



**INTERNATIONAL ALLIANCE
FINANCIAL LEASING CO., LTD.**

国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1563



INTERIM REPORT 2019

CONTENTS

2	Corporate Information
3	Management Discussion and Analysis
9	Other Information
15	Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
16	Unaudited Condensed Consolidated Statement of Financial Position
17	Unaudited Condensed Consolidated Statement of Changes in Equity
18	Unaudited Condensed Consolidated Statement of Cash Flows
19	Notes to the Unaudited Condensed Consolidated Financial Statements

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 (Retired from office on
11 June 2019)
Mr. GAO Guiwei (Retired from office on
11 June 2019)

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

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 54, 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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

In the first half of 2019, against the backdrop of a complex and changing domestic and international economic environment as well as the continually deepening of financial deleveraging across the country and more strict regulatory policy, the increasingly tightening financing environment had become a growing concern. Affected by the above situation, rental defaults occurred among its certain lessees, for which the Group prudently made provision for impairment loss of finance lease receivables under IFRS 9, Financial Instruments, resulting in significant impact on the interim results of the Group for the six months ended 30 June 2019.

In the first half of the year, through closely monitoring the market changes of the industry engaged, the Group timely adjusted its business strategy, proactively slowed down the pace of business development while giving priority to risk prevention and control, and strengthened the function of the project vetting committee of the Company in project selection so as to improve the level of asset management and reduce overall risk of assets.

FINANCIAL REVIEW

Revenue

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

Revenue decreased by approximately 18.7% from approximately RMB175.1 million for the six months ended 30 June 2018 to approximately RMB142.4 million for the six months ended 30 June 2019. Such decrease was mainly due to the Group's lack of new finance leasing business in the first half of 2019. For the six months ended 30 June 2019, its finance lease income amounted to approximately RMB142.4 million (for the six months ended 30 June 2018: approximately RMB172.1 million). The Group's advisory services primarily consist of finance leasing advisory services. For the six months ended 30 June 2019, no advisory fee income was generated (for the six months ended 30 June 2018: approximately RMB3.0 million).

Other income, gains or losses

Other income, gains or losses which primarily derived from (i) bank interest income; (ii) entrusted loan income; and (iii) compensation for early termination of finance leasing arrangement, decreased by approximately RMB5.7 million from approximately RMB6.6 million for the six months ended 30 June 2018 to approximately RMB0.9 million for the six months ended 30 June 2019.

In particular, (i) the bank interest income increased by approximately RMB0.5 million from approximately RMB0.3 million for the six months ended 30 June 2018 to approximately RMB0.8 million for the six months ended 30 June 2019; (ii) the entrusted loan income decreased by approximately RMB0.8 million from approximately RMB0.8 million for the six months ended 30 June 2018 to nil for the six months ended 30 June 2019 and such income has been settled; and (iii) the compensation for early termination of finance lease arrangement of approximately RMB5.5 million was received due to an early settlement of finance leasing business occurred in the first quarter of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Staff costs

Staff costs primarily included employee salaries and related costs of other benefits. The staff costs increased by approximately RMB0.7 million from approximately RMB6.0 million for the six months ended 30 June 2018 to approximately RMB6.7 million for the six months ended 30 June 2019, which was resulted from the salary adjustment.

Other operating expenses

Other operating expenses primarily included rental expenses, entertainment expenses, legal and professional fees and travelling expenses. For the six months ended 30 June 2019, the other operating expenses amounted to approximately RMB10.0 million (for the six months ended 30 June 2018: approximately RMB10.0 million), representing approximately 7.0% of the total revenue of the Group (for the six months ended 30 June 2018: approximately 5.7%).

Listing expenses

For the six months ended 30 June 2019, the listing expenses amounted to approximately RMB10.1 million (for the six months ended 30 June 2018: approximately RMB7.3 million). Such expenses are non-recurring in nature.

Finance cost

Finance cost primarily derived from (i) borrowings; (ii) bonds payable; (iii) imputed interest on deposits from finance lease customers; and (iv) interest on lease liabilities. The finance cost decreased by approximately 7.8% from approximately RMB117.6 million for the six months ended 30 June 2018 to approximately RMB108.4 million for the six months ended 30 June 2019.

In particular, (i) the borrowing costs increased by approximately 5.6% from approximately RMB73.5 million for the six months ended 30 June 2018 to approximately RMB77.6 million for the six months ended 30 June 2019, which was due to the increase in the cost of capital in domestic capital market; (ii) the costs of bonds payable decreased by approximately 39.2% from approximately RMB38.0 million for the six months ended 30 June 2018 to approximately RMB23.1 million for the six months ended 30 June 2019, which was due to the maturity of a bond payable; (iii) the Group incurred imputed interest on deposits from finance lease customers of RMB7.5 million for the six months ended 30 June 2019, representing an increase of approximately 23.0% from approximately RMB6.1 million for the six months ended 30 June 2018, due to the increase in daily average amortised cost of deposits from finance lease customers. The amortised cost of deposits from finance leasing customers gradually increased with the constant amortisation since its initial recognition, which resulted in the gradual increase in interest expenses recognised; and (iv) the Group has applied IFRS 16 – Leases since 1 January 2019, pursuant to which the Group incurred interest expenses on lease liabilities recognised of RMB0.2 million.

Loss for the period

Loss for the period increased by approximately RMB22.4 million or 117.3% from the profit of approximately RMB19.1 million for the six months ended 30 June 2018 to the loss approximately RMB3.3 million for the six months ended 30 June 2019. The net profit margin for the six months ended 30 June 2019 was -2.3%, representing a significant drop as compared to that of 10.9% for the six months ended 30 June 2018, which was due to the sizable impairment allowance provided for the finance lease receivables and the decrease of

MANAGEMENT DISCUSSION AND ANALYSIS

finance lease income. In addition, the one-off effect of the listing expenses also accounted for the increase in loss for the period. If excluding the non-recurring listing expenses for both periods, the Group would have recorded a profit for the six months ended 30 June 2019 of approximately RMB6.8 million, while the profit for the six months ended 30 June 2018 would have been approximately RMB26.4 million, representing a decrease in profit of approximately RMB19.6 million or 74.2% as compared to the profit for the six months ended 30 June 2018.

Dividend

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Liquidity, financial resources and capital resources

As at 30 June 2019, the cash and cash equivalents amounted to approximately RMB639.2 million (30 June 2018: approximately RMB673.4 million). Working capital (current assets less current liabilities) and the total equity of the Group amounted to approximately RMB1,016.0 million (30 June 2018: approximately RMB576.4 million) and approximately RMB1,262.0 million (30 June 2018: approximately RMB920.9 million).

As at 30 June 2019, the Group's borrowings due within one year amounted to approximately RMB539.7 million (30 June 2018: approximately RMB724.4 million) and the Group's borrowings due after one year amounted to approximately RMB1,323.3 million (30 June 2018: approximately RMB1,889.5 million).

As at 30 June 2019, the Group's bonds issued due within one year amounted to approximately RMB253.3 million (30 June 2018: approximately RMB500.9 million) and the Group's bonds issued due after one year amounted to approximately RMB233.0 million (30 June 2018: approximately RMB686.3 million).

As at 30 June 2019, the gearing ratio, calculated based on dividing the total indebtedness by total equity and indebtedness as at the end of the six months ended 30 June 2019, was approximately 64.9% (30 June 2018: approximately 80.5%). Such decrease was mainly due to the decrease in the borrowings and bonds issued based on the scale of business.

Finance lease receivables

Finance lease receivables consisted of (i) gross amount of finance lease receivables, (ii) unearned finance income; and (iii) allowances for impairment losses. The carrying amounts of the finance lease receivables amounted to (i) approximately RMB3,529.7 million, (ii) approximately RMB468.5 million; and (iii) approximately RMB76.0 million, which decreased by approximately 28.6% from approximately RMB4,183.6 million for the six months ended 30 June 2018 to approximately RMB2,985.1 million for the six months ended 30 June 2019, due to settlement of finance lease receivables and increase in allowances for impairment losses.

The allowances for impairment losses increased by approximately 36.7% from approximately RMB55.6 million for the six months ended 30 June 2018 to approximately RMB76.0 million for the six months ended 30 June 2019.

Finance lease commitments

As at 30 June 2019, the Group had no finance lease commitments (30 June 2018: RMB50.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policy

As at 30 June 2019, the Group employed 40 full time employees (30 June 2018: 43) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB6.7 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately RMB6.0 million). The Group recognises the importance of retaining high calibre and competent staff and continuing to provide remuneration packages to employees with reference to the performance of the Group, the performance of individual employees and prevailing market rates. Other type of benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

RISK MANAGEMENT

As a finance leasing company serving different industries, the Group assumes various risks in its business operations, including credit, liquidity, market, compliance, legal, operational and reputational risks, among which credit risk is its primary exposure. The Group has developed a comprehensive risk management system and the Group controls risks through measures including due diligence on customers, independent information review and a multi-level approval process.

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

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

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

Special Mention. Even though the lessee has been able to pay the lease payments in a timely manner, there are some factors that could adversely affect its ability to pay, such as that the financial position of the lessee has worsened or its net cash flow has become negative, but there are sufficient guarantees or collaterals underlying the finance lease agreement. Special Mention asset has certain characteristics, for example, the payments have been overdue for more than 90 days but less than or equal to 150 days.

Substandard. The lessee's ability to pay is in obvious question as it is unable to make its payments in full with its operating revenue, and the Group is likely to incur losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Substandard asset has certain characteristics, for example, the lease payments have been overdue for more than 150 days but less than or equal to 210 days.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2019, the Group did not have any material contingent liabilities (30 June 2018: Nil).

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company (the "**Shares**") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 March 2019 (the "**Listing Date**"). The actual net proceeds from the global offering of the 495,000,000 new Shares (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 Listing Date 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

As disclosed in the voluntary announcement of the Company dated 12 July 2019, Nanshan Financial Leasing (Tianjin) Co., Ltd. (南山融資租賃(天津)有限公司) ("**Nanshan Leasing**") filed a lawsuit against The Fourth People's Hospital of Shang Qiu Shi (商丘市第四人民醫院) ("**Shang Qiu Hospital**") for a total sum of RMB62,725,087.69, being, among others, the unpaid rental fee owed by Shang Qiu Hospital, the outstanding rental fee for the remaining term and other expenses incurred by Nanshan Leasing under the relevant finance leasing agreement (the "**Agreement**"). As at the date of this report, the Company has received RMB6,706,739.00 from Shang Qiu Hospital, representing all overdue rental fees since the entering into of the Agreement.

Further, as disclosed in the announcement of the Company dated 23 August 2019, the Board resolved that the Group intended to enter into a finance leasing framework agreement (the "**Finance Leasing Framework Agreement**") with Nanshan Group Co., Ltd. (南山集團有限公司) ("**Nanshan Group**") in relation to provision of finance leasing services by the Group to Nanshan Group (the "**Potential Transaction**"). The subject of the Potential Transaction includes sale-leaseback service and direct finance leasing service.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the date of this report, Nanshan Group is owned as to 51% by the village member committee of Nanshan Village and 49% by Mr. Song Zuowen. Mr. Song Zuowen is the father-in-law of Ms. Sui Yongqing, one of the controlling shareholders of the Company, and his brother is the father-in-law of Mr. Song Jianpeng, the Chairman of the Group and the non-executive Director. For the purpose of the connected transaction rules under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Directors considered Nanshan Group to be deemed connected persons under Rule 14A.21 of the Listing Rules.

The Potential Transaction, if materialised, may constitute a notifiable transaction and continuing connected transaction for the Company under the relevant Listing Rules. The Board wishes to emphasise that as at the date of this report, no binding agreement with respect to the Potential Transaction has been entered into by the Company and there is no assurance that any definitive transaction will materialise. The Company will make further announcement(s) in compliance with the Listing Rules and/or Part XIVA of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**") as and when appropriate or required.

In addition, on 26 August 2019, Mr. Li Luqiang ("**Mr. Li**"), an executive Director and chief executive officer of the Company who indirectly owned 7,881,797 ordinary shares of the Company (the "**Shares**"), acquired 501,000 Shares in his personal capacity through on-market purchase at an average price of HK\$1.00 per Share, representing approximately 0.03% of the total issued share capital of the Company (the "**Share Acquisition**"). The Share Acquisition fully demonstrates Mr. Li's confidence in the overall development, prospects and growth potential of the Company.

Following the Share Acquisition, Mr. Li is interested in 8,382,797 Shares (including direct and indirect holdings, deemed interests and share options, where applicable), representing approximately 0.56% of the total issued share capital of the Company as at the date of this report. For further details, please refer to the voluntary announcement of the Company dated 26 August 2019.

Save as aforementioned, the Group does not have any material event subsequent to 30 June 2019 and up to the date of this report.

OUTLOOK AND PLANS

In the second half of this year, the gathering of uncertainties on global trading condition and geopolitics has raised the expectation on economic and money easing, which may lead to the opening of a cycle of rate cuts around the globe and an expected reasonable improvement in market liquidity. The Group will implement various measures to apply effective identification and assessment on risk assets, to enhance the collectability on rentals, and to develop responsive measures and solutions in line with specific circumstances, aiming to safeguard the interests of the assets of the Company.

The Company will make prudential analysis on the market environment and focus on projects within industries which are counter-cyclical or less cyclical. Meanwhile, the Company will keep running the project review process strictly as always, and continue to improve the risk management and internal control procedures, so as to ensure the long-standing and stable development of the Company.

OTHER INFORMATION

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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 the 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 independent non-executive Director (“**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 providing supervision over the Group’s financial reporting process and internal controls.

During the six months ended 30 June 2019, 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 for the six months ended 30 June 2019 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 six months ended 30 June 2019. 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.

The Audit Committee has reviewed the Group’s unaudited condensed financial statements for the six months ended 30 June 2019.

OTHER INFORMATION

Remuneration Committee

The Company established the 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 six months ended 30 June 2019, 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.

Nomination Committee

The Company established the 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 six months ended 30 June 2019, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a securities dealing code (the “**Securities Dealing Code**”) regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company will periodically issue notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. The Company has made specific enquiry of the Directors and all the Directors confirmed that they have complied with the Securities Dealing Code throughout the period from the Listing Date up to the date of this report.

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

For the period from the Listing Date up to the date of this report, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

SHARE OPTION SCHEME

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

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

The basis of eligibility of any participant to the grant of any 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 an 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.

There were no share options outstanding under the Share Option Scheme nor were any share options 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.

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:

OTHER INFORMATION

Long positions in Shares/underlying Shares

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%
	Beneficial owner	501,000 Shares (L)	0.03%

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:

OTHER INFORMATION

Long positions in Shares/underlying Shares

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 Investment Funds SPC ⁽⁴⁾ (“ PA Investor ”)	Beneficial owner	147,997,120 Shares (L)	9.87%
Ping An of China Securities (Hong Kong) Company Limited ⁽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 of China Securities (Hong Kong) Company Limited (中國平安證券(香港)有限公司) 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 (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司) (“**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 of China Securities (Hong Kong) Company Limited (中國平安證券(香港)有限公司), 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.

OTHER INFORMATION

CHANGE IN DIRECTOR'S INFORMATION

Change in director's information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Chen Chih Yung and Mr. Gao Guiwei retired as non-executive Directors on 11 June 2019 upon the conclusion of the 2019 annual general meeting of the Company (the "2019 AGM"). For further details, please refer to the 2019 AGM circular of the Company dated 30 April 2019 and poll results announcement of the Company dated 11 June 2019.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the condensed consolidated interim financial information and is of the opinion that such information complies with applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

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

Hong Kong, 23 August 2019

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	5	142,395	175,134
Other income, gains or losses	6	890	6,618
Total revenue and other income, gains or losses		143,285	181,752
Finance cost	7	(108,445)	(117,610)
Net exchange gains/(losses)		2,216	(1,437)
Staff costs		(6,734)	(6,023)
Listing expenses		(10,057)	(7,303)
Other operating expenses		(9,958)	(9,982)
Impairment losses under expected credit loss model, net of reversal	14	(14,686)	(10,316)
(Loss)/profit before income tax	8	(4,379)	29,081
Income tax expense	9	1,129	(9,953)
(Loss)/profit for the period		(3,250)	19,128
Other comprehensive (expenses)/income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		(15)	2,234
Total comprehensive (expenses)/income for the period		(3,265)	21,362
(Loss)/earnings per share			
(Expressed in RMB Yuan per share)			
– Basic	11	(0.0025)	0.0190
– Diluted	11	(0.0025)	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	<i>Notes</i>	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Non-current assets			
Plant and equipment	12	44	56
Right-of-use assets	12	3,990	–
Intangible assets		2,308	2,484
Finance lease receivables	13	1,905,226	2,608,169
Prepayment and other receivables		4,700	3,750
Deferred tax assets		35,396	29,285
		1,951,664	2,643,744
Current assets			
Finance lease receivables	13	1,079,917	1,106,050
Amounts due from related companies		60,205	107
Prepayment and other receivables		32,689	44,326
Restricted deposits		27,405	26,773
Bank balances		639,201	391,270
		1,839,417	1,568,526
Current liabilities			
Other payables and accrued expenses		1,048	2,314
Deposits from finance lease customers		28,356	6,239
Income tax payables		4,710	4,410
Lease liabilities		3,845	–
Deferred income		10,472	13,638
Borrowings	15	539,723	724,377
Bonds issued	16	235,300	500,933
		823,454	1,251,911
Net current assets		1,015,963	316,615
Total assets less current liabilities		2,967,627	2,960,359
Capital and reserves			
Share capital	17	10	1
Reserves	18	1,262,011	941,995
Total equity		1,262,021	941,996
Non-current liabilities			
Deposits from finance lease customers		138,266	158,567
Deferred income		11,077	15,526
Borrowings	15	1,323,263	1,568,270
Bonds issued	16	233,000	276,000
		1,705,606	2,018,363
		2,967,627	2,960,359

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Reserves							Total RMB'000
	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	
At 1 January 2019 (audited)	1	880,839	(42,520)	14,335	(270)	89,611	941,995	941,996
Loss and other comprehensive expenses for the period	-	-	-	-	(15)	(3,250)	(3,265)	(3,265)
Capitalisation issue of new shares	6	(6)	-	-	-	-	(6)	-
Issuance of new shares upon listing	3	360,031	-	-	-	-	360,031	360,034
Transaction costs attributable to issue of shares	-	(36,744)	-	-	-	-	(36,744)	(36,744)
At 30 June 2019 (unaudited)	10	1,204,120	(42,520)	14,335	(285)	86,361	1,262,011	1,262,021
At 1 January 2018 (audited)	1	880,839	(42,520)	9,308	(2,169)	54,040	899,498	899,499
Profit and other comprehensive income for the period	-	-	-	-	2,234	19,128	21,362	21,362
At 30 June 2018 (unaudited)	1	880,839	(42,520)	9,308	65	73,168	920,860	920,861

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Net cash generated from operating activities	753,604	193,797
Net cash used in investing activities		
Withdrawal from restricted deposits	70,771	51,559
Placement of restricted deposits	(71,403)	(60,465)
Interests income received from restricted deposits	43	–
Purchases of plant and equipment	(6)	–
Repayments from related companies	107	–
	(488)	(8,906)
Net cash (used in)/generated from financing activities		
Proceeds from issue of shares	360,034	–
Proceeds from bonds issued	–	400,000
Repayment of bonds issued	(307,193)	(304,806)
Proceeds from borrowings	350,000	1,487,000
Repayment of borrowings	(795,700)	(1,427,015)
Repayments of leases liabilities	(2,550)	–
Cash paid for issue costs	(28,673)	(2,088)
Interest paid for bonds issued	(24,566)	(27,255)
Interest paid for borrowings	(58,190)	(69,408)
	(506,838)	56,428
Net increase in cash and cash equivalents	246,278	241,319
Cash and cash equivalents at beginning of the period	391,270	425,827
Effects of foreign exchange rate changes	1,653	6,222
Cash and cash equivalents at end of the period	639,201	673,368

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) Interim Financial Reporting issued by the International Accounting Standards Board (the “IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

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

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of staff quarters and office buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee (continued)

Right-of-use assets (continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee (continued)

Lease liabilities (continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee (continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

As a lessor

Allocation of consideration to components of a contract

The Group applies IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group acts as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises a loan receivable equal to the transfer proceeds within the scope IFRS 9.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of staff quarters and office buildings in the People's Republic of China ("PRC") was determined on a portfolio basis.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB6.2 million and right-of-use assets of RMB6.3 million at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 9.03%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	6,988
Lease liabilities discounted at relevant incremental borrowing rates	6,575
Less: Recognition exemption – short-term leases	(385)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	6,190
Lease liabilities as at 1 January 2019	6,190
Analysed as	
Current	4,749
Non-current	1,441
	6,190

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		6,190
Adjustments on rental deposits at 1 January 2019	(a)	130
By class:		
Land and buildings		6,320

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

- (a) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, approximately RMB130 thousands was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets. As permitted by IFRS 16, the Group elected not to make any adjustments to the refundable rental deposits on initial application of IFRS 16 and continued to treat such deposits as part of the lease payments. During the current interim period, the Group didn't enter into any new contracts as a lessor.

Sales and leaseback transactions

In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of IFRS 15 as a sale.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

Sales and leaseback transactions *(continued)*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Carrying amounts under IFRS 16 at 1 January 2019 <i>RMB'000</i>
Non-current Assets			
Right-of-use asset	–	6,320	6,320
Other receivables			
– Rental deposits	1,205	(130)	1,075
Current liabilities			
Lease liabilities	–	4,749	4,749
Non-current liabilities			
Lease liabilities	–	1,441	1,441

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. 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. 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 six months ended 30 June 2019 and 2018.

5. REVENUE

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Finance lease income	142,395	172,144
Advisory fee income (<i>Note</i>)	–	2,990
Total	142,395	175,134

Note: Advisory fee income was recognised at a point in time when those services were completed. The Group has no unsatisfied performance obligations of advisory service as at 30 June 2019 and 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. OTHER INCOME, GAINS OR LOSSES

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Interest income from restricted deposits	43	–
Bank interest income	842	311
Entrusted loan income	–	806
Compensation for early termination of finance lease arrangement (Note)	–	5,482
Others	5	19
Total	890	6,618

Note: 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.

7. FINANCE COST

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Interest expense on liabilities		
– Borrowings	77,612	73,540
– Bonds payable	23,126	38,002
– Imputed interest on deposits from finance lease customers	7,502	6,068
– Interest on lease liabilities	205	–
Total	108,445	117,610

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

8. (LOSS)/PROFIT BEFORE INCOME TAX

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
(Loss)/profit before income tax has been arrived at after charging:		
Directors' remuneration		
– Salaries and bonus	1,154	1,000
– Social welfare	200	212
Salaries, bonus, allowances, social welfare and other employee benefits	5,380	4,811
Total staff costs	6,734	6,023
Depreciation of plant and equipment	18	40
Depreciation of right-of-use assets	2,330	–
Less: amount included in staff costs	(71)	–
	2,259	–
Amortisation of intangible assets	176	175
Lease payments under operating leases:		
– Short-term leases	395	–
– Minimum lease payments	–	2,814

9. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Taxation for the period		
Current income tax		
– PRC Enterprise Income Tax	6,120	9,197
Deferred income tax (Note)	(7,249)	756
	(1,129)	9,953

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

10. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is as follows:

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
(Loss)/profit for the period	(3,250)	19,128
Number of shares:		
Weighted average number of shares in issue ('000)	1,300,359	1,005,000
Basic (loss)/earnings per share (RMB Yuan)	(0.0025)	0.0190

For the six months ended 30 June 2019, the computation of diluted earnings per share does not assume the exercise of the Company's over-allotment option since their assumed exercise would result in a decrease in loss per share.

During the six months ended 30 June 2018, there were no potential ordinary shares outstanding. Accordingly, no diluted loss or earnings per share is presented.

The calculation of basic loss or earnings per share during the interim period is based on the assumption that the Capitalisation Issue (as detailed in note 17) had been effective throughout both periods.

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

During the current interim period, the Group did not dispose any plant and equipment.

During the current interim period, the Group did not enter into any new lease agreement that should be recognised as right-of-use asset and lease liability.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. FINANCE LEASE RECEIVABLES

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

	As at 30 June 2019 RMB'000 (unaudited)
Not later than one year	1,332,759
Later than one year and not later than two years	976,466
Later than two years and not later than three years	765,641
Later than three years and not later than four years	410,440
Later than four years and not later than five years	44,363
Gross amount of finance lease receivables	3,529,669
Less: Unearned finance income	(468,521)
Present value of finance lease receivables	3,061,148
Represented by:	
Not later than one year	1,114,325
Later than one year and not later than two years	829,496
Later than two years and not later than three years	688,224
Later than three years and not later than four years	386,436
Later than four years and not later than five years	42,667
Subtotal	3,061,148
Less: Allowances for impairment losses	(76,005)
Carrying amount of finance lease receivables	2,985,143
Analysed for reporting purposes as:	
Current assets	1,079,917
Non-current assets	1,905,226
Total	2,985,143

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. FINANCE LEASE RECEIVABLES *(continued)*

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

	As at 31 December 2018 RMB'000 (audited)
Not later than one year	1,392,374
Later than one year and not later than five years	3,020,820
Later than five years	12,220
Gross amount of finance lease receivables	4,425,414
Less: Unearned finance income	(643,197)
Present value of finance lease receivables	3,782,217
Represented by:	
Not later than one year	1,130,439
Later than one year and not later than five years	2,639,843
Later than five years	11,935
Subtotal	3,782,217
Less: Allowances for impairment losses	(67,998)
Carrying amount of finance lease receivables	3,714,219
Analysed for reporting purposes as:	
Current assets	1,106,050
Non-current assets	2,608,169
Total	3,714,219

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. FINANCE LEASE RECEIVABLES *(continued)*

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

	For the six months ended 30 June 2019			
	Individual provisions 12m ECL RMB'000	Individual provisions lifetime ECL not credit-impaired RMB'000	Individual provisions lifetime ECL credit-impaired RMB'000	Total RMB'000
As at 31 December 2018 (audited)	6,857	30,422	30,719	67,998
Changes due to finance lease receivables recognised in the opening balance that have:				
– transferred to individual provisions 12m ECL	4,774	(4,774)	–	–
– transferred to Lifetime ECL not credit-impaired	(1,329)	1,329	–	–
– transferred to Lifetime ECL credit-impaired	–	(16,134)	16,134	–
Provided for the period (Note)	11	2,952	11,028	13,991
Reversal for the period (Note)	(4,484)	(1,052)	(403)	(5,939)
Foreign currency translation	(45)	–	–	(45)
Balance at end of the period (unaudited)	5,784	12,743	57,478	76,005
Expected loss rate	0.27%	1.80%	28.37%	2.48%

	For the year ended 31 December 2018			
	Individual provisions 12m ECL RMB'000	Individual provisions lifetime ECL not credit-impaired RMB'000	Individual provisions lifetime ECL credit-impaired RMB'000	Total RMB'000
As at 1 January 2018 (audited)	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)	3,169	23,553	19,865	46,587
Reversal for the year (Note)	(2,665)	(18,816)	–	(21,481)
Write-offs	–	–	(3,406)	(3,406)
Foreign currency translation	37	199	–	236
Balance at end of the year (audited)	6,857	30,422	30,719	67,998
Expected loss rate	0.23%	4.51%	28.34%	1.80%

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. 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.

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

	As at 30 June 2019 (unaudited)			As at 31 December 2018 (audited)		
	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	2,150,794	(5,784)	2,145,010	2,999,302	(6,857)	2,992,445
Lifetime ECL not credit-impaired	707,773	(12,743)	695,030	674,518	(30,422)	644,096
Lifetime ECL credit-impaired	202,581	(57,478)	145,103	108,397	(30,719)	77,678
Total	3,061,148	(76,005)	2,985,143	3,782,217	(67,998)	3,714,219

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

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Within 30 days	306,769	379,567
Over 30 days and within 90 days <i>(Note a)</i>	77,743	125,946
Over 90 days <i>(Note b)</i>	542,247	257,728
Total	926,759	763,241

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. 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)*

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.

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Impairment loss recognised in respect of		
Finance lease receivables	8,052	9,652
Other receivables	6,620	664
Amounts due from related parties	14	–
Total	14,686	10,316

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

During the current interim period, the Group provided RMB14.7 million impairment allowance, primarily derived from provision for impairment loss of finance lease receivables amounting to RMB8.1 million, due to the increase in credit risk for certain finance lease receivables as disclosed in Note 13.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

15. BORROWINGS

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Secured and guaranteed borrowings	105,273	402,011
Secured and unguaranteed borrowings	700,203	848,126
Unsecured and unguaranteed borrowings	1,057,510	1,042,510
Total	1,862,986	2,292,647
Represented by:		
Borrowing from financial institutions		
– Banks	362,736	788,956
Borrowing from other institutions		
– Entrusted loans	1,500,250	1,503,691
Total	1,862,986	2,292,647
Represented by:		
Carrying amount repayable:		
Within one year	539,723	724,377
More than one year, but not exceeding two years	346,023	413,809
More than two years, but not exceeding five years	977,240	1,154,461
	1,862,986	2,292,647
Less: amounts under current liabilities	539,723	724,377
Non-current liabilities	1,323,263	1,568,270

During the current interim period, the Group obtained new entrusted loans amounting to RMB350.0 million (31 December 2018: new bank loans amounting to RMB1,844.0 million). The loans carry interest at fixed market rates of 8.21% and are repayable in instalments over a period of 3 years. The proceeds were used to finance the operation of the Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

16. BONDS ISSUED

	As at 30 June 2019 <i>RMB'000</i> (unaudited)	As at 31 December 2018 <i>RMB'000</i> (audited)
Asset-backed securities		
– Asset-backed Nanshan Leasing of phase 2	–	63,096
– Asset-backed Nanshan Leasing of No.2	110,754	132,910
– Asset-backed Nanshan Leasing of phase 3	34,930	215,639
– Asset-backed Nanshan Leasing of No.1	322,616	365,288
Total	468,300	776,933
Represented by:		
Carrying amount repayable:		
Within one year	235,300	500,933
More than one year, but not exceeding two years	89,000	87,000
More than two years, but not exceeding five years	144,000	189,000
	468,300	776,933
Analysed for the purpose of reporting:		
Current liabilities	235,300	500,933
Non-current liabilities	233,000	276,000
	468,300	776,933

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. SHARE CAPITAL OF THE COMPANY

	Number of shares				USD
	Ordinary	Series A	Series B	Total	
Authorised					
Total shares of USD0.000001 each at 1 January 2018, 30 June 2018, and 1 January 2019	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 1 January 2018, 30 June 2018, and 1 January 2019	49,972,491,009	-	-	49,972,491,009	49,972
Series A share of USD0.000001 each at 1 January 2018, 30 June 2018, and 1 January 2019	-	18,777,078	-	18,777,078	19
Series B share of USD0.000001 each at 1 January 2018, 30 June 2018, and 1 January 2019	-	-	8,731,913	8,731,913	9
Reclassified Series A shares into ordinary shares on 15 March 2019 (<i>Note a</i>)	18,777,078	(18,777,078)	-	-	-
Reclassified Series B shares into ordinary shares on 15 March 2019 (<i>Note a</i>)	8,731,913	-	(8,731,913)	-	-
Total shares of USD0.000001 each at 30 June 2019	50,000,000,000	-	-	50,000,000,000	50,000
Represented by:					
Ordinary shares of USD0.000001 each at 30 June 2019	50,000,000,000	-	-	50,000,000,000	50,000

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. SHARE CAPITAL OF THE COMPANY (continued)

Issued

	Issued number of shares				USD	Equivalent to RMB
	Ordinary	Series A	Series B	Total		
At 1 January 2018, 30 June 2018, and 1 January 2019	100,000,000	18,777,078	8,731,913	127,508,991	128	823
Reclassified Series A shares into ordinary shares (Note a)	18,777,078	(18,777,078)	-	-	-	-
Reclassified Series B shares into ordinary shares (Note a)	8,731,913	-	(8,731,913)	-	-	-
Issue of shares pursuant to Capitalisation Issue (Note b)	877,491,009	-	-	877,491,009	877	5,891
Issue of shares pursuant to Global Offering (Note c)	495,000,000	-	-	495,000,000	495	3,325
At 30 June 2019	1,500,000,000	-	-	1,500,000,000	1,500	10,039

Notes:

- Pursuant to a written resolutions of the shareholders of the Company passed on 20 February 2019, all of the Company's issued Series A and B shares were re-designated and re-classified into ordinary shares on an one-to-one basis immediately upon completion of the Hong Kong Public Offering and the International Offering ("Global Offering") on 15 March 2019.
- On 15 March 2019, a total of 877,491,009 shares were allotted and issued, credited as fully paid at par, by the way of capitalisation of a sum of USD877.491009 (equivalent to RMB5,891) standing to the credit of the share premium account of the Company, and such shares were allotted and issued to the shareholders whose names appeared on the register of members of the Company on the business day immediately before 15 March 2019 in proportion (the "Capitalisation Issue").
- On 15 March 2019, 495,000,000 ordinary shares with a par value of USD0.000001 each of the Company were issued at the offer price of HKD0.85 per share by way of Global Offering. On the same day, the Company's shares were listed on the Stock Exchange. The respective share capital amount was USD495 (equivalent to RMB3,325) and share premium arising from the issuance was approximately RMB323.3 million, net of the share issuance costs. The share issuance costs mainly included share underwriting commissions, lawyers' fees, reporting accountants' fees and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to approximately RMB36.7 million were recognised as a deduction against the share premium arising from the issuance.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

18. RESERVES

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Share premium (Note a)	1,204,120	880,839
Capital reserve (Note b)	(42,520)	(42,520)
Surplus reserve (Note c)	14,335	14,335
Translation reserve	(285)	(270)
Retained profits	86,361	89,611
Total reserve	1,262,011	941,995

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) On 13 January 2016, the Company issued and allotted 17,647,058 Series A shares to PA Investment Funds SPC pursuant to a subscription and shareholders' agreement. 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) On 6 April 2017, the Company issued and allotted 8,731,913 Series B shares to Design Time Limited pursuant to a subscription and shareholders' agreement. The excess over the par value for the 8,731,913 Series B shares was credited to the share premium account with an aggregate amount of approximately RMB68.9 million.
- (iv) On 15 March 2019, the Company issued 877,491,009 shares pursuant to Capitalisation Issue and 495,000,000 ordinary shares pursuant to Global Offering, as detailed in Note 17 (b) and (c). The excess over the par value for the shares issued in Global Offering was credited to the share premium account with an aggregate amount of approximately RMB323.3 million.
- (b) Nanshan Financial Leasing (Tianjin) Co., Ltd. ("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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

19. COMMITMENTS

As at the end of the current interim period, the Group had commitments for future minimum lease payments under short-term operating leases at a total amount of approximately RMB0.3 million (31 December 2018: future minimum lease payments under non-cancellable operating leases amounting to approximately RMB7.0 million).

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

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

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

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

None of the Group's financial instruments are measured at fair value on a recurring basis at the end of the current interim period and the last annual 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 has been derived from quoted bid price in active market. Valuation of Level 3 financial instruments has 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements and valuation processes *(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:

	As at			
	30 June 2019 (unaudited)		31 December 2018 (audited)	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Finance lease receivables	2,985,143	3,095,251	3,714,219	3,839,179
Deposits from finance lease customers	166,622	168,239	164,806	166,916
Borrowings	1,862,986	2,047,133	2,292,647	2,482,937
Bonds issued	468,300	474,472	776,933	937,811

Except for the above, the directors of the Company consider that the carrying amounts of lease liabilities, financial assets and financial liabilities measured at amortised cost in the Group's condensed 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. 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 a
JinChuang	Note b
RongJin	Note b

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

Note b: JinChuang Enterprise Management & Consulting Co., Ltd ("JinChuang") and RongJin Enterprise Management & Consulting Co., Ltd ("RongJin") are controlled by certain directors of the Company.

Transactions with related parties

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

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Finance lease income generated from related parties:		
– Nanshan Group and its subsidiaries	155	2,595
– Union Capital	7,145	6,902
Other income generated from related parties:		
– Nanshan Group and its subsidiaries (Note 6)	–	5,482

The finance lease income was charged at rates ranging from 6.08% to 7.09% per annum for the current interim period (1 January 2018 to 30 June 2018: from 5.94% to 7.09% per annum).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. RELATED PARTY TRANSACTIONS *(continued)*

Finance lease receivables from related parties

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Nanshan Group and its subsidiaries	4,569	5,278
Union Capital	–	245,488

Amounts due from related parties

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Union Capital <i>(Note a)</i>	60,205	–
JinChuang <i>(Note b)</i>	–	53
RongJin <i>(Note b)</i>	–	54

Notes:

- (a) In June 2019, Union Capital early terminated a finance lease agreement which would be matured in April 2023, and repaid part of the outstanding finance lease receivables. The remaining outstanding amount of approximately RMB60.2 million was paid in July 2019.
- (b) The amounts due from JinChuang and RongJin are unsecured, interest-free and repayable on demand. The maximum balances outstanding for the six months ended 30 June 2019 and the year ended 31 December 2018 were approximately 0.1 million and 0.1 million, respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. RELATED PARTY TRANSACTIONS *(continued)*

Guarantee from related parties

Nanshan Group provided guarantees in respect of certain borrowings by the Group during the period, of which approximately RMB105.3 million remained outstanding at 30 June 2019 (31 December 2018: RMB402.0 million). The guarantee on bonds issued provided by Nanshan Group of which approximately RMB63.1 million remained outstanding at 31 December 2018 was matured on 30 June 2019.

Compensation of key management personnel

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

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Basic salary and allowances	2,060	1,830
Employer's contribution to pension schemes	100	140
Other social welfare	172	243
Total	2,332	2,213

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