for providing advice to the business and operation of the Group.

Mr. Chen has approximately 13 years of experience in the finance and securities industry. Mr. Chen was a representative from April 2005 to April 2006, and a responsible officer from April 2006 to February 2013 of Polaris Securities (Hong Kong) Limited. In April 2012, Mr. Chen served as the director of Yuanta Securities (Hong Kong) Company Limited ("Yuanta") until February 2013. He was a responsible officer of Yuanta from June 2012 to February 2013. Mr. Chen has been working at Ping An of China Securities (Hong Kong) Company Limited ("Ping An") since February 2013 and is currently the managing director of its asset management department. He has also been the responsible officer of Ping An since March 2013.

In June 1994, Mr. Chen graduated from Fu Jen Private University* (私立輔仁大學) in New Taipei City, Taiwan with a bachelor degree of Business in International Trade. In June 2003, he obtained his master degree of Management in Information Management from National Central University (國立中央大學) in Taoyuan City, Taiwan. Mr. Chen is a licenced responsible officer engaged in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (the "SFO") with Ping An.

Mr. Chen is a director of PA Investment Funds SPC (the "PA Investor").

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. GAO Guiwei (高貴偉)**, aged 33, is a non-executive Director. He was appointed to the Board as a Director on 12 October 2017 and was designated as a non-executive Director on 20 June 2018. Mr. Gao is mainly responsible for providing advice and participating in meetings of the Board in connection with matters requiring Directors' consideration and/or approval.

Mr. Gao has over 10 years of experience in private equity, structured finance and mergers and acquisition industry. Mr. Gao is currently the managing director of Direct Investment Division of CCB International Asset Management Limited, whose principal business includes direct investments and fund management.

Mr. Gao received a Master of Finance degree from the University of Hong Kong in November 2011. Mr. Gao obtained the qualification as a Chartered Financial Analyst from CFA Institute in September 2010. Mr. Gao was licensed as a responsible officer for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities of the Securities and Futures Commission (the "SFC") in April 2018 and a representative for Type 9 (asset management) regulated activity of the SFC in July 2016.

Mr. Gao is a director of Design Time Limited.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. LIU Changxiang (劉長祥)**, aged 64, is an independent non-executive Director. He was appointed to the Board on 20 February 2019. Mr. Liu is mainly responsible for providing independent advice to the Group.

Mr. Liu Changxiang has over 20 years of experience in the banking and finance leasing industry. Mr. Liu Changxiang served as a representative and chief representative of the Tokyo representative office of China Construction Bank from December 1993 to December 1999, responsible for liaising with various government departments and financial institution in Japan and conducting industry research. For the period from April 2000 to April 2015, Mr. Liu Changxiang worked for JIC Leasing Company Limited (中建投租賃股份有限公司), formerly known as International Union Leasing Co. Ltd (友聯國際租賃有限公司), under the assignment of China Construction Bank and was assumed the role of deputy general manager and director one after the other. From April 2015 to April 2017, he worked in JIC Leasing (Shanghai) Co., Limited (中建投租賃(上海)有限責任公司), a subsidiary of JIC Leasing Company Limited, and was responsible for the general management and daily operations of the Company.

In January 1982, Mr. Liu Changxiang graduated from the Beijing Normal University in Beijing, PRC with a bachelor degree of Arts in Japanese.

**Mr. LIU Xuewei (劉學偉)**, aged 48, is an independent non-executive Director. He was appointed to the Board on 20 February 2019. Mr. Liu Xuewei is mainly responsible for providing independent advice to the Group.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Xuewei is a certified public accountant and certified public valuer in China. He has over 10 years of experience in accounting. Mr. Liu Xuewei served as the operation manager of Yantai office of Shandong Huide Certified Public Accountants* (山東匯德會計師事務所有限公司) from January 2004 to March 2013. Mr. Liu Xuewei has been a partner of Hexin Certified Public Accountants LLP in Shandong (山東和信會計師事務所（特殊普通合夥）) and the head of its Zhifu branch in Yantai, Shandong since April 2013, responsible for the management and operations of its Zhifu branch.

In July 1992, Mr. Liu Xuewei graduated from Jiangxi College of Finance and Economics (江西財經學院) (now Jiangxi University of Finance and Economics (江西財經大學)) in Nanchang, PRC with a bachelor degree of Economics in Finance.

**Mr. JIAO Jian (焦健)**, aged 45, is an independent non-executive Director. He was appointed to the Board on 20 February 2019. Mr. Jiao is mainly responsible for providing independent advice to the Group. Mr. Jiao worked for Inner Mongolia Jian Zhong Law Firm (內蒙古建中律師事務所) from September 1996 to December 2006, where he had been a partner of the firm since October 2000. Mr. Jiao has been a partner of Beijing Zhongzhou Law Firm (北京市中洲律師事務所) since December 2006, and is primarily responsible for corporate, securities and finance-related projects.

In July 1996, Mr. Jiao graduated from China University of Political Science and Law (中國政法大學) in Beijing, PRC with a bachelor degree of law. He was accredited as a PRC lawyer by the Ministry of Justice of China in June 1998.

## GENERAL

Save as disclosed, none of the Directors:

(i) held any other positions in the Company or other members of the Group as at the date of this report;

(ii) had any other relationship with any Directors, senior management or substantial shareholders or controlling shareholders of the Company as at the date of this report;

(iii) held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the date of this report; and

(iv) have any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company which has an interest or short position in the Shares and underlying shares of the Company.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, there were no other matters with respect to the appointment of the Directors that needs to be brought to the attention of shareholders of the Company and there was no information relating to the Directors that was required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the date of this report.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. LAU Kwok Fai Patrick (劉國輝)**, aged 46, is the chief financial officer and was appointed as the company secretary of the Group in May 2018. He joined the Group in July 2016, responsible for the corporate financial function of the Group and matters relating to corporate governance, compliance and investor relations.

Mr. Lau has more than 20 years of experience in the fields of accounting and auditing as well as financial management and corporate governance. Mr. Lau worked for PricewaterhouseCoopers and KPMG for the periods from December 1997 to April 1999 and from October 1999 to June 2011, respectively. Mr. Lau worked as a deputy general manager and financial controller of China City Railway Transportation Technology Holdings Co. Ltd. ("China City Railway") from July 2011 and was appointed as its company secretary and authorised representative from December 2011. He then left the company in June 2016. China City Railway is listed on the Stock Exchange (Stock code: 1522). During this period, he was primarily responsible for the listing, financial, company secretarial and compliance matters of China City Railway. In January 2014, Mr. Lau was accredited as the excellent employee of 2013 by China City Railway.

Mr. Lau graduated from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in Hong Kong and obtained an honours diploma in Accounting in July 1996. In November 2014, he received a Master of Science degree in Corporate Governance and Directorship with distinction from the Hong Kong Baptist University in Hong Kong. He became a Beta Gamma Sigma member of Hong Kong Baptist University Chapter in April 2014. Mr. Lau was admitted as a fellow member of the Association of Chartered Certified Accountants in December 2007 and an associate of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in July 2003. He received a diploma in insolvency awarded by the Hong Kong Institute of Certified Public Accountants in June 2004.

Mr. Lau has been independent non-executive directors of Kakiko Group Limited (Stock code: 2225) and Dafy Holdings Limited (formerly known as FDB Holdings Limited) (Stock code: 1826), the shares of which are listed on the Main Board of the Stock Exchange, since September 2017 and January 2018, respectively. Save as disclosed, Mr. Lau did not hold directorships in any public listed companies in the last three years.

**Mr. LU Quanzhong (盧全忠)**, aged 46, is the business general manager of the Group. He joined the Group in February 2014, responsible for management, supervision and evaluation of finance leasing business and coordination with other departments.

Mr. Lu has been the general manager assistant of Nanshan Leasing since February 2014. Prior to joining our Group, he served as a district manager at Beijing Yiren Medical Treatment Equipment Co., Ltd (北京億仁賽博醫療設備有限公司) between May 2000 and March 2012, where he was responsible for the marketing of medical equipment in northwestern China. From April 2012 to June 2013, Mr. Lu worked in Teamsun (China) Financial Leasing Co., Ltd. (華勝天成(中國)融資租賃有限公司) as a senior project manager and was responsible for the development and implementation of leasing business projects. Mr. Lu served as the deputy general manager of the Leasing Department at Beijing Feilong Financial Leasing Co., Ltd* (北京飛龍融資租賃有限公司) from June 2013 to February 2014.

In July 1997, Mr. Lu graduated from Hebei Agricultural University (河北農業大學) in Baoding, PRC with a bachelor degree in marketing.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. LIU Xiangmei (劉向媚)**, aged 37, is the vice general manager of the legal department of the Group. She joined the Group in November 2014, responsible for the review of finance lease projects and other contracts, issuance of legal opinions and attend to the Group's day-to-day legal consultations.

Ms. Liu has approximately 10 years of experience in the field of law. Before joining the Group, between September 2008 to August 2014, Ms. Liu worked for Meishang Baishenke International Risk Investment Consulting (Beijing) Company Limited (美商百勝客國際風險投資諮詢（北京）有限公司) as the manager in its legal department. She was a legal director in the legal department in Ledudu (Beijing) Technology Development Company Limited (樂嘟嘟（北京）科技發展有限公司) from August 2014 to November 2014, responsible for assessment of contracts, due diligence of projects merger and acquisitions, and day-to-day legal consultations of the company.

Ms. Liu obtained a bachelor degree of tourism management from Yanshan University (燕山大學) in July 2005. She received a master degree of law from Central University of Finance and Economics (中央財經大學) in Beijing, PRC in June 2008. Ms. Liu was accredited as a PRC lawyer by the Ministry of Justice of China in February 2008. Ms Liu also respectively passed the examination of basic knowledge of securities investment fund (證券投資基金基礎知識考試), and examination of fund laws and regulations, professional ethics and business practices (基金法律法規，職業道德與業務規範考試) in the Fund qualification examination (基金從業人員資格考試) regulated by Asset Management Association of China in June 2016.

## COMPANY SECRETARY

**Mr. LAU Kwok Fai Patrick (劉國煇)**, aged 46, is the chief financial officer and company secretary of the Group. He was appointed as the company secretary of the Company on 1 May 2018. Please refer to the paragraph headed "Biographical Details of Directors and Senior Management" in this section of this report for details of Mr. Lau's qualifications and experience.

# CORPORATE GOVERNANCE REPORT

The Company was listed on the Main Board of the Stock Exchange on 15 March 2019 (the "Listing Date"). The Board hereby presents to the Shareholders the corporate governance report for the period from the Listing Date to the date of this report (the "Period").

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 of the Stock Exchange. For the Period, the Board of the Company has performed the corporate governance duties which include the following: (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company ("Corporate Governance Report") under the Listing Rules.

The Company was in compliance with the CG Code during the Period.

## BOARD OF DIRECTORS

### Board Composition

During the Period, the composition of the Board is as follow:

### Executive Directors

Mr. LI Luqiang *(Chief Executive Officer)*
Mr. LI Zhixuan
Ms. XU Juan

### Non-Executive Directors

Mr. SONG Jianpeng *(Chairman)*
Mr. CHEN Chih Yung
Mr. GAO Guiwei

### Independent Non-Executive Directors

Mr. LIU Changxiang
Mr. LIU Xuewei
Mr. JIAO Jian

### Responsibilities of the Board

The functions and duties of the Board include, but are not limited to, convening general meetings, reporting on the performance of the Group at general meetings, implementing resolutions passed at general meetings, formulating business and investment plans, preparing annual budget and final accounts, preparing proposals on profit distribution and increasing or decreasing the registered capital, as well as exercising other authorities, functions and responsibilities in accordance with the articles of association of the Company. The biographies of the Directors are set out on pages 11 to 18 of this report under the "Biographical Details of Directors and Senior Management".

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer are segregated to ensure their respective independence, accountability and responsibility. Mr. SONG Jianpeng, the chairman of the Group provides leadership and is responsible for the Group's strategic planning and the management of the operations of the Board, while Mr. Li Luqiang, the chief executive officer of the Group is responsible for carrying out the policies of the Board, takes the lead in the Group's operations and business development, and focuses on the daily management and operations generally. There is a clear division of responsibilities between the chairman and chief executive officer, which provides a balance of power and authority.

## INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDS")

During the Period, the Board at all times complied with Rules 3.10(1), (2) and 3.10A of the Listing Rules relating to the appointment of at least three INEDs representing at least one-third of the Board with at least one of them has possessed relevant professional qualifications or accounting or related financial management expertise. A written annual confirmation of their independence satisfied with guidelines set out in Rule 3.13 of the Listing Rules have been received from each of the INEDs and the Company considers each of them to be independent. The Company is of the opinion that its INEDs with their wide spectrum of knowledge and extensive business experience, will objectively scrutinise the Company's performance. Each of the INEDs will inform the Company in writing as soon as practicable if there is any change of circumstances which may affect his independence. The INEDs are also subject to rotation at annual general meetings pursuant to the articles of association of the Company.

The Company will maintain an updated list of its Directors identifying their roles and functions on websites of the Company and the Stock Exchange. INEDs are identified in all corporate communications that disclose the names of Directors.

All the INEDs have entered into appointment letters with the Company on 20 February 2019 for a term of three years (after which he may offer himself for re-election as Directors in an annual general meeting). Such appointment letters may be terminated in accordance with the terms therein.

### Appointment and Rotation of Directors

Pursuant to articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

### Board Meetings and Attendance

In accordance with Appendix 14 of the Listing Rules, Code Provision A1.1 prescribes that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of the Directors, either in person or through other electronic means of communication.

The Company was not listed before the end of the Reporting Period. During the Period, two Board meetings and no general meeting were held and the attendance record of each Director is set out in the table below:

| Directors | Attended/Eligible to attend the Board meeting(s) | Attended/Eligible to attend the general meeting(s) |
|---|---|---|
| Mr. Li Luqiang | 2/2 | N/A |
| Mr. Li Zhixuan | 2/2 | N/A |
| Ms. Xu Juan | 2/2 | N/A |
| Mr. Song Jianpeng | 2/2 | N/A |
| Mr. Chen Chih Yung | 2/2 | N/A |
| Mr. Gao Guiwei | 2/2 | N/A |
| Mr. Liu Changxiang | 2/2 | N/A |
| Mr. Liu Xuewei | 2/2 | N/A |
| Mr. Jiao Jian | 2/2 | N/A |

## ROLE AND RESPONSIBILITIES OF THE DIRECTORS AND DELEGATION TO MANAGEMENT

The Board has overall responsibility for the leadership and control of the Group, including the responsibilities for the formulation of long-term strategies, and appointing and supervising senior management to ensure that the operation of the Company is conducted in accordance with the objective of the Group; and is collectively responsible for directing and supervising the Group's affairs.

The Board directly, and indirectly through its committees, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Group. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Group are delegated to the management.

The INEDs are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors, including non-executive Directors and INEDs, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Company has adopted a memorandum on respective functions of the board of directors and the management and corporate governance function of the board of directors, which set out delegation of functions to management, including management and day-to-day operation of the Group. The delegated functions and responsibilities will be reviewed by the Board from time to time. Approval has to be obtained from the Board prior to enter into any notifiable transaction or connected transaction for the Company under the Listing Rules.

## BOARD COMMITTEES

We have established the following committees under the Board: the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company. The committees operate in accordance with the terms of reference established by the Board. The terms of reference of the Audit committee, Nomination Committee and Remuneration Committee are posted on the websites of the Company and the Stock Exchange.

### Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee has three members, namely Mr. LIU Xuewei (劉學偉), Mr. JIAO Jian (焦健) and Mr. LIU Changxiang (劉長祥). Mr. LIU Xuewei (劉學偉), an INED, has been appointed as the chairman of the Audit Committee, and has the appropriate professional qualifications required under the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditor, review the financial statement and supervise the financial reporting process, internal control system and risk management system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by the Board.

During the Period, the Company has held two meetings of Audit Committee respectively in March 2019 and April 2019 and all three members of the Audit Committee attended both meetings. During one of the meetings, the Audit Committee has reviewed with the external auditors the accounting principles and practices adopted by the Group, internal controls and financial reporting matters, results of the Group of the Reporting Period and proposed adoption of the same by the Directors. The Audit Committee also reviewed the risk management and internal control design of the Company during the Period. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and risk management and other matters.

### Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee has three members, namely Mr.LIU Changxiang (劉長祥), Mr. JIAO Jian (焦健) and Mr. LIU Xuewei (劉學偉). Mr. LIU Changxiang (劉長祥), an INED, has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on employee benefit arrangements.

During the Period, the Company has held a meeting of Remuneration Committee in March 2019 and all three members of the Remuneration Committee attended the meeting. During the meeting, the Remuneration Committee had reviewed the current remuneration of some of the Directors and made recommendations to the Board. The Board has adopted the recommendations from the Remuneration Committee.

Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2018 within the band of below HK$1,000,000 comprises 2 individuals and the band of below HK$2,000,000 comprises 1 individual. Details of the remuneration of the Directors for the year ended 31 December 2018 are shown in note 14 to the financial statements.

### Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the CG Code. The Nomination Committee has three members, namely Mr. LIU Xuewei (劉學偉), Mr. JIAO Jian (焦健) and Mr. LIU Changxiang (劉長祥). Mr. LIU Xuewei (劉學偉), an INED, has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointments of the Directors, assess the independence of the INEDs, take up references and consider related matters.

During the Period, the Company has held a meeting of Nomination Committee in March 2019 and all three members of the Nomination committee attended the meeting. During the meeting, in which the Nomination Committee had reviewed the current Board's structure, size and composition independence of INEDs and made recommendations of directors for election in the forthcoming annual general meeting (the "AGM").

## DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for appropriate insurance covering the liabilities of the Directors and officers in respect of any legal actions taken against the Directors and officers that may arise out of the corporate activities. The insurance coverage will be reviewed on an annual basis.

## SECURITIES DEALING CODE

The Company has adopted a securities dealing code (the "Securities Dealing Code") regarding securities transactions by Directors and employees on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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 the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors throughout the Period.

## CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Induction materials and relevant guideline materials regarding the duties and responsibilities of being a director, the relevant laws and regulations applicable to directors, duty of disclosure of interests and business in the Group will be provided to newly appointed Directors shortly upon their appointment as Directors to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development to Directors will be arranged when necessary. All Directors are encouraged to attend relevant training courses at the Company's expenses.

## DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings of the Company. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group.

The remuneration paid to and/or entitled by each of the Directors for the year ended 31 December 2018 is set out in Note 14 to the consolidated financial statements.

## EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The Company has appointed Messrs. Deloitte Touche Tohmatsu ("Deloitte") as the Company's external auditor during the year. The Audit Committee considered that these audit and non-audit services have no adverse effect on the independence of Deloitte. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of Deloitte. During the Reporting Period, Deloitte has rendered both audit and non-audit services to the Group and the remuneration paid/payable for the year ended 31 December 2018 is set out as follows:

### Amount of Fees

| | *RMB$'000* |
|---|---|
| **Types of services provided by Deloitte** | |
| Audit services | 1,930 |
| Non-audit services (reporting accountant for the Listing) | 800 |

## DIRECTORS' AND AUDITORS' RESPONSIBILITY OF FINANCIAL REPORTING

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company for each financial year with a true and fair view of the financial position of the Group.

The Directors consider that the Company's consolidated financial statements are prepared in accordance with all statutory requirements and appropriate accounting standards are applied consistently.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The statement by the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" of this report.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition through implementation of a set of internal control procedures. Internal control procedures are intended to manage significant risks in the Group's business activities and bring them to an acceptable level.

### 1. Board of Directors' Responsibilities

The Board recognises its responsibility for the risk management and internal control systems and reviewing their adequacy and effectiveness. The Board conducts annual review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions.

### 2. Risk Management Process

The risk management process is cascaded throughout the Group, from the Board level to management level.

Project approval committee ("PAC") was established in March 2014 and it directly reports to the Board. The primary duties of the PAC are to formulate and monitor the implementation of the Group's major risk management policies and systems. It is in charge of reviewing the feasibility, risk prevention and mitigation measures of finance leasing projects.

Senior management and department heads are required to identify, evaluate and manage risks associated with business operations on an on-going basis with defined parameters, and record these in the risk registers. For each risk identified, management assesses their root causes, consequences and mitigating controls. Such assessment takes into account of i) probability of the risk occurrence and ii) degree of potential loss. The result of the assessment is summarised on a risk register and is reviewed by the Board. It is mandatory for this process to be conducted at least once a year.

Apart from the risk management process, the legal department monitors compliance with relevant laws and regulations which govern the Group's businesses.

### 3. Corporate Governance Function

The Board and senior management are responsible for performing duties on corporate governance and compliance functions as set out below:

i) developing and reviewing the Group's policies and practices on corporate governance;

ii) reviewing and monitoring the training and continuous professional development of directors and senior management;

iii) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;

iv) developing, reviewing and monitoring the code of conduct applicable to employees and directors; and

v) reviewing the Group's compliance with the CG Code and disclosure in the corporate governance report of the Company.

The Group had provided Directors with trainings, development programs and/or updates regarding the legal and regulatory requirements applicable to the business operations of the Group.

## 4. Internal Audit Function

The Board conducts a review on the Group's internal control system on an annual basis. During the Reporting Period, the Group engaged an outsourced internal control consultant to review the design effectiveness of the Group's internal control system for the year ended 31 December 2018 and no significant risk and control deficiencies were identified.

The internal control review covered the following areas:

i) Overall risk management control of the Group

ii) Compliance risk management control of the Group at holding company level, including compliance on:

   a) Listing Rules Chapter 13 – Continuing Obligations;

   b) Listing Rules Chapter 14 – Notifiable Transactions;

   c) Listing Rules Chapter 14A – Connected Transactions;

   d) Listing Rules Appendix 14 – Corporate Governance Code and Corporate Governance Report;

   e) Companies Ordinance (Cap 622, the laws of Hong Kong);

iii) Financial reporting and disclosure control on the Group holding company level; and

iv) Operation controls of the Group as follow:

   a) Revenue and Accounts Receivable cycle;

   b) Payment cycle.

## 5. Confirmation from the Board and the Audit Committee on the Group's Risk Management and Internal Control Effectiveness

The Board and the Audit Committee have conducted a review on the adequacy and effectiveness of the Group's risk management and internal control system for the year ended 31 December 2018 and there was no material control failures or adverse compliance events that have directly resulted in any material loss to the Group.

The Group will continue to strengthen its internal control system in order to maintain proper corporate governance and safeguard the interest of its shareholders.

## NOMINATION POLICY

During the Period, in response to the amendment to the CG Code effective on 1 January 2019, the Company has also adopted the director nomination policy (the "Director Nomination Policy").

The Director Nomination Policy sets out the nomination criteria of a proposed candidate, including without limitation to the following: (i) qualifications including professional qualifications, skills, knowledge and experience, requirements of independent non-executive Directors on the Board; (ii) character and integrity; (iii) diversity in all aspects, including without limitation to gender, age, cultural and educational background, professional qualifications, skills, knowledge, industry and regional experience, length of service; (iv) commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company; (v) independence of the proposed Independent non-executive Directors in accordance with the Listing Rules; and (vi) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The Director Nomination Policy also sets out the following nomination procedure:

(i) If the Nomination Committee determines that an additional or replacement Director is required, the secretary of the Nomination Committee shall convene a meeting, and invite nominations from the Board members (if any) prior to the meeting, and the Nomination Committee may also put forward candidates which are not nominated by the Board members. The Nomination Committee shall take such measures that it considers appropriate in connection with its identification and/or evaluation of a candidate.

(ii) In the context of appointment of any proposed candidate to the Board, the Nomination Committee shall submit the candidate's personal profile and a proposal to the Board for its consideration. In order to be a valid proposal, the proposal must clearly indicate the nominating intention and the candidate's consent to be nominated and the personal profile must incorporate and/or be accompanied by the full particulars of the candidate that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules. If the candidate is proposed to be appointed as an INED, his or her independence shall be assessed in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time.

(iii) In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.

(iv) In the context of shareholders' nomination of any proposed candidate for election as a Director, the Nomination Committee shall refer to the "Procedures for Nomination of Directors by Shareholders", which is available on the Company's website.

(v) The Board shall have the final decision on all matters relating to its recommendations of candidates to stand for election at a general meeting, the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board.

During the Period, the Nomination Committee has performed the following major tasks:

(i) Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company with due regard for the benefits of diversity on the Board;

(ii) Recommendation of the re-appointment of those directors standing for re-election at the AGM; and

(iii) Assessment of the independence of all the INED.

## DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") on payment of dividends, including the proposal of declaration and/or payment of dividend and determination of the dividend amount. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, interim and/or special dividends may be proposed and/or declared by the Board in its sole and absolute discretion during a financial year and any final dividends for a financial year will be subject to the shareholders' approval.

## COMPANY SECRETARY

Mr. Lau Kwok Fai Patrick was appointed as company secretary of the Company on 1 May 2018. During the Period, Mr. Lau has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolution should be proposed for each substantial issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of Stock Exchange after each general meeting.

The Company engages with shareholders through various communication channels and a shareholders' communication policy is in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

## SHAREHOLDERS' COMMUNICATION POLICY

The Company has established a shareholders' communication policy and the Board reviews it regularly to ensure its effectiveness. Under this policy, the Company communicates with its shareholders and the investment community mainly through various means: (i) the holding of annual general meetings and other general meetings; (ii) the timely publication of the Company's announcements, interim and annual financial reports, and/or circulars as required under the Listing rules; (iii) constitutional documents of the Company and Board committee and (iv) the availability of all the disclosures submitted to the Stock Exchange and any of the Company's corporate communications and publications on the Company's website at www.iaf-leasing.com.

Shareholders and investors are welcome to visit the Company's website to raise enquiries through the Investor Relations Department whose contact details are available on the Company's website and the "Corporate Information" of this report.

The Company shall provide shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the articles of association of the Company and the Listing Rules and shareholders are encouraged to attend and participate in general meetings. The chairman of the Board and the chairman of the Board committees, or their delegates and the external auditors will attend the annual general meeting to answer any questions from shareholders. Notice of the annual general meeting, setting out details of each proposed resolution, voting procedures and other relevant information, will be sent to all shareholders at least 30 days prior to the date of the meeting.

### Procedures for shareholders to convene extraordinary general meetings

Pursuant to Article 58 of the articles of association of the Company, any one or more shareholder(s) holding at the date of the requisition not less than 10% of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the board of directors or the company secretary of the Company, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition (the "Requisition").

The Requisition shall be made either in hard copy form by post to the Company's principal place of business in Hong Kong at Room 1621, 16/F, Nexxus Building, 44 Connaught Road, Central, Hong Kong for the attention of the Board of Directors/Company Secretary or via email to IR@iaf-leasing.com.

If the Board does not within 21 days from the date of deposit of the Requisition proceed to convene the meeting to be held within two months after the deposit of Requisition, the requisitionist(s) themselves, and all reasonable expenses incurred by the requisitionist(s) shall be reimbursed to them by the Company.

### Procedures for shareholders to put through proposals at general meetings

Any shareholder who wishes to put forward proposals at a general meeting of the Company shall submit such proposals to the Board in writing for the Board's consideration either via mail to the Company's principal place of business in Hong Kong at Room 1621, 16/F, Nexxus Building, 44 Connaught Road, Central, Hong Kong for the attention of the Board of Directors/Company Secretary or via email to IR@iaf-leasing.com not less than fourteen days and not less than ten clear business days prior to the date of the general meeting.

### Procedures for shareholders to put forward enquiries to the Board

To put forward any enquiries to the Board, shareholders shall send their written enquiries to the Company. The Company will normally not deal with verbal or anonymous enquiries.

| | |
|---|---|
| Address: | Room 1621, 16/F, Nexxus Building, 44 Connaught Road, Central, Hong Kong for the attention of the Board of Directors/Company Secretary |
| Email: | IR@iaf-leasing.com |

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered shareholders shall contact the Company's Hong Kong branch share registrar and transfer office as follows:

| | |
|---|---|
| Address: | Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong |
| Email: | is-enquiries@hk.tricorglobal.com |
| Tel: | (852) 2980 1333 |
| Fax: | (852) 2810 8185 |

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above addresses, where appropriate, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

### Constitutional Documents

The amended and restated memorandum and articles of association of the Company (the "Amended and Restated M&A") was adopted on 20 February 2019 and took effect from the Listing Date on 15 March 2019. A copy of the Amended and Restated M&A is available on both the websites of the Company at www.iaf-leasing.com and the Stock Exchange at www.hkexnews.hk.

# REPORT OF THE DIRECTORS

The Directors of the Company are pleased to present the first annual report since the Listing Date on 15 March 2019.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group are principally engaged in offering finance lease service. Details of the principal activities and other particulars of its principal subsidiaries are set out in Note 37 to the consolidated financial statements.

## FINANCIAL RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income in this report. The Board of Directors does not recommend the payment of any final dividend for the year ended 31 December 2018.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the financial results and the assets and liabilities of the Group for the last four financial years, as extracted from the published audited consolidated financial statements, are set out on page 128. This summary does not form part of the audited consolidated financial statements.

## GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 15 March 2019. Net proceeds from the Global Offering was approximately HK$354.3 million (after deducting underwriting commission and other estimated expenses payable by the Company in connection with the Global Offering). Please refer to the "Management Discussion and Analysis" section in this report for more details regarding the use of proceeds since the Listing Date up to the date of this report.

## CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's five largest customers accounted for approximately 17.8% (2017: approximately 27.7%) of the Group's total revenue and the largest customer accounted for approximately 5.5% (2017: approximately 8.8%) of total revenue.

Due to the nature of the business, the Group does not have any significant contribution from major suppliers during the normal course of business. However, the Group relied substantially on interest-bearing borrowings and asset-backed securities to operate business and has established strong relationships with various financial institutions.

Save as disclosed under the section headed "Connected Transactions" in this report, as far as the Directors are aware, none of the Directors or any of their close associates, or any shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers and suppliers for the year ended 31 December 2018.

# REPORT OF THE DIRECTORS

## PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of principal subsidiaries of the Company are set out in note 37 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in plant and equipment are set out in note 15 to the consolidated financial statements.

## BORROWINGS AND BONDS ISSUED

Particulars of borrowings and bonds issued of the Group as at 31 December 2018 are set out in notes 23 and 24 to the consolidated financial statements.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the date of Listing to the date of this report.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2018 are set out in note 26 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Company and the Group for the year ended 31 December 2018 are set out in Notes 38 and 27 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be applied by the Company to pay distribution or dividends to shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company shall be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2018, the Company's reserves available for distribution amounted to approximately RMB880.8 million (31 December 2017: RMB880.8 million). Such amount includes the Company's share premium.

## PRE-EMPTIVE RIGHTS

The shares of the Company are not subject to any pre-emptive or similar rights under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands or pursuant to the memorandum and articles of association of the Company.

# REPORT OF THE DIRECTORS

## DIRECTORS AND SERVICE CONTRACTS

The Directors since the completion date of Global Offering and up to the date of this report were:

### Executive Directors

Mr. LI Luqiang *(Chief Executive Officer)*
Mr. LI Zhixuan
Ms. XU Juan

### Non-Executive Directors

Mr. SONG Jianpeng *(Chairman)*
Mr. CHEN Chih Yung
Mr. GAO Guiwei

### Independent Non-Executive Directors

Mr. LIU Changxiang
Mr. LIU Xuewei
Mr. JIAO Jian

Pursuant to articles of association of the Company, at each annual general meeting one-third of the Directors for the time being, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election at the annual general meeting.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the INEDs, a confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

## DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 11 to 18 of this report.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who was proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and five highest paid individuals for the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

## DIVIDEND

The Board did not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

## MANAGEMENT CONTRACTS

As at 31 December 2018, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, the Company did not enter into or have any management and administration contracts in respect of the whole or any substantial part of the business of the Company.

## EMOLUMENT POLICY

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, market competitiveness, individual performance, dedication and achievement. The Company has also adopted share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in the section headed "Share Option Scheme" of this report.

## COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or substantial shareholders or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any conflict of interests with the Group.

## DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

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

### Long positions in shares ("Shares")/underlying Shares of the Company

| Name of Director/ chief executive | Capacity/ nature of interest | Number and class of Shares (1) | Percentage of interest in the Company |
|---|---|---|---|
| Mr. Song Jianpeng (宋建鵬) | Interested in controlled corporation (2) | 6,305,438 Shares (L) | 0.42% |
| Mr. Li Luqiang (李璐強) | Interested in controlled corporation (3) | 7,881,797 Shares (L) | 0.52% |

*Notes:*

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

(2) The Company is owned as to approximately 0.42% by Jinchuang Enterprise Management & Consulting Co., Ltd. ("JinChuang"). JinChuang is wholly-owned by Beijing Xinlian Jinchuang Enterprise Management & Consulting Co., Ltd.* (北京信聯金創企業管理諮詢有限公司), which is in turn wholly-owned by Mr. Song Jianpeng. Mr. Song Jianpeng is therefore deemed to be interested in the Shares in which JinChuang is interested pursuant to the SFO.

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

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

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

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

### Long positions in shares ("Shares")/underlying Shares of the Company

| Name | Capacity/ Nature of Interest | Number and class of Shares [1] | Percentage of interest in our Company |
|---|---|---|---|
| Union Capital Pte. Ltd. ("Union Capital") | Beneficial owner | 768,475,221 Shares (L) | 51.23% |
| Ms. Sui Yongqing [2] | Interest in controlled corporation | 768,475,221 Shares (L) | 51.23% |
| Mr. Song Jianbo [3] | Interest of spouse | 768,475,221 Shares (L) | 51.23% |
| PA Investor | Beneficial owner | 147,997,120 Shares (L) | 9.87% |
| Ping An[4] | Interest in controlled corporation | 147,997,120 Shares (L) | 9.87% |
| Ping An Securities Co., Ltd. [4] | Interest in controlled corporation | 147,997,120 Shares (L) | 9.87% |
| China Ping An Trust Co., Ltd. [4] | Interest in controlled corporation | 147,997,120 Shares (L) | 9.87% |
| Ping An Insurance (Group) Company of China, Ltd. [4] | Interest in controlled corporation | 147,997,120 Shares (L) | 9.87% |

*Notes:*

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

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

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

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

## CONNECTED TRANSACTIONS

Particulars of the non-exempt connected transaction and continuing connected transactions are set out below:

## CONTINUING CONNECTED TRANSACTION EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL

### 1. Shandong Nanshan Finance Lease Agreement

*Principal terms*

On 25 July 2016, Nanshan Leasing and Shandong Nanshan International Flight Co., Ltd.* (山東南山國際飛行有限公司("Shandong Nanshan")) entered into a finance lease agreement (as supplemented from time to time) (together, the "Shandong Nanshan Finance Lease Agreement"), pursuant to which Nanshan Leasing provided Shandong Nanshan with a finance lease with the following principal terms:

| Lessor | Lessee | Leased properties | Commencement date | Term | Rental |
|---|---|---|---|---|---|
| Nanshan Leasing | Shandong Nanshan | Three light aircrafts | January 2017 | 60 months | approximately RMB9.47 million |

*Pricing policy*

The rental under the Shandong Nanshan Finance Lease Agreement is determined, taking into account (i) the cost of financing of the leased properties; (ii) the rate charged by the Group for finance lease provided to Independent Third Parties; and (iii) the prevailing market rate for finance leasing transactions of comparable nature.

*Historical transaction amounts*

For the years ended 31 December 2016, 31 December 2017 and 31 December 2018, the aggregate rentals (representing principal and income) paid by Shandong Nanshan to the Group were approximately RMB76,000, RMB1.5 million and RMB1.9 million, respectively.

*Annual caps*

The rental to be paid by Shandong Nanshan to Nanshan Leasing will not exceed the annual caps of RMB2.8 million, RMB2.8 million and RMB2.8 million for each of the years ending 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

*Basis of annual caps*

The Directors confirm that the annual caps in respect of the Shandong Nanshan Finance Lease Agreement are determined on normal commercial terms with reference to the rental per annum payable under the Shandong Nanshan Finance Lease Agreement.

*Listing Rules implications*

Since the highest relevant percentage ratio under the Listing Rules in respect of the transaction contemplated under the Shandong Nanshan Finance Lease Agreement is expected to be, on an annual basis, more than 0.1% but less than 5%, such continuing connected transaction will, upon Listing, be subject to the announcement, annual review and annual reporting requirements, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

| Nature of transaction | Proposed annual cap for the year ending 31 December 2019 (RMB'000) | 2020 (RMB'000) | 2021 (RMB'000) |
|---|---|---|---|
| 1. Union Capital Finance Lease Agreement | 40,900 | 40,700 | 41,200 |
| 2. ABS Guarantee | 79,000 | N/A | N/A |

### 1. Union Capital Finance Lease Agreement

*Principal terms*

On 10 July 2015, Nanshan Baotian (Tianjin) Leasing Co., Ltd.* (南山寶田(天津)租賃有限公司) ("Nanshan Baotian") and Union Capital entered into a finance lease agreement, and all rights and obligations of Nanshan Baotian under the finance lease agreement were subsequently assigned to Baoqing Alliance Limited ("Baoqing Alliance BVI") by way of a three-party assignment agreement dated 9 November 2015. On 10 November 2015 and 11 April 2016, Baoqing Alliance BVI and Union Capital entered into a supplemental agreement and second supplemental agreement (together, the "Union Capital Finance Lease Agreement"), respectively. The followings are the principal terms of Union Capital Finance Lease Agreement:

| Lessor | Lessee | Leased properties | Commencement date | Term | Rental | Effective interest rate |
|---|---|---|---|---|---|---|
| Baoqing Alliance BVI | Union Capital | Business jet aircraft | May 2016 | 84 months | approximately US$53.14 million | 4.54% as at 31 December 2016, 5% as at 31 December 2017 and 5.94% as at 31 August 2018 |

*Pricing policy*

The rental under the Union Capital Finance Lease Agreement is determined by taking into account (i) the cost of financing of the leased property; (ii) the rate charged by the Group for finance lease provided to Independent Third Parties; and (iii) the prevailing market rate for finance lease transactions of comparable nature. The financing under the Union Capital Finance Lease Agreement is a back-to-back arrangement supported by a borrowing from a commercial bank. As such, the interest rate under the Union Capital Finance Lease Agreement was determined with reference to the cost of such borrowing.

*Historical transaction amounts*

For the years ended 31 December 2016, 31 December 2017 and 31 December 2018, the aggregate rentals (representing principal and income) paid by Union Capital to the Group were approximately RMB25.2 million, RMB32.2 million and RMB34.1 million, respectively.

*Annual caps*

For the years ending 31 December 2019, 31 December 2020 and 31 December 2021, the rental per annum payable under the Union Capital Finance Lease Agreement shall not exceed the annual caps of RMB40.9 million, RMB40.7 million and RMB41.2 million, respectively.

*Basis of annual caps*

The Directors confirm that the annual caps in respect of the Union Capital Finance Lease Agreement are determined on normal commercial terms with reference to the total rental per annum payable under the Union Capital Finance Lease Agreement.

*Listing Rules implications*

Since the highest relevant percentage ratio under the Listing Rules in respect of the transaction contemplated under the Union Capital Finance Lease Agreement is expected to be, on an annual basis, more than 5%, such continuing connected transaction will, upon Listing, be subject to the announcement, annual review, annual reporting, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

**2. ABS Guarantee**

*Description of the transaction*

Nanshan Leasing and Cinda Securities Co. Ltd* (信達證券股份有限公司) ("Cinda Securities") entered into a series of agreements (hereinafter referred as the "Asset Management Agreements") on 16 August 2016; pursuant to which the finance lease receivables and the security interests associated in the Asset Management Agreements (the "Debts") originally held by Nanshan Leasing were securitised into 12 tranches of priority asset backed securities together with a tranche of secondary asset backed securities in an aggregate amount of approximately RMB492 million ("ABS") with Cinda Securities as the entrusted institution for the issuance and sale of the ABS. The equivalent liability of Nanshan Leasing, which would owe Cinda Securities under the ABS in the event of the Debts defaulting, is guaranteed by Nanshan Group (the "ABS Guarantee") in the securitisation. As such, the amount payable by Nanshan Leasing under the ABS, represents the amount guaranteed by Nanshan Group under the ABS Guarantee. The ABS Guarantee therefore constitutes a continuing connected transaction of the Group.

*Historical transaction amounts*

As at 31 December 2016, 31 December 2017 and 31 December 2018, the aggregate outstanding principal amounts and interests under the ABS guaranteed by Nanshan Group were approximately RMB590.4 million, RMB294.9 million and RMB63.1 million, respectively.

*Annual caps*

For the year ending 31 December 2019, the amount guaranteed by Nanshan Group under the ABS Guarantee shall not exceed the annual cap of RMB79 million. No annual cap is set for the years ending 31 December 2020 and 31 December 2021 as the ABS Guarantee will expire on 30 June 2019.

*Pricing policy and basis of annual caps*

As Nanshan Group guarantees the payment obligations of Nanshan Leasing under the ABS, the annual caps are determined with reference to such obligations under the ABS Guarantee for the year ending 31 December 2019, which are based on the outstanding liabilities to be paid by Nanshan Leasing under the ABS from time to time.

*Listing Rules implications*

As the highest applicable percentage ratio under the Listing Rules calculated with reference to the proposed annual caps for the year ending 31 December 2019 shown above is more than 5%, the transactions contemplated under the ABS Guarantee will be subject to the annual review, annual reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditor to report on the Group's continuing connected transactions and the auditor has confirmed that the Group's continuing connected transactions are in accordance with Rule 14A.56 of the Listing Rules and has issued an assurance report containing their findings and conclusions accordingly.

The INEDs have confirmed that the continuing connected transactions are in accordance with Rule 14A.55 of the Listing Rules. Specifically, the independent non-executive Directors have reviewed the continuing connected transactions and have confirmed that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms or on terms no less favourable than those available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of each of the connected transactions set out above.

Details of material related party transactions entered into by the Group are set out in Note 35 to the consolidated financial statements. Except for those described in the section of "Connected Transactions" above, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with, none of those related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

## SHARE OPTION SCHEME

On 20 February 2019, the Company conditionally approved and adopted the share option scheme (the "Share Option Scheme") in accordance with the provision of Chapter 17 of the Listing Rules.

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 "Option") shall be determined by the Board (or as the case may be, including, where required under 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 Options 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 Option to any participant as the Board may determine. The number of shares which may be issued pursuant to the exercise of the Options to be granted under the Share Option Scheme is 150,000,000 in total which is not exceeding 10% of all the shares in issue as at the date of Listing of the Company on the Main Board of the Stock Exchange on 15 March 2019.

The total number of shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme of the Company, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof. The amount payable by the grantee of an Option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

The exercise price shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an Option is offered to a Participant (the "Offer Date"), which must be a business day; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) Business Days immediately preceding the Offer Date; and (iii) the nominal value of a share on the date of grant of the Option, provided that in the event of fractional prices, the exercise price per share shall be rounded upwards to the nearest whole cent.

There were no share options outstanding under the Share Option Scheme nor were any Option granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme for the period from the date of Listing up to the date of this report.

The Company by resolution in a general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Option will be offered but Option granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

## DONATIONS

No charitable and other donations were made by the Group during the year ended 31 December 2018.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme no, equity-linked agreements were entered into during the year ended 31 December 2018.

# REPORT OF THE DIRECTORS

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group persists in maintaining good corporate governance and operating in compliance with the laws and integrity through abidance by relevant laws and regulations, industry regulations and business ethics. For the year ended 31 December 2018 and up to the date of this report, the Company had not been and were not a party to any material legal, arbitral or administrative proceedings, and the Company was not aware of any pending or threatened legal, arbitral or administrative proceedings against the Company or any of the Directors which could have a material adverse effect on the Company's operations or financial condition.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float for the issued Shares as required under the Listing Rules.

## EVENT AFTER THE REPORTING PERIOD

Save for the Listing on 15 March 2019 and those as disclosed in this report, the Group does not have any material subsequent event after 31 December 2018 and up to the date of this report.

## MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2018 and up to the date of this report, to the best information, knowledge and belief of the Directors after making all reasonable enquiries, the Company was not involved in any legal litigation or arbitration of material importance in which it served as a defendant.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its subsidiaries or its holding companies was a party or were parties and in which a Director or any entities connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Period.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the prospectus of the Company dated 28 February 2019, there was no contract of significance between the Company or its holding company or any of its subsidiaries and any controlling shareholder or any of its subsidiaries for the Period.

During the Period, none of the Company or any of its subsidiaries has entered into any contract of significance for the provision of services by any controlling shareholders or any of its subsidiaries.

## TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders by reason of their holding of the Company's listed securities.

# REPORT OF THE DIRECTORS

## BUSINESS REVIEW

Detailed business review is set out in the section of "Management Discussion and Analysis" in this report from pages 4 to 10. Future development of the company's business is set out in the section of "Chairman's Statement" on page 3. As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

## CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the "Corporate Governance Report" on page 19 of this report.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by Messrs. Deloitte Touche Tohmatsu and they have issued an unqualified opinion. Messrs. Deloitte Touche Tohmatsu shall retire and, being eligible, offer themselves for re-appointment at the annual general meeting. A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company and to authorise the Directors to fix the auditors' remuneration will be proposed at the forthcoming AGM.

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

Hong Kong, 23 April 2019

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE SHAREHOLDERS OF**
**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)*

## OPINION

We have audited the consolidated financial statements of International Alliance Financial Leasing Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 127, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Expected credit loss provision of finance lease receivables** | |
| We identified the expected credit loss ("ECL") provision of finance lease receivables as a key audit matter as finance lease receivables are material to the Group, and the management of the Group exercises significant judgements on whether credit risk of a finance lease receivable has increased significantly since initial recognition, whether a finance lease receivable is credit-impaired, and estimation in key inputs used for measuring ECL, which including probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD").<br><br>As disclosed in Note 2 to the consolidated financial statements, in the current year, the Group adopted IFRS 9 and recognised impairment losses on finance lease receivables on the basis of ECL.<br><br>Accounting policies and significant accounting estimates and judgments used to determine the ECL provision of finance lease receivables are disclosed in Notes 3, 16 and 34 to the consolidated financial statements, respectively. | Our procedures in relation to ECL provision of finance lease receivables included:<br><br>• Understanding key controls in relation to ECL impairment assessment;<br><br>• Understanding the ECL model used by the Group;<br><br>• Utilising internal expert to assist in evaluating the critical assumptions and parameters used, including credit risk determination, PD, LGD and EAD;<br><br>• Testing the completeness and accuracy of the data input in the ECL model;<br><br>• Performing credit review of all finance lease receivables to determine if for a finance lease receivable, its credit risk has increased significantly since initial recognition or is credit-impaired, and reasonableness of expected future cash flows from the lessees, guarantors, or disposal of underlying assets to determine LGD;<br><br>• Testing subsequent settlements of credit-impaired finance lease receivables, by inspecting supporting documents in relation to cash receipt from lessees subsequent to the end of the current reporting period; and<br><br>• Evaluating the disclosures regarding the impairment assessment of finance lease receivables in Notes 3, 16 and 34 to the consolidated financial statements. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Shi Chung Fai.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Revenue | 6 | **358,061** | 308,747 |
| Other income, gains or losses | 7 | **14,236** | 12,626 |
| Total revenue and other income, gains or losses | | **372,297** | 321,373 |
| Finance cost | 8 | **(241,557)** | (203,995) |
| Net exchange gains/(losses) | | **1,990** | (7,392) |
| Staff costs | | **(12,635)** | (14,397) |
| Listing expenses | | **(10,837)** | (4,525) |
| Other operating expenses | | **(21,226)** | (22,965) |
| Impairment losses | 9 | **(25,349)** | (15,870) |
| Profit before income tax | 10 | **62,683** | 52,229 |
| Income tax expense | 11 | **(22,085)** | (15,653) |
| Profit for the year | | **40,598** | 36,576 |
| Other comprehensive income/(expenses): | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation | | **1,899** | (734) |
| Total comprehensive income for the year | | **42,497** | 35,842 |
| Earnings per share | | | |
| (Expressed in RMB Yuan per share) | | | |
| – Basic | 13 | **0.0404** | 0.0371 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Plant and equipment | 15 | **56** | 124 |
| Intangible assets | | **2,484** | 2,834 |
| Finance lease receivables | 16 | **2,608,169** | 3,080,912 |
| Prepayment and other receivables | 18 | **3,750** | – |
| Deferred tax assets | 19 | **29,285** | 29,783 |
| | | **2,643,744** | 3,113,653 |
| Current assets | | | |
| Finance lease receivables | 16 | **1,106,050** | 1,035,272 |
| Amounts due from related companies | 17 | **107** | 102 |
| Prepayment and other receivables | 18 | **44,326** | 188,616 |
| Bank balances | 20 | **418,043** | 425,847 |
| | | **1,568,526** | 1,649,837 |
| Current liabilities | | | |
| Other payables and accrued expenses | 21 | **2,314** | 12,069 |
| Deposits from finance lease customers | 16 | **6,239** | 21,873 |
| Income tax payables | | **4,410** | 9,073 |
| Deferred income | 22 | **13,638** | 15,957 |
| Borrowings | 23 | **724,377** | 1,547,269 |
| Bonds issued | 24 | **500,933** | 668,190 |
| | | **1,251,911** | 2,274,431 |
| Net current assets/(liabilities) | | **316,615** | (624,594) |
| Total assets less current liabilities | | **2,960,359** | 2,489,059 |
| Capital and reserves | | | |
| Share capital | 26 | **1** | 1 |
| Reserves | 27 | **941,995** | 909,495 |
| Total equity | | **941,996** | 909,496 |
| Non-current liabilities | | | |
| Deposits from finance lease customers | 16 | **158,567** | 144,231 |
| Deferred income | 22 | **15,526** | 24,264 |
| Borrowings | 23 | **1,568,270** | 997,962 |
| Bonds issued | 24 | **276,000** | 413,106 |
| | | **2,018,363** | 1,579,563 |
| | | **2,960,359** | 2,489,059 |

The consolidated financial statements on pages 49 to 127 were approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

**Mr. Li, Luqiang**
*DIRECTOR*

**Ms. Xu, Juan**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | | | Reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Surplus reserve RMB'000 | Translation reserve RMB'000 | Retained profits RMB'000 | Subtotal RMB'000 | Total RMB'000 |
| At 1 January 2017 | | 1 | 811,909 | (42,520) | 5,691 | (1,435) | 31,078 | 804,723 | 804,724 |
| Profit and other comprehensive expenses for the year | | – | – | – | – | (734) | 36,576 | 35,842 | 35,842 |
| Issue of Series A and B shares | 26, 27(a) | – | 68,930 | – | – | – | – | 68,930 | 68,930 |
| Transfer to statutory surplus reserve | 27 (c) | – | – | – | 3,617 | – | (3,617) | – | – |
| At 31 December 2017 | | 1 | 880,839 | (42,520) | 9,308 | (2,169) | 64,037 | 909,495 | 909,496 |
| Adjustments for adoption of new accounting standard | 2 | – | – | – | – | – | (9,997) | (9,997) | (9,997) |
| At 1 January 2018 (restated) | | **1** | **880,839** | **(42,520)** | **9,308** | **(2,169)** | **54,040** | **899,498** | **899,499** |
| Profit and other comprehensive income for the year | | **–** | **–** | **–** | **–** | **1,899** | **40,598** | **42,497** | **42,497** |
| Transfer to statutory surplus reserve | 27(c) | **–** | **–** | **–** | **5,027** | **–** | **(5,027)** | **–** | **–** |
| At 31 December 2018 | | **1** | **880,839** | **(42,520)** | **14,335** | **(270)** | **89,611** | **941,995** | **941,996** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | **62,683** | 52,229 |
| Adjustments for: | | | |
| Losses on disposal of plant and equipment | *10* | **–** | 40 |
| Depreciation | *10* | **68** | 936 |
| Amortisation of intangible assets | *10* | **350** | 350 |
| Investment income | *7* | **(34)** | (6) |
| Net exchange (gains)/losses | | **(1,990)** | 7,392 |
| Finance cost | | **241,557** | 203,995 |
| Impairment losses | *9* | **25,349** | 15,870 |
| Operating cash flows before movement in working capital | | **327,983** | 280,806 |
| Decrease/(increase) in finance lease receivables | | **447,518** | (588,116) |
| Decrease/(increase) in prepayment and other receivables | | **64,131** | (83,738) |
| (Decrease)/increase in other payables and accrued expenses | | **(10,122)** | 9,034 |
| (Decrease)/increase in deferred income | | **(11,057)** | 9,635 |
| (Decrease)/increase in deposits from finance lease customers | | **(13,706)** | 37,667 |
| Cash generated from/(used in) operating activities | | **804,747** | (334,712) |
| Income tax paid | | **(23,363)** | (18,383) |
| **Net cash generated from/(used in) operating activities** | | **781,384** | (353,095) |
| **Investing activities** | | | |
| Withdrawal from restricted bank balances | | **160,779** | 3,050 |
| Placement of restricted bank balances | | **(187,532)** | (70) |
| Interests received from restricted bank balances | | **34** | 6 |
| Proceeds on disposal of plant and equipment | | **–** | 10 |
| Repayments from related companies | | **–** | 6 |
| **Net cash (used in)/generated from investing activities** | | **(26,719)** | 3,002 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018 *(Continued)*

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Issue of ordinary shares | | – | 68,930 |
| Proceeds from bonds issued | 25 | **360,000** | 905,000 |
| Repayment of bonds issued | 25 | **(670,390)** | (386,563) |
| Payments for the costs of bonds issued | 25 | – | (4,910) |
| Proceeds from borrowings | 25 | **2,154,000** | 2,626,000 |
| Repayment of borrowings | 25 | **(2,424,115)** | (1,425,876) |
| Advances from related companies | 25 | – | 244,042 |
| Repayment to related companies | 25 | – | (1,543,098) |
| Cash paid for issue costs | 25 | **(4,637)** | (1,800) |
| Interest paid for bonds issued | 25 | **(64,877)** | (25,261) |
| Interest paid for borrowings | 25 | **(160,566)** | (128,422) |
| Interest paid for related companies | 25 | – | (18,435) |
| **Net cash (used in)/generated from financing activities** | | **(810,585)** | 309,607 |
| Net decrease in cash and cash equivalents | | **(55,920)** | (40,486) |
| Cash and cash equivalents at beginning of the year | | **425,827** | 504,673 |
| Effects of foreign exchange rate changes | | **21,363** | (38,360) |
| **Cash and cash equivalents at end of the year** | 29 | **391,270** | 425,827 |

## 1. GENERAL INFORMATION

International Alliance Financial Leasing Co., Ltd. (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on 19 January 2015, with a registered capital of US$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 01563.

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

The 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. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014-2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The Group had early applied IFRS 15 *Revenue from Contracts with Customers* in prior year which are mandatorily effective for the Group for the annual periods beginning on 1 January 2018.

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that had not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that had already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating the comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

The followings are impacts on initial application of IFRS 9 at initial recognition:

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### IFRS 9 Financial Instruments and the related amendments *(Continued)*

- **Classification and measurement**

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount under IAS 39 as at 31 December 2017 *RMB'000* | Additional loss allowance recognised under IFRS 9 *RMB'000* | New carrying amount under IFRS 9 as at 1 January 2018 *RMB'000* |
|---|---|---|---|---|---|
| Finance lease receivables *(Note 16)* | N/A | N/A | 4,116,184 | (12,449) | 4,103,735 |
| Amounts due from related companies *(Note 17)* | Loans and receivables | Financial assets at amortised cost | 102 | – | 102 |
| Other receivables *(Note 18)* | Loans and receivables | Financial assets at amortised cost | 94,385 | (435) | 93,950 |
| Bank balances *(Note 20)* | Loans and receivables | Financial assets at amortised cost | 425,847 | – | 425,847 |
| Deposits from finance lease customers *(Note 16)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 166,104 | – | 166,104 |
| Other payables *(Note 21)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 8,206 | – | 8,206 |
| Borrowings *(Note 23)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 2,545,231 | – | 2,545,231 |
| Bonds issued *(Note 24)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 1,081,296 | – | 1,081,296 |

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above is resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset. The change in measurement category of different financial assets has had no impact on their respective carrying amounts on initial application.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### IFRS 9 Financial Instruments and the related amendments *(Continued)*

- **Impairment**

The following table shows the reconciliation of the closing impairment allowance in accordance with IAS 39 as at 31 December 2017 to the opening impairment allowance determined in accordance with IFRS 9 as at 1 January 2018. Changes to the impairment allowance under IFRS 9 are due to remeasurement of impairment using the expected credit loss requirements.

| | Finance lease receivables | Other receivables | Deferred tax assets | Reserves |
|---|---|---|---|---|
| Closing balance at 31 December 2017 – IAS 39 | 4,116,184 | 94,385 | 29,783 | (909,495) |
| Effect arising from initial application of IFRS 9: | | | | |
| Remeasurement impairment under ECL model | (12,449) | (435) | 2,887 | 9,997 |
| Opening balance at 1 January 2018 | 4,103,735 | 93,950 | 32,670 | (899,498) |

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### Impacts on opening consolidated statement of financial position arising from the application of all new standards and amendments

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | 31 December 2017 (Audited) *RMB'000* | IFRS 9 *RMB'000* | 1 January 2018 (Restated) *RMB'000* |
|---|---|---|---|
| Non-current assets | | | |
| Finance lease receivables | 3,080,912 | (11,089) | 3,069,823 |
| Deferred tax assets | 29,783 | 2,887 | 32,670 |
| Current assets | | | |
| Finance lease receivables | 1,035,272 | (1,360) | 1,033,912 |
| Prepayment and other receivables | 188,616 | (435) | 188,181 |
| Net current liabilities | (624,594) | (1,795) | (626,389) |
| Total assets less current liabilities | 2,489,059 | (9,997) | 2,479,062 |
| Capital and reserves | | | |
| Reserves | 909,495 | (9,997) | 899,498 |

*Note:* For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### New and amendments to IFRSs in issue but not yet effective

The Group has not yet applied newly established/amended IFRSs which are related to the Group and have already been issued but not effective.

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRS 17 | Insurance Contracts[3] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IFRS 3 | Definition of a business[4] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[5] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2015 – 2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sale and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

In contrast to the lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB7.0 million as disclosed in Note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### IFRS 16 Leases *(Continued)*

In addition, the Group currently considers refundable rental deposits paid of RMB1.5 million as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Upon application of IFRS 16, the Group will apply the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial assets within the scope of IFRS 9. In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. In addition, the Groups elected to account for those leases which the lease term ends within 12 months of the date of initial application in the same way as short-term leases.

Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

### Revenue recognition

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents service (or a bundle of services) that is distinct or a series of distinct services that are substantially the same.

Control of the services is transferred at a point in time and revenue is recognised at a point in time when the customer obtains control of the distinct service.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

**Interest income and expense**

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in profit or loss using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Advisory fee income**

The Group earns advisory fee income from a range of services it provides to its customers at a point in time. Revenue for those services is recognised when the transactions are completed.

**Costs to fulfil a contract**

The Group incurs costs to fulfil a contract in its advisory service. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the services to which the assets relate. The asset is subject to impairment review.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessor**

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

**The Group as lessee**

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

### Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans, including government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before income tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

**Deferred income tax**

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Current tax and deferred tax for the year**

Current and deferred tax are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Plant and equipment

Plant and equipment comprises office equipment, electronic equipment and leasehold improvements for administrative purpose. Plant and equipment are presented at costs less subsequent accumulated depreciation and accumulated impairment losses (if any) in the consolidated statement of financial position.

Depreciation is recognised so as to write off the costs of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of plant and equipment held by the Group for administrative purpose are as follows:

| Classes | Estimated residual value rates | Useful lives |
|---|---|---|
| Office plant and equipment | 5% | 5 years |
| Electronic plant and equipment | 5% | 3 years |
| Leasehold improvements | – | 3 years |

### Intangible assets

**Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

All intangible assets of the Group are office software, which mainly includes finance leasing industry-specific business software, with an estimated useful life of 10 years. The useful life of the software is estimated based on the expected usage of the software and their technological obsolescence.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised in profit or loss and is included in the "other income, gains or losses" line item.

**Financial assets**

*Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2).*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Financial assets that meet the following conditions are subsequently measured at financial assets at fair value through other comprehensive income:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

(b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at financial assets at fair value through profit or loss ("FVTPL").

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Amortised cost and interest income**

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

**Impairment of financial assets and finance lease receivables (upon application IFRS 9 with transitions in accordance with Note 2)**

The Group recognises a loss allowance for ECL on financial assets and finance lease receivables which are subject to impairment under IFRS 9 (including other receivables and finance lease receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

**Significant increase in credit risk**

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument and finance lease receivables as at the reporting date with the risk of a default occurring on the financial instrument and finance lease receivables as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Significant increase in credit risk** *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument and finance lease receivables' external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- significant increases in credit risk on other financial instruments and finance lease receivables of the same debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument and finance lease receivables have not increased significantly since initial recognition if the financial instrument and finance lease receivables are determined to have low credit risk at the reporting date. Financial instrument and finance lease receivables are determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers financial asset and finance lease receivables to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Definition of default**

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that other receivables and finance lease receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when financial asset and finance lease receivables are more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Credit-impaired financial assets and finance lease receivables**

Financial assets and finance lease receivables are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset and finance lease receivables have occurred. Evidence that financial asset and finance lease receivables are credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

**Write-off policy**

The Group writes off financial asset and finance lease receivables when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of finance lease receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets and finance lease receivables written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Measurement and recognition of ECL**

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's other receivables and finance lease receivables are assessed separately);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

**Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)**

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amounts due from related companies, other receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

**Impairment of financial assets and finance lease receivables (before application of IFRS 9 on 1 January 2018)**

Financial assets and finance lease receivables are assessed for indicators of impairment at the end of each reporting period. Financial assets and finance lease receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets and finance lease receivables, the estimated future cash flows of the financial assets and finance lease receivables have been affected.

For all financial assets and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial reorganisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets and finance lease receivables carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets and finance lease receivables' original effective interest rate.

The carrying amounts of the financial assets and finance lease receivables are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a financial asset or a finance lease receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Impairment of financial assets and finance lease receivables (before application of IFRS 9 on 1 January 2018)** *(Continued)*

For financial assets and finance lease receivables measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

### Financial liabilities and equity

**Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

**Financial liabilities**

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities and equity *(Continued)*

**Financial liabilities at amortised cost**

Financial liabilities including deposits from finance lease customers, other payables, borrowings and bonds issued are subsequently measured at amortised cost, using the effective interest method.

**Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 4. KEY SOURCES OF CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These judgements, estimates and assumptions are made based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following critical judgements, estimates and assumptions are made in applying accounting policies by the Group and have significant impact on amounts recognised in consolidated financial statements:

### Estimated impairment of finance lease receivables

Since the adoption of IFRS 9 on 1 January 2018, management of the Group estimates the amount of loss allowance for ECL on finance lease receivables based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at 31 December 2018, the carrying amount of finance lease receivables amounted to RMB3,714.2 million (net of loss allowance of RMB68.0 million).

## 4. KEY SOURCES OF CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATION UNCERTAINTIES *(Continued)*

### Income taxes

There are certain transactions and activities for which the ultimate tax determination is subject to the final approval of annual tax return the group entities filed with relevant tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made. As at 31 December 2018, deferred tax assets of RMB29.3 million (31 December 2017: RMB29.8 million) have been recognised. Current income tax expense for the year ended 31 December 2018 is RMB18.7 million (31 December 2017: RMB17.4 million).

## 5. SEGMENT INFORMATION

The 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 mainland China, 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 mainland China.

(b) The non-current assets are mainly located in mainland China.

### Information about major customers

There was no single customer who contributed 10% or more of the total revenue to the Group for the years ended 31 December 2018 and 2017.

## 6. REVENUE

| | **2018** **RMB'000** | 2017 *RMB'000* |
|---|---|---|
| Finance lease income | **354,571** | 300,640 |
| Advisory fee income *(Note)* | **3,490** | 8,107 |
| Total | **358,061** | 308,747 |

*Note:* Advisory fee income were recognised at a point in time when those services were completed. The Group has no unsatisfied performance obligations of advisory service as at 31 December 2018 and 2017.

## 7. OTHER INCOME, GAINS OR LOSSES

| | **2018** **RMB'000** | 2017 *RMB'000* |
|---|---|---|
| Government grants *(Note 1)* | **7,327** | 6,472 |
| Investment income | **34** | 6 |
| Bank interest income | **567** | 755 |
| Entrusted loan income | **806** | 5,117 |
| Compensation for early termination of finance lease arrangement *(Note 2)* | **5,482** | – |
| Others | **20** | 276 |
| Total | **14,236** | 12,626 |

*Note 1:* Government grants represent local governments' offer for the refund of value-added tax and income tax to enterprises in the finance leasing industry.

*Note 2:* In February 2018, a subsidiary of Nanshan Group Co., Ltd. ("Nanshan Group") early terminated a finance lease agreement which would be matured in May 2028, and agreed to pay compensation of approximately RMB5.5 million to the Group.

## 8. FINANCE COST

| | **2018** **RMB'000** | 2017 *RMB'000* |
|---|---|---|
| Interest expense on liabilities | | |
| – Borrowings | **158,245** | 121,513 |
| – Due to related companies | **–** | 18,435 |
| – Bonds payable | **70,904** | 54,067 |
| – Imputed interest on deposits from finance lease customers | **12,408** | 9,980 |
| Total | **241,557** | 203,995 |

## 9. IMPAIRMENT LOSSES

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Finance lease receivables *(Note 16)* | **25,106** | 14,068 |
| Other receivables *(Note 18)* | **243** | 1,802 |
| Total | **25,349** | 15,870 |

## 10. PROFIT BEFORE INCOME TAX

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Profit before income tax has been arrived at after charging: | | |
| Directors' remuneration *(Note 14)* | | |
| – Salaries and bonus | **2,183** | 1,704 |
| – Social welfare | **441** | 268 |
| Salaries, bonus, allowances, social welfare and other employee benefits | **10,011** | 12,425 |
| Total staff costs | **12,635** | 14,397 |
| Auditors' remuneration | **2,731** | 2,089 |
| Depreciation | **68** | 936 |
| Amortisation | **350** | 350 |
| Losses on disposal of plant and equipment | **–** | 40 |
| Minimum lease payments under operating leases | **5,973** | 6,300 |

## 11. INCOME TAX EXPENSE

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Taxation for the year | | |
| Current income tax | | |
| The People's Republic of China (the "PRC") Enterprise Income Tax *(Note a)* | **18,700** | 17,423 |
| Hong Kong Profits Tax *(Note b)* | **–** | – |
| Income tax in other countries *(Notes c, d)* | **–** | – |
| Prior year income tax adjustment | **–** | (70) |
| Deferred income tax *(Note 19)* | **3,385** | (1,700) |
| | **22,085** | 15,653 |

## 11. INCOME TAX EXPENSE *(Continued)*

The taxation charge for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** ***RMB'000*** | 2017 *RMB'000* |
|---|---|---|
| Profit before income tax | **62,683** | 52,229 |
| Tax at the statutory rate of 25% | **15,671** | 13,057 |
| Income not taxable for tax purpose | **(943)** | (563) |
| Expenses not deductible for tax purpose *(Note e)* | **5,734** | 2,314 |
| Effect of unused tax losses not recognised as deferred tax assets | **1,569** | 837 |
| Effect of deductible temporary differences not recognised | **54** | 78 |
| Prior year income tax adjustment | **–** | (70) |
| Income tax expense for the year | **22,085** | 15,653 |

The unused tax losses as at 31 December 2018 and 2017 are analysed as follows:

| | **2018** ***RMB'000*** | 2017 *RMB'000* |
|---|---|---|
| Unused tax losses not recognised as deferred tax assets | **12,424** | 6,146 |
| Potential tax benefit @ 25% for PRC entities | **8** | 7 |
| Potential tax benefit @ 16.5% for Hong Kong entity | **2,045** | 1,010 |

The expiry dates of the unused tax losses as at 31 December 2018 and 2017 are listed as follows:

| | **2018** ***RMB'000*** | 2017 *RMB'000* |
|---|---|---|
| Year 2020 for PRC entities | **17** | 17 |
| Year 2021 for PRC entities | **6** | 6 |
| Year 2022 for PRC entities | **1** | 1 |
| Year 2023 for PRC entities | **6** | – |
| Indefinite for Hong Kong entity | **12,394** | 6,122 |
| Total | **12,424** | 6,146 |

## 11. INCOME TAX EXPENSE *(Continued)*

Notes:

**(a) PRC Enterprise Income Tax**

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the reporting period, based on the existing legislation, interpretations and practices in respect thereof.

**(b) Hong Kong Profits Tax**

Hong Kong profit tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the reporting period.

**(c) Cayman Islands Income Tax**

The Company is incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to Cayman Islands income tax.

**(d) British Virgin Islands ("BVI") Income Tax**

The subsidiaries indirectly held by the Company are incorporated under the laws of BVI as an exempted company with limited liability under the Companies Law of the BVI and are not subject to BVI income tax.

**(e) Expenses not deductible for tax purpose**

Expenses not deductible for tax purpose mainly included the expenses incurred by group entities in Cayman Islands and BVI which are not subject to tax, non-deductible finance costs and non-deductible impairment losses provision on finance lease receivables.

## 12. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year | **40,598** | 36,576 |
| Number of shares: | | |
| Weighted average number of shares in issue *('000)* | **1,005,000** | 987,087 |
| Basic earnings per share *(RMB Yuan)* | **0.0404** | 0.0371 |

The calculation of basic earnings per share during the years ended 31 December 2018 and 2017 are based on the assumption that the Capitalisation Issue (as defined in note 39) had been effective throughout both years.

On 6 April 2017, the Company issued and allotted 8,731,913 Series B shares to Design Time Limited.

On 13 April 2017, the Company issued and allotted 1,130,020 additional Series A shares to PA Investor. The number of shares issued during 2017 has been retrospectively adjusted for the issue as such change in the number of shares issued was without a corresponding change in resources.

During the years ended 31 December 2018 and 2017, there were no potential ordinary shares outstanding. Accordingly, no diluted earnings per share is presented.

## 14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors

The remunerations paid or payable to each of the directors and Chief Executive Officer of the Company (including remunerations paid or payable for their services as employees/directors of other group entities prior to their becoming directors of the Company) by the entities comprising the Group during the reporting period are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Directors' fees | **–** | – |
| Salaries | **2,015** | 1,604 |
| Bonus | **168** | 100 |
| Retirement benefits | **169** | 91 |
| Other social welfare | **272** | 177 |
| Total | **2,624** | 1,972 |

## 14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

### (a) Directors *(Continued)*

| | Directors' fees *RMB'000* | Salaries *RMB'000* | Bonus *RMB'000* | Retirement benefits *RMB'000* | Other social welfare *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Executive directors | | | | | | |
| Mr. Li Luqiang *(i)* | – | 1,115 | 93 | 79 | 112 | 1,399 |
| Mr. Li Zhixuan | – | 576 | 48 | 45 | 80 | 749 |
| Ms. Xu Juan *(ii)* | – | 324 | 27 | 45 | 80 | 476 |
| Non-executive directors | | | | | | |
| Mr. Song Jianpeng | – | – | – | – | – | – |
| Mr. Chen Chih Yung | – | – | – | – | – | – |
| Mr. Gao Guiwei | – | – | – | – | – | – |
| Total | – | 2,015 | 168 | 169 | 272 | 2,624 |

| | Directors' fees *RMB'000* | Salaries *RMB'000* | Bonus *RMB'000* | Retirement benefits *RMB'000* | Other social welfare *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Executive directors | | | | | | |
| Mr. Li Luqiang | – | 1,111 | 100 | 50 | 103 | 1,364 |
| Mr. Li Zhixuan | – | 493 | – | 41 | 74 | 608 |
| Non-executive directors | | | | | | |
| Mr. Song Jianpeng | – | – | – | – | – | – |
| Mr. Chen Chih Yung | – | – | – | – | – | – |
| Mr. Gao Guiwei *(iii)* | – | – | – | – | – | – |
| Total | – | 1,604 | 100 | 91 | 177 | 1,972 |

*Notes:*

(i) Mr. Li Luqiang was the Chief Executive of the Company for the years ended 31 December 2018 and 2017. His remunerations disclosed above cover his role as the Chief Executive of the Company.

(ii) Ms. Xu Juan was appointed as executive director in May 2018.

(iii) Mr. Gao Guiwei was appointed as non-executive director in October 2017.

## 14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

### (a) Directors *(Continued)*

There was no arrangement under which a director of the Company or the chief executive waived or agreed to waive any remuneration during both years.

The executive directors' remunerations shown above were for their services in connection with the management of the affairs of the Company and the Group.

The bonuses are discretionary and determined by reference to the Group's and the individuals' performance.

### (b) Five highest paid individuals

The five individuals whose remunerations were the highest in the Group for the years ended 31 December 2018 and 2017, include three and two directors whose remunerations are reflected in the analysis presented above. The remunerations payable to directors of the Company who are among the five highest paid individuals and the remaining two and three non-director individuals during the reporting period are as follows:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Directors | **2,624** | 1,972 |
| Non-directors | **1,771** | 1,640 |
| Total | **4,395** | 3,612 |

Details of the five highest paid individuals' remunerations are set out below:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Directors: | | |
| Salaries | **2,015** | 1,604 |
| Bonus | **168** | 100 |
| Retirement benefits | **169** | 91 |
| Other social welfare | **272** | 177 |
| Non-directors: | | |
| Salaries | **1,601** | 1,343 |
| Bonus | **30** | 53 |
| Retirement benefits | **45** | 83 |
| Other social welfare | **95** | 161 |

## 14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

### (b) Five highest paid individuals *(Continued)*

The number of the highest paid individuals fell within the following bands are set out below:

| | **2018** | 2017 |
|---|---|---|
| Directors: | | |
| Nil to Hong Kong Dollars ("HKD") 1,000,000 | **2** | 1 |
| HKD1,000,001 to HKD1,500,000 | **–** | – |
| HKD1,500,001 to HKD2,000,000 | **1** | 1 |
| Non-directors: | | |
| Nil to HKD1,000,000 | **1** | 3 |
| HKD1,000,001 to HKD1,500,000 | **1** | – |

## 15. PLANT AND EQUIPMENT

| | **2018** ***RMB'000*** | 2017 *RMB'000* |
|---|---|---|
| **Cost** | | |
| At beginning of the year | **2,854** | 2,934 |
| Disposals | **–** | (80) |
| At end of the year | **2,854** | 2,854 |
| **Accumulated depreciation** | | |
| At beginning of the year | **(2,730)** | (1,824) |
| Provided for the year | **(68)** | (936) |
| Disposals | **–** | 30 |
| At end of the year | **(2,798)** | (2,730) |
| Net book value at end of the year | **56** | 124 |

Plant and equipment mainly includes computers, leasehold improvements, furniture and fixtures.

The gross carrying amounts of fully depreciated plant and equipment that are still in use are as follows:

| | **2018** ***RMB'000*** | 2017 *RMB'000* |
|---|---|---|
| Gross carrying amounts | **2,657** | – |

## 16. FINANCE LEASE RECEIVABLES

(1) The minimum lease receivables are set out below:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Not later than one year | **1,392,374** | 1,414,530 |
| Later than one year and not later than five years | **3,020,820** | 3,174,564 |
| Later than five years | **12,220** | 359,345 |
| Gross amount of finance lease receivables | **4,425,414** | 4,948,439 |
| Less: Unearned finance income | **(643,197)** | (798,642) |
| Present value of finance lease receivables | **3,782,217** | 4,149,797 |
| Represented by: | | |
| Not later than one year | **1,130,439** | 1,043,726 |
| Later than one year and not later than five years | **2,639,843** | 2,773,295 |
| Later than five years | **11,935** | 332,776 |
| Subtotal | **3,782,217** | 4,149,797 |
| Less: Allowances for impairment losses | **(67,998)** | (33,613) |
| Carrying amount of finance lease receivables | **3,714,219** | 4,116,184 |
| Analysed for reporting purposes as: | | |
| Current assets | **1,106,050** | 1,035,272 |
| Non-current assets | **2,608,169** | 3,080,912 |
| Total | **3,714,219** | 4,116,184 |

## 16. FINANCE LEASE RECEIVABLES *(Continued)*

(2) Movements of allowances for impairment losses on finance lease receivables are as follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Individual provisions 12m ECL *RMB'000* | Individual provisions lifetime ECL not credit-impaired *RMB'000* | Individual provisions lifetime ECL credit-impaired *RMB'000* | Collective provisions under IAS 39 *RMB'000* | Total *RMB'000* |
| As at 31 December 2017 | – | – | – | 33,613 | 33,613 |
| Adjustments for adoption of new accounting standards *(Note a)* | 7,485 | 38,577 | – | (33,613) | 12,449 |
| As at 1 January 2018 – As Adjusted | 7,485 | 38,577 | – | – | 46,062 |
| Changes due to finance lease receivables recognised in the opening balance that have: | | | | | |
| – transferred to Lifetime ECL not credit-impaired | (1,169) | 1,169 | – | – | – |
| – transferred to Lifetime ECL credit-impaired | – | (14,260) | 14,260 | – | – |
| Provided for the year *(Note b)* | 3,169 | 23,553 | 19,865 | – | 46,587 |
| Reversal for the year *(Note b)* | (2,665) | (18,816) | – | – | (21,481) |
| Write-offs | – | – | (3,406) | – | (3,406) |
| Foreign currency translation | 37 | 199 | – | – | 236 |
| Balance at end of the year | 6,857 | 30,422 | 30,719 | – | 67,998 |
| Expected loss rate | 0.23% | 4.51% | 28.34% | | 1.80% |

| | 2017 *RMB'000* |
|---|---|
| At beginning of the year | 19,745 |
| Provided for the year | 18,645 |
| Reversal for the year | (4,577) |
| Foreign currency translation | (200) |
| At end of the year | 33,613 |

*Note a:* Following the adoption of IFRS 9 on 1 January 2018, the impairment loss has been assessed using ECL method, with no restatement to prior period comparatives. Information on the adoption of IFRS 9 are set out in Note 2.

*Note b:* There has been no change in the estimation techniques or significant assumptions made during the current year in assessing the loss allowance for the finance lease receivables.

## 16. FINANCE LEASE RECEIVABLES *(Continued)*

(3) The following is a credit quality analysis of finance lease receivables. In the event that an instalment repayment of a finance lease receivables is past due, the entire outstanding balance of the finance lease receivables is classified as past due.

Upon the adoption of IFRS 9, according to the change in the level of credit risk compared with the level at initial adoption, finance lease receivables are classified into 12m ECL, lifetime ECL not credit-impaired and lifetime ECL credit-impaired.

| | Restated balance at 1 January 2018 | | | **As at 31 December 2018** | | |
|---|---|---|---|---|---|---|
| | Present value of finance lease receivables *RMB'000* | Expected credit losses *RMB'000* | Carrying amount *RMB'000* | **Present value of finance lease receivables** ***RMB'000*** | **Expected credit losses** ***RMB'000*** | **Carrying amount** ***RMB'000*** |
| 12m ECL | 3,683,265 | (7,485) | 3,675,780 | **2,999,302** | **(6,857)** | **2,992,445** |
| Lifetime ECL not credit-impaired | 466,532 | (38,577) | 427,955 | **674,518** | **(30,422)** | **644,096** |
| Lifetime ECL credit-impaired | – | – | – | **108,397** | **(30,719)** | **77,678** |
| Total | 4,149,797 | (46,062) | 4,103,735 | **3,782,217** | **(67,998)** | **3,714,219** |

| | As at 31 December 2017 *RMB'000* |
|---|---|
| Neither past due nor impaired | 4,048,249 |
| Past due but not impaired | 101,548 |
| Subtotal | 4,149,797 |
| Less: | |
| Collectively assessed allowance under IAS 39 | (33,613) |
| Net finance lease receivables | 4,116,184 |

## 16. FINANCE LEASE RECEIVABLES *(Continued)*

(3) The following is a credit quality analysis of finance lease receivables. In the event that an instalment repayment of a finance lease receivables is past due, the entire outstanding balance of the finance lease receivables is classified as past due. *(Continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 30 days | **379,567** | 101,548 |
| Over 30 days and within 90 days *(Note a)* | **125,946** | – |
| Over 90 days *(Note b)* | **257,728** | – |
| Total | **763,241** | 101,548 |

*Note a:* 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.

*Note b:* 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.

## 16. FINANCE LEASE RECEIVABLES *(Continued)*

(4) The Group entered into sale and repurchase agreements or clauses (Note 32) with certain counterparties with respect to some of the Group's finance lease receivables, and as a result recognised secured and unguaranteed borrowings and bonds issued. The carrying amounts of such finance lease receivables were approximately RMB2,322.6 million as at 31 December 2018 (31 December 2017: RMB2,150.5 million). The details of such finance lease receivables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| With secured and unguaranteed borrowings issued | **955,288** | 538,423 |
| With bonds issued | **1,367,340** | 1,612,046 |
| Total | **2,322,628** | 2,150,469 |

The underlying assets at original cost of approximately USD115.8 million (equivalent to approximately RMB794.6 million) were pledged as collateral for the Group's secured and guaranteed borrowings as at 31 December 2018 (31 December 2017: USD115.8 million (equivalent to approximately RMB803.3 million)).

(5) Deposits from finance lease customers are used for security purposes. Deposits from finance lease customers are calculated and collected based on certain percentage of entire value of the lease contract, and are refundable to customers in full by end of the lease period according to the terms of the lease contracts. When the lease contract expires, the lessor must return the full lease deposits to the lessee. The balance of deposits from finance lease customers can also be used to settle outstanding lease payments for the corresponding lease contract.

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| The amounts of deposits from finance lease customers | **164,806** | 166,104 |
| Analysed for reporting purposes as: | | |
| Current liabilities | **6,239** | 21,873 |
| Non-Current liabilities | **158,567** | 144,231 |
| Total | **164,806** | 166,104 |

## 16. FINANCE LEASE RECEIVABLES *(Continued)*

(6) As at 31 December 2018 and 2017, the annual internal rate of return and average yield of finance lease receivables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Annual internal rate of return | **6.13%~12.55%** | 5.00%~12.41% |
| Average annual internal rate of return | **8.94%** | 7.83% |

(7) As at 31 December 2018 and 2017, the carrying amounts of floating rate of return finance lease receivables and fixed rate of return finance lease receivables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Analysed for reporting purposes as: | | |
| Floating rate of return | **3,307,591** | 3,465,632 |
| Fixed rate of return | **406,628** | 650,552 |
| Total | **3,714,219** | 4,116,184 |

The floating rates of return of finance lease receivables were with reference to the benchmark interest rate of the People's Bank of China ("PBOC Rate") or the London Interbank Offered Rate ("LIBOR"). The rates of return of finance lease receivables were adjusted periodically with reference to the PBOC Rate or LIBOR.

## 17. AMOUNTS DUE FROM RELATED COMPANIES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| JinChuang *(Note)* | **53** | 51 |
| RongJin *(Note)* | **54** | 51 |
| Total | **107** | 102 |

As at 31 December 2018 and 2017, amounts due from related companies were non-trade nature, interest-free and repayable on demand.

*Note:* JinChuang and RongJin are controlled by certain directors of the Company. The amounts due from the above companies are unsecured, interest-free and repayable on demand. The maximum balances outstanding for the years ended 31 December 2018 and 2017 were 0.1 million and 0.1 million, respectively.

## 18. PREPAYMENT AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Deferred issue costs *(Note)* | **8,604** | 3,480 |
| Deductible value-added tax | **22,525** | 90,369 |
| Aircraft maintenance expense paid on behalf of a customer | **9,757** | 8,364 |
| Entrusted loan receivables | **–** | 87,030 |
| Prepaid issue costs and listing expenses | **–** | 364 |
| Others | **10,565** | 1,671 |
| Subtotal | **51,451** | 191,278 |
| Less: Allowances for impairment losses | **(3,375)** | (2,662) |
| Total | **48,076** | 188,616 |
| Analysed for reporting purposes as: | | |
| Current assets | **44,326** | 188,616 |
| Non-current assets | **3,750** | – |
| Total | **48,076** | 188,616 |

*Note:* The costs relating to the issuance of new shares will be allocated to equity after listing.

Movements of allowances for impairment losses are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **2,662** | 876 |
| Adjustments for adoption of new accounting standards *(Note 2)* | **435** | – |
| At beginning of the year – as adjusted | **3,097** | 876 |
| Provided for the year | **243** | 1,802 |
| Foreign currency translation | **35** | (16) |
| At end of the year | **3,375** | 2,662 |

The Group applies the ECL prescribed by IFRS 9 since 1 January 2018. There has been no change in the estimation techniques or significant assumptions made for the year ended 31 December 2018 in assessing the loss allowance for the other receivable.

## 19. DEFERRED TAX ASSETS

For presentation purpose, certain deferred tax assets and deferred tax liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Deferred tax assets | **29,285** | 29,783 |
| | **29,285** | 29,783 |

### Movements in balances of deferred tax assets/liabilities

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Balance at beginning of the year | **29,783** | 28,083 |
| Adjustments for adoption of new accounting standards *(Note 2)* | **2,887** | – |
| (Charge)/Credit to profit or loss | **(3,385)** | 1,700 |
| Balance at end of the year | **29,285** | 29,783 |

| | Deductible/(Taxable) temporary difference As at 31 December | | Deferred tax assets/(liabilities) As at 31 December | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Allowance for impairment | **65,704** | 32,265 | **16,426** | 8,066 |
| Unearned finance lease income | **48,340** | 85,073 | **12,085** | 21,268 |
| Accrued interest expenses | **14,345** | 11,125 | **3,586** | 2,781 |
| Deferred income from finance lease | **(15,801)** | (12,997) | **(3,950)** | (3,249) |
| Deductible losses | **4,555** | 3,667 | **1,138** | 917 |
| Total | **117,143** | 119,133 | **29,285** | 29,783 |

## 19. DEFERRED TAX ASSETS *(Continued)*

Unrecognised deductible temporary differences

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Allowance for impairment | **606** | 388 |
| Potential tax benefit at 25% for PRC entities | **–** | – |
| Potential tax benefit at 16.5% for Hong Kong entity | **100** | 64 |
| Total | **100** | 64 |

## 20. BANK BALANCES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Bank balances | **418,043** | 425,847 |
| Including: restricted bank balances | **26,773** | 20 |

All bank balances of the Group carry interest at prevailing market rates ranging from 0.01% to 0.35% per annum as at 31 December 2018 (31 December 2017: 0.01% to 0.35% per annum).

Restricted bank balances of the Group are used as pledged deposits for borrowings and bonds issued. The Group cannot use them until the related transactions are matured and released.

## 21. OTHER PAYABLES AND ACCRUED EXPENSES

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Receipt in advance from lessees | – | 2,604 |
| Other tax payables | **47** | 423 |
| Accrued payroll | **599** | 600 |
| Amounts due to other leasing company *(Note)* | – | 8,206 |
| Accrued issue costs and listing expenses | **1,111** | – |
| Others | **557** | 236 |
| Total | **2,314** | 12,069 |

All liabilities above are current.

*Note:* Pursuant to sale and purchase agreement entered into between the Group and an independent third party in 2017 with respect to the disposal of the Group's certain finance lease receivables, the considerations were determined based on the remaining outstanding gross finance lease payments of these finance lease receivables as of the agreement date. In addition, the Group agreed to repay to the purchaser, at the final settlement dates by the lessees of these finance lease receivables, part of the consideration received amounting to RMB8,206 thousand, representing the unearned income portion of such finance lease receivables as of the agreement date. The amount was repaid at 26 December 2018.

## 22. DEFERRED INCOME

Deferred income from finance lease is amortised over the lease period and recognised as revenue using effective interest method.

## 23. BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Secured and guaranteed borrowings *(1)* | **402,011** | 429,624 |
| Secured and unguaranteed borrowings *(2)* | **848,126** | 611,916 |
| Unsecured and unguaranteed borrowings | **1,042,510** | 1,503,691 |
| Total | **2,292,647** | 2,545,231 |
| Represented by: | | |
| Borrowing from financial institutions | | |
| – Banks | **788,956** | 1,212,945 |
| Borrowing from other institutions | | |
| – Entrusted loans | **1,503,691** | 1,332,286 |
| Total | **2,292,647** | 2,545,231 |
| Represented by: | | |
| Carrying amount repayable: | | |
| Within one year | **724,377** | 1,547,269 |
| More than one year, but not exceeding two years | **413,809** | 516,374 |
| More than two years, but not exceeding five years | **1,154,461** | 314,751 |
| More than five years | **–** | 166,837 |
| | **2,292,647** | 2,545,231 |
| Less: amounts under current liabilities | **724,377** | 1,547,269 |
| Non-current liabilities | **1,568,270** | 997,962 |

### (1) Secured and guaranteed borrowings

Secured and guaranteed borrowings were secured by underlying assets of the Group as detailed in Note 16, and were also guaranteed by Nanshan Group.

### (2) Secured and unguaranteed borrowings

As at 31 December 2018, the Group's secured and unguaranteed borrowings of RMB848.1 million (31 December 2017: RMB611.9 million) represented the Group's repurchase agreements with certain counterparties to sell Group's finance lease receivables as detailed in Note 16.

## 23. BORROWINGS *(Continued)*

**(3) The exposure of the Group's remaining amounts of fixed-rate borrowings and the contractual maturity dates are as follows:**

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Fixed-rate borrowings: | | |
| Within one year | **560,000** | 1,430,000 |
| More than one year, but not exceeding two years | **331,000** | 400,000 |
| More than two years, but not exceeding five years | **995,350** | 278,999 |

In addition, the Group's variable-rate borrowing interest rate is based on inter-bank offer rates including LIBOR.

The ranges of effective interest rates (which approximate to contractual interest rates) on the Group's borrowings are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Effective interest rate | | |
| Fixed-rate borrowing: | **4.72%-8.50%** | 4.72%-7.54% |
| Floating-rate borrowing: | **3-month LIBOR+3.25%~3.33%** | 3-month LIBOR+3.25%~3.33% |

## 24. BONDS ISSUED

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Asset-backed securities | | |
| – Asset-backed Nanshan Leasing of phase 1 | **–** | 58,961 |
| – Asset-backed Nanshan Leasing of phase 2 | **63,096** | 219,244 |
| – Asset-backed Nanshan Leasing of No.2 | **132,910** | 177,217 |
| – Asset-backed Nanshan Leasing of phase 3 | **215,639** | 625,874 |
| – Asset-backed Nanshan Leasing of No.1 | **365,288** | – |
| Total | **776,933** | 1,081,296 |
| Represented by: | | |
| Carrying amount repayable: | | |
| Within one year | **500,933** | 668,190 |
| More than one year, but not exceeding two years | **87,000** | 413,106 |
| More than two years, but not exceeding five years | **189,000** | – |
| | **776,933** | 1,081,296 |
| Analysed for the purpose of reporting: | | |
| Current liabilities | **500,933** | 668,190 |
| Non-current liabilities | **276,000** | 413,106 |
| | **776,933** | 1,081,296 |

On 28 April 2018, Nanshan Financial Leasing (Tianjin) Co., Ltd. ("Nanshan Leasing") issued asset-backed securities with two tranches, namely Asset-backed Nanshan Leasing of No.1: senior tranche with principal amount of RMB400.0 million, and the principal amount is repaid by instalments; junior tranche with principal amount of RMB20.0 million. Nanshan Leasing holds all junior tranche asset-backed securities.

## 24. BONDS ISSUED *(Continued)*

Details of outstanding bonds issued as at 31 December 2018 are as follows:

| Name of products with priority | Issuing size *(RMB'000)* | Value date | Maturity date | Expected rate of return |
|---|---|---|---|---|
| Nanshan Phase 2 | 30,000 | 08/09/2016 | 31/03/2019 | 5.1% |
| Nanshan Phase 2 | 34,000 | 08/09/2016 | 30/06/2019 | 5.1% |
| Nanshan Phase 3 | 113,752 | 21/08/2017 | 15/01/2019 | 6.6% |
| Nanshan Phase 3 | 65,340 | 21/08/2017 | 15/04/2019 | 6.9% |
| Nanshan Phase 3 | 33,902 | 21/08/2017 | 15/07/2019 | 7.2% |
| Nanshan No.2 | 13,213 | 03/08/2017 | 01/02/2019 | 7.0% |
| Nanshan No.2 | 8,889 | 03/08/2017 | 02/05/2019 | 7.0% |
| Nanshan No.2 | 110,592 | 03/08/2017 | 01/08/2019 | 7.0% |
| Nanshan No.1 | 42,000 | 28/04/2018 | 20/04/2019 | 7.8% |
| Nanshan No.1 | 42,000 | 28/04/2018 | 20/10/2019 | 7.8% |
| Nanshan No.1 | 43,000 | 28/04/2018 | 20/04/2020 | 7.8% |
| Nanshan No.1 | 44,000 | 28/04/2018 | 20/10/2020 | 7.8% |
| Nanshan No.1 | 45,000 | 28/04/2018 | 20/04/2021 | 7.8% |
| Nanshan No.1 | 46,000 | 28/04/2018 | 20/10/2021 | 7.8% |
| Nanshan No.1 | 47,000 | 28/04/2018 | 20/04/2022 | 7.8% |
| Nanshan No.1 | 34,000 | 28/04/2018 | 20/10/2022 | 7.8% |
| Nanshan No.1 | 17,000 | 28/04/2018 | 30/12/2022 | 7.8% |
| | 769,688 | | | |

On 3 August 2017, Nanshan Leasing issued asset-backed securities with two tranches, namely, Asset-backed Nanshan Leasing of No.2: senior tranche with the principal amount of RMB400.0 million, and the principal amount is repaid by instalments; junior tranche with the principal amount of RMB21.6 million. Nanshan Leasing holds part of senior tranche and all junior tranche asset-backed securities.

On 21 August 2017, Nanshan Leasing issued asset-backed securities with two tranches, namely, Asset-backed Nanshan Leasing of phase 3: senior tranche with the principal amount of RMB705.0 million, and the principal amount is repaid by instalments; junior tranche with the principal amount of RMB166.0 million. Nanshan Leasing holds all junior tranche asset-backed securities.

## 24. BONDS ISSUED *(Continued)*

Details of outstanding bonds issued as at 31 December 2017 are as follows:

| Name of products with priority | Issuing size *(RMB'000)* | Value date | Maturity date | Expected rate of return |
|---|---|---|---|---|
| Nanshan Phase 1 | 60,000 | 10/09/2015 | 08/07/2018 | 6.9% |
| Nanshan Phase 2 | 34,000 | 08/09/2016 | 31/03/2018 | 4.6% |
| Nanshan Phase 2 | 47,000 | 08/09/2016 | 30/06/2018 | 4.7% |
| Nanshan Phase 2 | 33,000 | 08/09/2016 | 30/09/2018 | 5.1% |
| Nanshan Phase 2 | 45,000 | 08/09/2016 | 31/12/2018 | 5.1% |
| Nanshan Phase 2 | 30,000 | 08/09/2016 | 31/03/2019 | 5.1% |
| Nanshan Phase 2 | 34,000 | 08/09/2016 | 30/06/2019 | 5.1% |
| Nanshan No.2 | 13,163 | 03/08/2017 | 14/02/2018 | 7.0% |
| Nanshan No.2 | 8,785 | 03/08/2017 | 17/05/2018 | 7.0% |
| Nanshan No.2 | 13,279 | 03/08/2017 | 14/08/2018 | 7.0% |
| Nanshan No.2 | 8,947 | 03/08/2017 | 14/11/2018 | 7.0% |
| Nanshan No.2 | 13,144 | 03/08/2017 | 21/02/2019 | 7.0% |
| Nanshan No.2 | 9,104 | 03/08/2017 | 15/05/2019 | 7.0% |
| Nanshan No.2 | 110,102 | 03/08/2017 | 02/08/2019 | 7.0% |
| Nanshan Phase 3 | 119,788 | 21/08/2017 | 15/01/2018 | 6.1% |
| Nanshan Phase 3 | 82,127 | 21/08/2017 | 15/04/2018 | 6.2% |
| Nanshan Phase 3 | 122,008 | 21/08/2017 | 15/07/2018 | 6.4% |
| Nanshan Phase 3 | 83,638 | 21/08/2017 | 15/10/2018 | 6.5% |
| Nanshan Phase 3 | 113,752 | 21/08/2017 | 15/01/2019 | 6.6% |
| Nanshan Phase 3 | 65,340 | 21/08/2017 | 15/04/2019 | 6.9% |
| Nanshan Phase 3 | 33,902 | 21/08/2017 | 15/07/2019 | 7.2% |
| | 1,080,079 | | | |

## 25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bonds issued<br>*RMB'000* | Borrowings<br>*RMB'000* | Amounts due to related parties<br>*RMB'000* | Deferred issue costs accrued/ prepaid<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2018 | **(1,081,296)** | **(2,545,231)** | **–** | **120** | **(3,626,407)** |
| Financing cash flows *(Note)* | **375,267** | **430,681** | **–** | **4,637** | **810,585** |
| Non-cash changes: | | | | | |
| Finance cost recognised | **(70,904)** | **(158,245)** | **–** | **–** | **(229,149)** |
| Foreign exchange difference | **–** | **(19,852)** | **–** | **–** | **(19,852)** |
| Deferred issue costs accrued | **–** | **–** | **–** | **(5,124)** | **(5,124)** |
| At 31 December 2018 | **(776,933)** | **(2,292,647)** | **–** | **(367)** | **(3,069,947)** |
| | | | | | |
| At 1 January 2017 | (538,963) | (1,400,298) | (1,299,056) | – | (3,238,317) |
| Financing cash flows *(Note)* | (488,266) | (1,071,702) | 1,317,491 | 1,800 | (240,677) |
| Non-cash changes: | | | | | |
| Finance cost recognised | (54,067) | (121,513) | (18,435) | – | (194,015) |
| Foreign exchange difference | – | 48,282 | – | – | 48,282 |
| Deferred issue costs accrued | – | – | – | (1,680) | (1,680) |
| At 31 December 2017 | (1,081,296) | (2,545,231) | – | 120 | (3,626,407) |

*Note:* The cash flows represent the proceeds from bonds issued, the repayment of bonds issued, the proceeds from borrowings, the repayment of borrowings, interest paid, advances from and repayment to related companies and cash paid for deferred issue costs in consolidated statement of cash flows.

## 26. SHARE CAPITAL OF THE COMPANY

| | Number of shares | | | | |
|---|---|---|---|---|---|
| | Ordinary | Series A | Series B | Total | USD |
| **Authorised** | | | | | |
| Total shares of USD0.000001 each at 1 January 2017 | 49,982,352,942 | 17,647,058 | – | 50,000,000,000 | 50,000 |
| Represented by: | | | | | |
| Ordinary shares of USD0.000001 each at 1 January 2017 | 49,982,352,942 | – | – | 49,982,352,942 | 49,982 |
| Series A shares of USD0.000001 each at 1 January 2017 | – | 17,647,058 | – | 17,647,058 | 18 |
| Reclassified ordinary shares into Series A shares in April 2017 *(Notes a, b)* | (1,130,020) | 1,130,020 | – | – | – |
| Reclassified ordinary shares into Series B shares in April 2017 *(Notes a, c)* | (8,731,913) | – | 8,731,913 | – | – |
| Total shares of USD0.000001 each at 31 December 2017 and 2018 | 49,972,491,009 | 18,777,078 | 8,731,913 | 50,000,000,000 | 50,000 |
| Represented by: | | | | | |
| Ordinary shares of USD0.000001 each at 31 December 2017 and 2018 | 49,972,491,009 | – | – | 49,972,491,009 | 49,972 |
| Series A share of USD0.000001 each at 31 December 2017 and 2018 | – | 18,777,078 | – | 18,777,078 | 19 |
| Series B share of USD0.000001 each at 31 December 2017 and 2018 | – | – | 8,731,913 | 8,731,913 | 9 |

## 26. SHARE CAPITAL OF THE COMPANY *(Continued)*

### Issued

| | Issued number of shares | USD | Equivalent to RMB |
|---|---|---|---|
| At 1 January 2017 | 117,647,058 | 118 | 754 |
| Issue of Series A shares *(Note b)* | 1,130,020 | 1 | 7 |
| Issue of Series B shares *(Note c)* | 8,731,913 | 9 | 62 |
| At 31 December 2017 and 2018 | 127,508,991 | 128 | 823 |

*Notes:*

(a) Pursuant to a written resolution of the shareholders meeting passed on 5 April 2017, 9,861,933 authorised but unissued ordinary shares were separately re-designated and re-classified into authorised but unissued 8,731,913 Series B shares and 1,130,020 Series A shares at a par value of USD0.000001 each. Series B shares have the same right as Series A shares.

(b) On 13 April 2017, the Company further issued and allotted to PA Investor for 1,130,020 Series A shares of the Company with nominal amount of USD1.130020 (equivalent to approximately RMB7) at a share price equal to the par value of Series A share, being USD0.000001 each. The above Series A shares had been fully paid in April 2017.

(c) The Company completed its Round B investment in April 2017. 8,731,913 Series B shares with nominal amount of USD9 (equivalent to approximately RMB62) were issued to Design Time Limited at a price of USD7.8625 per share for an aggregated consideration of approximately USD10.0 million (equivalent to approximately RMB68.9 million). All of the Series B shares had been fully paid in April 2017.

## 27. RESERVES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Share premium *(Note a)* | **880,839** | 880,839 |
| Capital reserve *(Note b)* | **(42,520)** | (42,520) |
| Surplus reserve *(Note c)* | **14,335** | 9,308 |
| Translation reserve | **(270)** | (2,169) |
| Retained profits | **89,611** | 64,037 |
| Total reserve | **941,995** | 909,495 |

*Notes:*

(a) (i) The Company issued 99 ordinary shares in September 2015 at a premium which was credited to the share premium account with an aggregate amount of approximately RMB668.5 million.

(ii) The Company completed its Round A Investment in January 2016 with PA investor. The excess over the par value for the 17,647,058 Series A shares was credited to the share premium account with an aggregate amount of approximately RMB143.4 million.

(iii) The Company completed its Round B Investment in April 2017 with Design Time Limited. The excess over the par value for the 8,731,913 Series B shares (Note 26 (c)) was credited to the share premium account with an aggregate amount of approximately RMB68.9 million.

(b) Nanshan Leasing became a wholly-owned subsidiary of Hong Kong Alliance Financial Leasing Co., Limited ("HK Alliance") through reorganisation, which represented merger of enterprises under common control. Since the consideration paid by HK Alliance was greater than the net assets of Nanshan Leasing on the merger date, the difference was included in reserve.

(c) Under 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.

## 28. INTERESTS IN STRUCTURED ENTITIES

### Interest in consolidated structured entities

The Group holds interests in some structured entities through investments in the notes issued by these structured entities. The assets of these structured entities mainly include asset-backed securities. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include the scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For the asset-backed securities, the Group fully subscribed for the junior tranche and provided guarantee on the full repayment of the principal and interests of the senior tranche at maturity date. Therefore the structured entities are consolidated by the Group.

The carrying amounts of interests held by other holders of asset-backed securities consolidated by the Group amounted to RMB776.9 million as at 31 December 2018 (31 December 2017: RMB1,081.3 million) (Note 24).

## 29. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Bank balances | **391,270** | 425,827 |
| Total | **391,270** | 425,827 |

## 30. OPERATING LEASE COMMITMENTS

At the end of respective reporting periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

### The Group as Lessee

The Group serves as the lessee for certain premises under operating lease. Leases are negotiated for terms ranging from one year to five years, of which is subject to renegotiation upon maturity.

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **5,371** | 5,496 |
| In the second to fifth year, inclusive | **1,617** | 6,355 |
| Total | **6,988** | 11,851 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 1.47 years and rentals are fixed for an average of 1.47 years.

## 31. FINANCE LEASE COMMITMENTS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Finance lease commitments | **–** | 97,540 |

Finance lease commitments are in relation to irrevocable finance leases contracts signed by the Group as lessor that are not yet effective at the end of each reporting period.

## 32. TRANSFERS OF FINANCIAL ASSETS

The Group entered into agreements with financial institutions to transfer its finance lease receivables and also simultaneously agreed to repurchase these finance lease receivables at the agreed date and agreed price. As the repurchase prices were fixed, the Group retained substantially all the risks and rewards of these finance lease receivables and they were not derecognised. Therefore, the considerations received were recognised as borrowings with these finance lease receivables as "collateral". As at 31 December 2018, the carrying amounts of the transferred finance lease receivables which had not been derecognised by the Group amounted to RMB955.3 million (31 December 2017: RMB538.4 million); and the carrying amounts of the corresponding borrowings amounted to RMB848.1 million (31 December 2017: RMB611.9 million) (Note 23).

The Group entered into securitisation transactions in the normal course of business by which it transferred finance lease receivables to structured entities which then issued asset-backed securities to investors. The Group held all subordinated tranche interests in these structured entities. As the risks and rewards of ownership of the finance lease receivables have been substantially retained, these finance lease receivables are not derecognised. Therefore, the considerations received from other investors of these asset-backed securities were recognised as bonds issued with these finance lease receivables as "collateral". As at 31 December 2018, the carrying amounts of the transferred finance lease receivables which had not been derecognised by the Group amounted to RMB1,367.3 million (31 December 2017: RMB1,612.0 million); and the carrying amount of corresponding bonds issued amounted to RMB776.9 million (31 December 2017: RMB1,081.3 million) (Note 24).

## 33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of borrowings and bonds issued disclosed in Notes 23 and 24 and equity attributable to owners of the Company (comprising issued share capital and reserves including retained profits).

The directors of the Company review the capital structure regularly and consider the cost of capital and the risks associated with each class of capital. This will balance the overall capital structure through new share issues and financing through new borrowings or bond issuances.

## 34. FINANCIAL RISK MANAGEMENT

### Categories of financial instruments

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Financial assets: | | |
| Loans and receivables (including bank balances) | **–** | 520,334 |
| Financial assets at amortised cost | **435,084** | – |
| Total | **435,084** | 520,334 |
| Financial liabilities: | | |
| Financial liabilities at amortised cost | | |
| Deposits from finance lease customers | **164,806** | 166,104 |
| Other payables | **–** | 8,206 |
| Borrowings | **2,292,647** | 2,545,231 |
| Bonds issued | **776,933** | 1,081,296 |
| Total | **3,234,386** | 3,800,837 |

### Financial risk management objectives and policies

The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts as needed.

The Group is mainly exposed to the currency risk arising from HKD and USD.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities As at 31 December | | Assets As at 31 December | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| HKD | **–** | – | **190** | 151 |
| USD | **–** | – | **8,062** | 7,957 |

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Currency risk *(Continued)*

**Sensitivity analysis**

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currencies against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis on profit or loss includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis on equity includes all outstanding foreign currency denominated items and adjusts their translation at the year end for a 5% change in foreign currency rates.

The table below indicates impacts on post-tax profit or loss and equity of a 5% appreciation or depreciation of all other currencies against RMB, respectively.

| | HKD 31 December | | USD 31 December | |
|---|---|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 | **2018 RMB'000** | 2017 RMB'000 |
| Profit or loss | | | | |
| 5% appreciation | **7** | – | **302** | 298 |
| 5% depreciation | **(7)** | – | **(302)** | (298) |
| Equity | | | | |
| 5% appreciation | **7** | – | **302** | 295 |
| 5% depreciation | **(7)** | – | **(302)** | (295) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as it does not consider any currency risk mitigating measures that management would take to reduce the risk exposure.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Interest rate risk

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market interest rates on bank balances, finance lease receivables, deposits from customers, amounts due to related companies, borrowings and bonds issued.

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and finance lease receivables. The Group aims at keeping borrowings and finance lease receivables at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to variable-rate financial assets, finance lease receivables and financial liabilities. The analysis is prepared assuming the amount of variable-rate financial assets, finance lease receivables and financial liabilities that were outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease represents management's assessment of the reasonably possible change in interest rates.

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Impact on profit before income tax | | |
| +50 basis points | **2,048** | (2,987) |
| -50 basis points | **(2,048)** | 2,987 |

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk

**Overview of the Group's exposure to credit risk after adoption of IFRS 9 since 1 January 2018**

The Group's credit risk is primarily the risk of the lessee unable to meet its contractual obligations. The Group's main income generating activity is supplying finance leasing service to customers and therefore credit risk is a principal risk. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

*Credit risk management*

The Group's risk management department is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.

- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from lessees, to perform robust ongoing credit assessment of lessees and to continually monitor exposures against internal risk limits.

- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.

- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.

- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

- Establishing a sound credit risk accounting assessment and measurement process that provides it with tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk *(Continued)*

**Overview of the Group's exposure to credit risk after adoption of IFRS 9 since 1 January 2018** *(Continued)*

*Significant increase in credit risk*

As explained in Note 3, the Group monitors all financial assets (including finance lease receivables and other receivables) that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12m ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its risk management department to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises sixteen categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of lessee are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. When the credit risk increases, the credit risk grades may be changed and result in the increase of the risk of default. Each counterparty is categorised to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect latest information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements, market data etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default ("PD") for exposures. The Group gathers performance and default information about lessees' credit risk exposures, with reference to the regions and the type of equipment under finance lease arrangement.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk *(Continued)*

**Overview of the Group's exposure to credit risk after adoption of IFRS 9 since 1 January 2018** *(Continued)*

*Significant increase in credit risk (Continued)*

Internal credit risk ratings (Continued)

The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit risk are effective, meaning that significant increase in credit risk is identified when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

*Incorporation of forward-looking information*

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group uses external information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities, such as GDP growth rates, unemployment rates and inflation rates, etc.

*Measurement of ECL*

The key inputs used for measuring ECL are PD, loss given default ("LGD") and exposure at default ("EAD").

As explained above, these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the probability of default over a given time horizon. It is estimated as at a point in time. 12-month PD calculation is based on external rating and internal rating models, developed by the Group, in which the Group assessed using rating tools tailored to the various categories of counterparties and exposures. These internal rating models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors, and further adjusted to take into account estimates of future conditions that will impact 12-month PD. Life time PD is calculated on the basis of 12-month PD as well as considering the contractual maturities of risk exposures and the marginal default probability.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk *(Continued)*

**Overview of the Group's exposure to credit risk after adoption of IFRS 9 since 1 January 2018** *(Continued)*

*Measurement of ECL (Continued)*

LGD is an estimate of the loss arising on default. It is determined based on the current practical experiences generally used in the financial industry by considering the factors including but not limited to the fair value of collaterals obtained or deposits received, and further adjusted to take into account estimated future conditions.

EAD is an estimate of the exposure at a future default date, representing future repayments of principal and interest and deposits.

Relevant information with regard to the exposure of credit risk and expected credit losses for finance lease receivables and other receivables as at 31 December 2018 are set out in Notes 16 and 18.

**Overview of the Group's exposure to credit risk before adoption of IFRS 9 on 1 January 2018**

The Group's credit risk is primarily the risk of the lessee unable to meet its contractual obligations.

The Group implemented standardised management procedures over the processes of project target customers selection, the project due diligence and application, project credit review and approval, finance lease disbursement, post-lending monitoring, management of non-performing finance lease receivables and other aspects. Through implementation of relevant credit risk management policies and procedures, the effective use of finance lease information system and optimisation of the portfolio of finance leases, the Group is able to timely and effectively identify, monitor and manage its potential credit risks.

Changes in the economic environment will have an impact on the Group's finance lease, and the adverse effects will increase the possibility of losses incurred by the Group. The Group's current major business operations are mainly in mainland China, but the differences of economic development in different regions require the Group to closely manage the relevant credit risks. The operating department, credit approval department, capital management department and risk management department in charge of different industries and regions are responsible for the management of the credit risks, and periodically report on the quality of assets to the management of the Company.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk *(Continued)*

**Overview of the Group's exposure to credit risk throughout the reporting period**

The Group manages, limits, and controls the concentration of credit risks and, as far as possible, avoids risks concentration on single lessee, industry or region. The Group's finance lease receivables analysed by industry sectors that the customers are in are as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Amount** | **Proportion** | Amount | Proportion |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Public infrastructure | **276,201** | **7.44** | 515,927 | 12.53 |
| Healthcare | **2,648,852** | **71.32** | 2,484,489 | 60.36 |
| Aviation | **789,166** | **21.24** | 1,115,768 | 27.11 |
| Total | **3,714,219** | **100.00** | 4,116,184 | 100.00 |

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk *(Continued)*

**Overview of the Group's exposure to credit risk throughout the reporting period** *(Continued)*

The geographical exposure of Group's finance lease receivables based on the places of registration of the customers are as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Amount** | **Proportion** | Amount | Proportion |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Northeast Region | **332,020** | **8.93** | 415,925 | 10.10 |
| Pearl River Delta Region | **303,348** | **8.17** | 219,938 | 5.34 |
| Western Region | **1,620,630** | **43.63** | 1,874,456 | 45.54 |
| Central Region | **609,192** | **16.40** | 469,563 | 11.41 |
| Yangtze River Delta | **182,952** | **4.93** | 225,912 | 5.49 |
| Circum-Bohai Rim Region | **240,538** | **6.48** | 468,779 | 11.39 |
| Singapore | **245,488** | **6.61** | 252,153 | 6.13 |
| BVI | **180,051** | **4.85** | 189,458 | 4.60 |
| Total | **3,714,219** | **100.00** | 4,116,184 | 100.00 |

*Note:* The regions stated above that the Group operates include the following locations in the PRC:

(i) The "Northeast Region" refers to the following areas: Heilongjiang Province, Jilin Province, and Liaoning Province;

(ii) The "Pearl River Delta Region" refers to the following area: Guangdong Province;

(iii) The "Western Region" refers to the following areas: Sichuan Province, Yunnan Province, Shaanxi Province, Gansu Province, Guangxi Zhuang Autonomous Region, Inner Mongolia Autonomous Region and Guizhou Province;

(iv) The "Central Region" refers to the following areas: Henan Province, Hunan Province, Jiangxi Province and Shanxi Province;

(v) The "Yangtze River Delta" refers to the following areas: Jiangsu Province and Zhejiang Province;

(vi) The "Circum-Bohai Rim Region" refers to the following areas: Shandong Province, Hebei Province and Tianjin Municipality.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Credit risk *(Continued)*

**Overview of the Group's exposure to credit risk throughout the reporting period** *(Continued)*

The Group manages customer limits to optimise the credit risk structure. The Group performs pre-project analysis of the lessee's ability to repay principal and interest, real-time supervision of the lessee's actual repayment status during the project to manage credit risks.

Other specific management and mitigation measures include:

(a) *Guarantee*

The Group has developed a series of policies to mitigate credit risk, including obtaining collateral/pledge, security deposit and guarantee from an enterprise or individual.

According to the characteristics of the finance lease, the Group has the ownership of the asset under the finance lease during the lease term. The Property Law of PRC stipulates the four powers and functions of ownership: possession, usage, benefit and punishment; it also stipulates that the owner has the right to establish usufructuary right and security interest over his own realty or chattel. Therefore, the Property Law protects the Group's effective rights. In the event of default, the Group is entitled to retrieve the asset.

In addition, the Group requests a third party guarantee or collateral from certain lessees, depending on the lessee's credit status and credit risk degree of the finance lease. The management evaluates the capability of the guarantor, the ownership and value of the mortgage and pledge and the feasibility of realising the mortgage and pledge.

(b) *Insurance on the asset of the finance lease*

For finance lease, the ownership of the underlying asset belongs to the Group before the expiry of the lease, but the risks and rewards in operational use and maintenance have been transferred to the lessee. Therefore, if any accidents occur to the asset, the lessee should immediately report them to the insurance company and notify the Group, provide accident report with relevant documents and settle claims with the insurance company.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been prepared using the undiscounted cash flows of financial liabilities based on the contractual date on which the Group is required to repay. The tables include both interest and principal cash flows.

| | As at 31 December 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate | On demand | Less than 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total undiscounted cash flows | Carrying amount |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial Liabilities** | | | | | | | | | |
| Deposit from finance lease customers | 5.59% | – | – | – | 6,685 | 198,914 | 4,172 | 209,771 | 164,806 |
| Borrowings | 6.35% | – | 20,459 | 64,067 | 763,182 | 1,743,815 | – | 2,591,523 | 2,292,647 |
| Bonds issued | 6.37% | – | 117,592 | 46,397 | 370,284 | 315,456 | – | 849,729 | 776,933 |
| Total | | – | 138,051 | 110,464 | 1,140,151 | 2,258,185 | 4,172 | 3,651,023 | 3,234,386 |

| | As at 31 December 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate | On demand | Less than 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total undiscounted cash flows | Carrying amount |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial Liabilities** | | | | | | | | | |
| Deposit from finance lease customers | 5.46% | – | 4,950 | – | 18,250 | 166,430 | 29,691 | 219,321 | 166,104 |
| Other payables | – | – | – | – | 8,206 | – | – | 8,206 | 8,206 |
| Borrowings | 6.22% | – | – | 872,219 | 699,418 | 1,017,219 | 185,266 | 2,774,122 | 2,545,231 |
| Bonds issued | 5.53% | – | 119,788 | 63,558 | 566,495 | 489,921 | – | 1,239,762 | 1,081,296 |
| Total | | – | 124,738 | 935,777 | 1,292,369 | 1,673,570 | 214,957 | 4,241,411 | 3,800,837 |

The amounts included above arise from variable interest rate instruments for financial liabilities and are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Fair value of financial instruments

The valuation techniques used by the Group include the discounted cash flow model for borrowings, bonds issued, amounts due from related companies, deposits from finance lease customers. 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.

None of the Group's financial instruments are measured at fair value on a recurring basis at the end of each reporting period.

**Fair values of financial instruments that are not measured at fair value**

The fair values of the finance lease receivables that are not measured at fair value are included in Level 3 category. The fair values of financial liabilities that are not measured at fair value are included in either Level 1 or Level 3 category. Valuation of Level 1 financial instruments have been derived from quoted bid price in active market. Valuation of Level 3 financial instruments have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

The table below summaries the carrying amounts and expected fair values with obvious variances of those financial instruments not presented at their fair values:

| | **As at 31 December** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Finance lease receivables | **3,714,219** | **3,839,179** | 4,116,184 | 4,463,014 |
| Deposits from finance lease customers | **164,806** | **166,916** | 166,104 | 185,173 |
| Borrowings | **2,292,647** | **2,482,937** | 2,545,231 | 2,659,189 |
| Bonds issued | **776,933** | **937,811** | 1,081,296 | 1,153,590 |

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### Fair value of financial instruments *(Continued)*

**Fair values of financial instruments that are not measured at fair value** *(Continued)*

The table below summaries the carrying amounts and expected fair values with obvious variances of those financial instruments not presented at their fair values: *(Continued)*

| | Fair value hierarchy as at 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivables | **–** | **–** | **3,839,179** | **3,839,179** |
| Financial liabilities | | | | |
| – Deposits from finance lease customers | **–** | **–** | **166,916** | **166,916** |
| – Borrowings | **–** | **–** | **2,482,937** | **2,482,937** |
| – Bonds issued | **393,697** | **–** | **544,114** | **937,811** |

| | Fair value hierarchy as at 31 December 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivables | – | – | 4,463,014 | 4,463,014 |
| Financial liabilities | | | | |
| – Deposits from finance lease customers | – | – | 185,173 | 185,173 |
| – Borrowings | – | – | 2,659,189 | 2,659,189 |
| – Bonds issued | 967,706 | – | 185,884 | 1,153,590 |

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the Group's consolidated statement of financial position approximate their fair values because the majority of these financial assets and liabilities are matured within one year, at floating interest rates, or at fixed interest rate that approximate to market rate.

## 35. 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 | *Note* |

*Note:* Union Capital was solely owned by Ms. Sui Yongqing, whose husband is Mr. Song Jianbo, who is the key management of Nanshan Group.

### Transactions with related parties

During the year, group entities entered into the following transactions with related parties that are not members of the Group:

| | **2018** **_RMB'000_** | 2017 *RMB'000* |
|---|---|---|
| Finance lease income generated from related parties: | | |
| – Nanshan Group and its subsidiaries | **2,772** | 27,094 |
| – Union Capital | **14,808** | 13,738 |
| Other income generated from related parties: | | |
| – Nanshan Group and its subsidiaries *(Note 7)* | **5,482** | – |

The finance lease income was charged at rates ranging from 6.13% to 7.09% per annum for the year ended 31 December 2018 (31 December 2017: from 3.20% to 9.81% per annum).

| | **2018** **_RMB'000_** | 2017 *RMB'000* |
|---|---|---|
| Interest expense payable to related parties: | | |
| – Nanshan Group and its subsidiaries | **–** | 18,435 |

The interest expenses were charged at rates ranging from 1.69% to 8% per annum.

## 35. RELATED PARTY TRANSACTIONS *(Continued)*

### Finance lease receivables from related parties

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Nanshan Group and its subsidiaries | **5,278** | 211,571 |
| Union Capital | **245,488** | 252,153 |

Details of amounts due from related companies are listed out in Note 17.

### Guarantee from related parties

Nanshan Group and its subsidiaries provided guarantees in respect of certain borrowings and bonds issued by the Group during the year, of which RMB465.1 million remained outstanding at 31 December 2018 (2017: RMB724.6 million). The guarantee on bonds issued provided by Nanshan Group as at 31 December 2018 will be matured in 2019.

### Compensation of key management personnel

The remunerations of key management personnel of the Group during the year were as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Basic salary and allowances | **4,043** | 3,492 |
| Bonuses | **217** | 166 |
| Employer's contribution to pension schemes | **295** | 226 |
| Other social welfare | **470** | 431 |
| Total | **5,025** | 4,315 |

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

## 36. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in PRC are members of a state-managed retirement benefit scheme operated by the government of PRC. The subsidiaries are required to contribute 8% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in profit or loss of approximately RMB1.7 million for the year ended 31 December 2018 (2017: RMB2.0 million), represents contributions payable to these plans by the Group at rates specified in the rules of the plans. All contributions due in respect of the years ended have been paid to the plans.

## 37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries directly and indirectly held by the Company as at 31 December 2018 and 2017 are set out below:

| Name of Subsidiary | Place and date of incorporation/ establishment | Class of shares held | Share capital ('000) | Proportion of ownership interest and voting rights held by the Group — Directly 2018 | Directly 2017 | Indirectly 2018 | Indirectly 2017 | Principal activities |
|---|---|---|---|---|---|---|---|---|
| World Alliance Co., Ltd, | The British Virgin Islands 20/01/2015 | Ordinary | USD137,033 | **100%** | 100% | **–** | – | Investment holding |
| HK Alliance | Hong Kong 06/01/2015 | Ordinary | USD137,033 | **–** | – | **100%** | 100% | Investment holding |
| Baoqing Alliance Limited | The British Virgin Islands 07/08/2015 | Ordinary | USD50 | **–** | – | **100%** | 100% | Finance leasing |
| Baoyin Alliance Limited | The British Virgin Islands 07/08/2015 | Ordinary | USD50 | **–** | – | **100%** | 100% | Finance leasing |
| Nanshan Leasing | Tianjin, PRC 07/01/2014 | Ordinary | USD136,492 | **–** | – | **100%** | 100% | Finance leasing |
| Beijing Nanshan Jinchuang Information Consulting Co., Ltd. | Beijing, PRC 14/01/2016 | Ordinary | RMB2,000 | **–** | – | **100%** | 100% | Consulting |
| Tianjin Rongjin Enterprise Management & Consulting Co., Ltd. | Tianjin, PRC 01/09/2016 | Ordinary | RMB2,000 | **–** | – | **100%** | 100% | Consulting |
| Nanshan Baozhong (Tianjin) Leasing Co.,Ltd. | Tianjin, PRC 22/01/2015 | Ordinary | RMB100 | **–** | – | **100%** | 100% | Finance leasing |
| Nanshan Baotian (Tianjin) Leasing Co.,Ltd. | Tianjin, PRC 23/01/2015 | Ordinary | RMB100 | **–** | – | **100%** | 100% | Finance leasing |

Except for Nanshan Leasing, the other subsidiaries had not issued any debt securities for the years ended 31 December 2018 and 2017. Details of the debt securities issued by Nanshan Leasing are set out in Note 24.

## 38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Non-current asset | | |
| Interests in a subsidiary | **880,759** | 880,759 |
| | **880,759** | 880,759 |
| Current assets | | |
| Prepayment and other receivables | **8,641** | 3,844 |
| Bank balances | **6,161** | 2,137 |
| | **14,802** | 5,981 |
| Current liabilities | | |
| Other payables and accrued expenses | **1,111** | – |
| Amounts due to a subsidiary | **38,248** | 17,556 |
| | **39,359** | 17,556 |
| Net current liabilities | **(24,557)** | (11,575) |
| Total assets less current liabilities | **856,202** | 869,184 |
| Capital and reserves | | |
| Share capital | **1** | 1 |
| Reserves | **856,201** | 869,183 |
| Total equity | **856,202** | 869,184 |

### Movement in the Company's reserves

| | Share premium | Accumulated losses | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 811,909 | (6,376) | 805,533 |
| Loss and total comprehensive expenses for the year | – | (5,280) | (5,280) |
| Issue of Series B shares *(Note 27 (a)(iii))* | 68,930 | – | 68,930 |
| At 31 December 2017 | 880,839 | (11,656) | 869,183 |
| Loss and total comprehensive expenses for the year | – | (12,982) | (12,982) |
| At 31 December 2018 | 880,839 | (24,638) | 856,201 |

## 39. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in the consolidated financial statements, subsequent to the end of the reporting period, the following significant event took place:

Pursuant to written resolutions of shareholders of the Company passed and presented in a meeting of the directors of the Company on 20 February 2019, and conditional on the share premium account of the Company being credited with the proceeds from the Hong Kong Public Offering and the International Offering ("Global Offering"), USD877.491009 would be capitalised from the share premium account of the Company and applied in paying up in full at par a total of 877,491,009 shares for the allotment and issue to the existing shareholders of the Company (the "Capitalisation Issue"). On 15 March 2019, the Company was successfully listed on the Main Board of the Stock Exchange following the completion of Listing of 495,000,000 new shares of par value of USD0.000001 at the offer price of HKD0.85 per share. The net proceeds arising from the Listing was amounted to approximately HKD354 million (equivalent to approximately RMB303 million).

# SUMMARY OF FINANCIAL INFORMATION

| Key profit or loss items *(RMB thousand)* | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 |
| Revenue | **358,061** | 308,747 | 300,870 | 145,996 |
| Finance cost | **(241,557)** | (203,995) | (172,247) | (70,167) |
| Profit before income tax | **62,683** | 52,229 | 46,429 | 11,400 |
| Profit for the year | **40,598** | 36,576 | 29,279 | 8,572 |

| Key statement of financial position items *(RMB thousand)* | As at 31 December | | | |
|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 |
| Non-current assets | **2,643,744** | 3,113,653 | 2,296,098 | 2,084,449 |
| Current assets | **1,568,526** | 1,649,837 | 1,909,571 | 1,439,393 |
| Current liabilities | **1,251,911** | 2,274,431 | 2,501,545 | 1,595,246 |
| Total equity | **941,996** | 909,496 | 804,724 | 641,507 |
| Non-current liabilities | **2,018,363** | 1,579,563 | 899,400 | 1,287,089 |

| Return to shareholders | Financial year | | | |
|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 |
| Return on total assets *(Note 1)* | **0.9%** | 0.8% | 0.8% | 0.4% |
| Return on equity *(Note 2)* | **4.4%** | 4.3% | 4.1% | 1.6% |
| Earnings per share | | | | |
| – Basic *(RMB Yuan per share)* | **0.0404** | 0.0371 | 0.0314 | 0.0152 |

*Notes:*

1. Return on total assets is derived from dividing profit for the year by the average of total assets as at the beginning and the end of the year and multiplied by 100%.

2. Return on equity is derived from dividing profit for the year by the average of total equity as at the beginning and the end of the year and multiplied by 100%.